

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BOLIVARIAN REPUBLIC OF VENEZUELA

RIO GUAIRE SANITATION

(VE-L1037)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1	Annual work plan http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=36979912
2	Monitoring and evaluation arrangement http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=36979905
3	Procurement Plan http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=36979913
4	Environmental and Social Management Report (ESMR) Confidential Document*
OPTIONAL	
1.	Technical analysis Confidential Document*
2.	Socioeconomic analysis Confidential Document*
3.	Institutional analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36979906
4.	Financial analysis Confidential Document*
5.	Project Monitoring Report (PMR) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36979908
6.	Environmental classification and safeguards http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36979910

- (*) In accordance with the provisions established in paragraph 4.1 of the Bank's Access to Information Policy (GN-1831-28), the borrowing country has identified information in this electronic link of the loan proposal that may qualify as an exception to the principle of disclosure of information under this policy. This exception relates to country-specific information cited in paragraph 4.1 i of the Policy. Accordingly, this electronic link is not available to the public.

ABBREVIATIONS

BOD5	Biochemical oxygen demand (20° C – 5 days)
CGR	Contraloría General de La República [Comptroller General of the Republic]
CMA	Caracas Metropolitan Area
EIRR	Economic internal rate of return
ESMR	Environmental and Social Management Report
GCI-9	Ninth General Capital Increase - IDB
GIS	Geographic information system
HIDROVEN	State-owned water company of Venezuela
INE	National Statistics Institute
LOPSAPS	Water Supply and Sanitation Services Act
MPPA	Ministry of the People's Power for the Environment
O&M	Operation and maintenance
OIC	Oficina de Control Interno [Internal Control Office]
ONAPRE	Oficina Nacional de Presupuesto [National Budget Office]
ONCOP	Oficina Nacional de Contabilidad Pública [National Public Accounting Office]
ONT	Oficina Nacional del Tesoro [National Treasury Office]
PRM	Project risk management
RBVE	Bolivarian Republic of Venezuela
SIGECOF	Sistema Integrado de Gestión y Control de las Finanzas Públicas [Integrated Public Finance Management and Control System]
SNSAPS	Superintendencia Nacional de Servicios de Agua Potable y Saneamiento [National Superintendency of Water Supply and Sanitation Services]
UCV	Universidad Central de Venezuela [Central University of Venezuela]
UEPSRG	Executing Unit of the Río Guaire Sanitation Program

PROJECT SUMMARY

BOLIVARIAN REPUBLIC OF BOLIVARIAN REPUBLIC OF VENEZUELA RIO GUAIRE SANITATION (VE-L1037)

Financial Terms and Conditions			
Borrower: Bolivarian Republic of Venezuela Executing agency: Ministry of the People's Power for the Environment (MPPA)		Flexible Financing Facility *	
		Amortization period:	25 years
		Original WAL:	15.25 years
		Disbursement period:	4 years
		Grace period:	5.5 years
Source	Amount	Interest rate:	LIBOR
IDB (Ordinary Capital)	US\$300 million	Inspection and supervision fee:	**
Local	US\$70 million	Credit fee:	**
		Currency:	U.S. dollars from the Ordinary Capital
Total	US\$370 million		
Project at a Glance			
Project objective: The objective of the program is to contribute to the cleanup of the Guaire River basin in the Caracas Metropolitan Area (CMA), through the execution of water and sanitation infrastructure works in the 12 beneficiary subbasins, for sewage intake, piping, separation, and disposal through collector sewers along the watercourse, and socioenvironmental improvements to prevent and reduce vulnerability to floods and landslides in the areas surrounding the subbasins.			
Special contractual conditions precedent to the first disbursement: (ii) the executing agency has demonstrated to the Bank that the executing unit of the Guaire River Sanitation Program (UEPSRG) has been established, including appointment of the persons responsible for the different areas according to its current structure (paragraph 3.2); and (ii) the executing agency has submitted to the Bank the designs for the Río Guaire basin instrumentation and monitoring system, including its timetable, specifications, and scope (paragraph 3.2).			
Contractual condition for program execution: Before beginning the infrastructure investments in the subbasins, the executing agency will have signed an agreement with Hidrocapital for transferring the operation and maintenance (O&M) of the program's works and goods, as the works are completed (paragraph 3.2).			
Retroactive recognition of expenditures against the local contribution: The Bank may retroactively recognize up to the equivalent of US\$3,000,000, against the local contribution, for expenditures incurred on or after 12 January 2012, provided the expenditures are related to the program's activities, and meet substantially analogous requirements to those established in the loan contract (paragraph 3.6).			
Exceptions to Bank policies: None			
Project consistent with country strategy: <div style="display: flex; justify-content: space-around;"> Yes <input checked="" type="checkbox"/> [X] No <input type="checkbox"/> [] </div>			
Project qualifies as: <div style="display: flex; justify-content: space-around;"> SEQ <input checked="" type="checkbox"/> [X] PTI <input checked="" type="checkbox"/> [X] Sector <input type="checkbox"/> [] Geographic <input type="checkbox"/> [] Headcount <input type="checkbox"/> [] </div>			
Procurement: The procurement of works and goods, and the contracting of consulting services, will be governed, respectively, by the Bank's policies set out in documents GN-2349-9 and GN2350-9 and their respective updates.			

* Under the Flexible Financing Facility (FN-655-1), borrowers have the option of requesting changes in the amortization schedule, currency conversions, and interest rate, in all cases in accordance with the final amortization date and the original Weighted Average Life (WAL). In considering such requests, the Bank will take market conditions, operational considerations, and risk management into account.

** 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 the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. PROGRAM BACKGROUND AND DESCRIPTION

A. The sector, the problem, and the proposed program

- 1.1 **Legal and institutional framework.** The water supply and sanitation sector is in line with the principles established in the Constitution of the Bolivarian Republic of Venezuela (CRBVE-1999), the Environment Act (LOA-2006), the Water Law (LA-2007), and the Water Supply and Sanitation Services Act (LOPSAPS-2001 and 2007), among other laws. As policy, this collection of legislation shows that the Bolivarian Republic of Venezuela (RBVE) attributes strategic importance to water, that water is a matter of State interest, and that it should be managed with a comprehensive approach.
- 1.2 In accordance with Decree 5,103 of 28 December 2006, the Ministry of the People's Power for the Environment (MPPA), as a national government agency, is responsible for sector leadership and overall investment. The companies delivering water supply and sanitation services are: (i) Compañía Anónima Hidrológica de Venezuela (HIDROVEN), the service regulator, planner, and lead agency and executor and supervisor of infrastructure works for service development; and (ii) 16 regional water companies, which operate and provide water and sanitation services: nine of these are subsidiaries of HIDROVEN; six are decentralized companies, whose shareholding structure includes state and municipal governments, and one is a municipal company, in addition to Corporación Venezolana de Guayana (CVG), which serves the states of Amazonas and Delta Amacuro. The nine regional water companies that are HIDROVEN subsidiaries provide water and sanitation services to 70% of the country's population while the decentralized and municipal companies provide services to the rest of the population.
- 1.3 The LOPSAPS lays the groundwork and sets the conditions for the efficient and sustainable medium- and long-term development of the sector, and is fully consistent with the Public Utilities Policy (OP-708) and its guidelines for application, incorporating, among other considerations, the separation of sector functions in two institutions: (i) the National Water Supply and Sanitation Services Development Office (ONDESAPS), which would be in charge of sector planning and is the sector's lead agency; and (ii) the National Superintendency of Water and Sanitation Services (SNSAPS), which would be responsible for regulation. In addition, the LOPSAPS provides for a complete framework for the delivery of services, the rights of users and providers, the fee and subsidy system, which includes rate reviews every five years, mechanisms for incorporating various and different management modalities, and other associated matters.
- 1.4 As required by the LOPSAPS, the regulations for its implementation have already been drafted and are being reviewed for approval by the various national government authorities. The LOPSAPS also provides that the ONDESAPS and the SNSAPS enter into operation within four years (end of 2011). Although this process has yet to be completed, both entities have been created temporarily in HIDROVEN. In fact, the SNSAPS undertook fee studies that allowed adjustments to be made in January 2010, November 2011, and 2012 (see detailed financial link).

- This has made it possible to improve the financial status of sector companies, enabling most of them to cover their operation and maintenance costs.
- 1.5 Lastly, the LOPSAPS provides for the transfer of HIDROVEN's nine subsidiaries to local governments (states and municipios), which is a very complex process (given that local governments need to be prepared to receive and operate them) and for which technical, financial, and institutional studies are being conducted. The deadline in the law for effecting the transfer of the companies and for creating the already mentioned entities is 31 December 2013.
 - 1.6 **Service coverage.** The Caracas Metropolitan Area (CMA) comprises the five municipios making up the city of Caracas, capital of the Bolivarian Republic of Venezuela, which has an estimated population of five million inhabitants (INE-2011). The CMA occupies approximately 1,930 square kilometers and is located at an average altitude of 980 meters above sea level. Water and sanitation services are the responsibility of the regional water company Hidrocapital. Management reports indicate that in the CMA, the coverage of water supply provided through networks is 95.41%, while wastewater collection coverage is 81.11%; only 12% of this is treated.
 - 1.7 **The problem.** Since it was founded toward the end of the 16th century, the city of Caracas has been expanding in the east-west direction across the valley, which in turn is divided lengthwise by the Guaire River, making the river its natural drainage system. Between 1870 and 1887, when the city of Caracas installed its first public sewage system, wastewater was discharged by the system into the channel of the Río Guaire. The river continues to be used as the place for the final disposal of wastewater, with flows increasing in direct relation to urban growth in the CMA. MPPA studies estimate an average 15 cubic meters/sec flow of wastewater into the Río Guaire.
 - 1.8 The Río Guaire begins at the confluence of the San Pedro and Macarao rivers in the Las Adjuntas sector of the municipio of Libertador. It flows for 35 kilometers through the entire CMA (Las Adjuntas - El Llanito) and the surface area of the basin is 550 square kilometers; in that stretch it is fed by water from 32 subbasins. The areas adjacent to the streams of the subbasins and alongside the channel of the Río Guaire itself are densely populated. The subbasins whose sources are in the northern flank (El Ávila) are vulnerable to landslides; those originating in the southern flank are subject to sudden avalanches and floods. The torrential landslides of December 1999 in the state of Vargas, and in other parts of the country in November 2010, demonstrated the social and structural impacts of the

torrential flows and the floods of mud, rocks, and rubble in highly urbanized areas.¹ In addition to the Río Guaire being used to convey sewage, garbage and solid waste are thrown into the streams of its subbasins, which contribute to obstructing channels and drainage structures, increasing existing vulnerability to landslides and floods in its areas of influence.

- 1.9 Studies by different agencies (MPPA, HIDROVEN, Hidrocapital, and the UCV), have demonstrated the advanced alteration of the physical, chemical, and biological quality of the waters of the Río Guaire and its tributaries. They have shown that more than 80% of the CMA's sewage is discharged directly into the channels of the 32 subbasins and the Río Guaire, making the latter the main open-air sewage collector crossing the entire city of Caracas, causing sanitary, environmental, and esthetic damages. The average flow of sewage, primarily from residential sources, is an estimated 15 cubic meters/sec. Added to this are toxic substances, such as metals and complex organic compounds, from a few industries and mainly workshops that, combined, produce an approximate load of 270 t/day of biochemical oxygen demand (BOD5, 20° C–5 days). These bodies of water therefore represent both an impact on the ecosystem, and a public health hazard. Thus, an action plan is needed for cleanup of the Río Guaire basin, via the intake, piping, separation, and treatment of discharged waters, as well as infrastructure works to protect and prevent risks related to natural phenomena. The problem is a long-standing and growing one, with studies dating back to 1942 by public agencies with responsibility in the sector as well as by the academic sector.
- 1.10 Primary sewer collectors built along the waterway between the 1940s and 1970s to collect and channel the wastewater of the CMA line practically the entire length of the Río Guaire. However, almost none of the sewage networks are connected to it: only 20% of the wastewater flow from the sewage networks reaches these collectors. Moreover, at its discharge points the collection network works as a mixed system, not a separate drainage and sewage system. Almost the entire bed of the Río Guaire flowing through the CMA is channeled in concrete (32 of its 35 kilometers); some sections are damaged and need to be repaired and rehabilitated, and channeling of the remaining stretches needs to be completed.
- 1.11 To this end, the RBVE, through Presidential Decree 4,172 dated 19 December 2005 (Official Gazette 38339 of 20 December 2005) declared actions for the cleanup of the Río Guaire to be of general interest, and instructed the MPPA to undertake the studies, designs, and works necessary for preservation, recovery, and cleanup.

¹ In 2002, the MPPA, through the Simón Bolívar Geographical Institute of Venezuela (IGVSB), executed the Ávila Project, which prepared threat maps (scale 1:25,000) on torrential floods for land management purposes in the region of Vargas and Caracas bordering El Ávila; emphasis was placed on the watersheds affected by the 1999 torrential landslides. This study was supplemented with further research by the Fluid Mechanics Institute of the School of Engineering of the Central University of Venezuela (UCV) in 2004 and 2010. These studies were used as references for the diagnostic assessments and for designing the interventions.

Accordingly, the MPPA created the executing unit of the Río Guaire Sanitation Program (UEPSRG).

- 1.12 **Present situation.** The aforementioned decree served as a great stimulus for the project, which is a priority for the national authorities. In 2006 a feasibility study for the CMA sanitation project was completed, which included: (i) a diagnostic assessment of the main sanitation system (collectors, channels, etc.); (ii) an evaluation of social and environmental impacts; and (iii) preliminary engineering plans for a sewage treatment plant for the CMA, to be located after El Llanito (El Encantado sector). Between 2006 and 2010, stretches of piping were constructed and specific problems tackled with the placement of secondary collector networks, bringing their linear total to more than 38.5 kilometers. At the same time, studies moved forward on the 32 subbasins that feed into the Río Guaire; 15 of these already have detailed engineering plans, and one is in the preparation stage. In 2007 the El Chorrillo sewage treatment plant on the banks of the San Pedro River was placed in service, with a capacity of 400 liters/s. In late 2010 a feasibility study was begun on the treatment of the CMA's sewage in the Río Guaire basin, to cover the following: (i) collection of data and assessment of the current situation; (ii) characterization and projection of the city of Caracas's wastewater discharges; (iii) definition of criteria for the design of wastewater treatment plants for Caracas; (iv) definition of a strategic treatment plan; and (v) cost summary (preliminary cost estimates for comparing options). These actions were undertaken by the UEPSRG and by 2010 involved investments by the MPPA and Hidrocapital totaling the equivalent of more than US\$150 million. The estimated cost of the Río Guaire sanitation program is US\$2.5 billion.
- 1.13 **Country strategy.** The focus of the Government of the RBVE's policies, strategies, and decisions for the sector is on expanding the coverage of water supply and sanitation services and on ensuring their sustainability through the rehabilitation, maintenance, and expansion of existing infrastructure and, if necessary, the construction of new infrastructure. These policies and decisions by the authorities to facilitate all citizens' access, in the short term, to water supply and sanitation services are set out in the regulatory framework of the LOPSAPS, the Water Law, and the 2007-2013 Simón Bolívar National Economic and Social Development Plan. Between 2010 and 2012, the special funds invested in the water supply and sanitation sector totaled close to US\$2.718 billion, of which US\$1.18 billion pertained to investments in sanitation.
- B. Bank strategy and GCI-9**
- 1.14 This loan is consistent with the Bank's country strategy with Venezuela (document GN-2618-2), approved on 11 May 2011, as it will contribute to the strategic objectives of "improved quality of water sources through treatment of urban wastewater" and "universal access to water and sanitation services" by increasing coverage of and access to sanitation services and storm drainage; in addition, in the future, with the outcome indicator of increasing the percentage of treated urban water. This operation is also consistent with the priority area of support for

infrastructure for competitiveness and social welfare and with the lending goals of the GCI-9 to reduce poverty and enhance social equity and support climate change, energy efficiency, and environmental sustainability initiatives. In addition, the program will contribute to the Bank's Water Initiative (document GN-2446-3) in one city in the 100 Cities Program, and in 12 subbasins for the Water Defenders Program.

- 1.15 **The Bank's sector policies.** The sector has legislation that lays the groundwork and sets the conditions for the efficient and sustainable medium- and long-term development of the sector. Although full implementation of the law has been delayed somewhat, the progress achieved, added to the significant rate adjustments that have been implemented, are making for substantial improvements in the financial status of the sector companies, most of which are now able to cover their operation and maintenance (O&M) costs.
- 1.16 The proposed operation promotes the population's access to sanitation services, fosters financial sustainability as well as administrative and operational efficiency among those responsible for managing the systems, encourages service quality, and promotes a comprehensive analysis of sanitation systems with a view to preventing and/or minimizing environmental problems. Its actions will also contribute to sector development, through institutional strengthening of staff, development of effective planning strategies, and specifically, the installation of sewage interceptors in the 12 subbasins targeted by the program, in the context of the RBVE's action strategy for the Río Guaire basin, which includes construction of a treatment plant in the El Encantado region at a later date. Given all of the above, the operation is consistent with the Bank's policy objectives for public utilities (OP-708) and basic environmental sanitation (OP-745).
- 1.17 **Bank involvement in the sector.** The Bank has been continuously involved in the sector through various loan operations. At present, the Integral Management of the Caroní River Watershed Program (1687/OC-VE) is under way, and the Program to Strengthen National Capacity for Integrated Solid Waste Management (2322/OC-VE) is beginning implementation. Loan 1687/OC-VE performed satisfactorily in 2011, after making up for initial delays, and approximately US\$4.8 million is scheduled to be committed in 2012. In the case of loan 2322/OC-VE, the conditions precedent were met in 2011, and 2012 will be the first year resources are committed (estimated at US\$58 million). The combination of this program and the two currently under way will bring Bank financing for sanitation to a total of US\$460 million, which represents 38.9% of the RBVE's extraordinary investments in sanitation in 2010-2012.

C. Design of the program

- 1.18 This operation will partially finance the implementation of sanitation projects in 12 of the 32 subbasins of the Río Guaire basin, specifically: San Pedro, Macarao-Ruiz Pineda, Carapita, La Vega, La Yaguara, El Paraíso, San Martín-Guarataro, Caroata, Catuche, Anauco, Quebrada Honda-Maripérez, and El Valle. It will also

finance rehabilitation works, construction of the channel, repair of existing collectors along the waterway, placement of the new stretches required, and preparation of detailed engineering designs for the 16 subbasins that still need them. MPPA authorities have structured the strategy for the Río Guaire sanitation program in stages, both in terms of design and of execution, with the sanitation works advancing from the headwaters of the Río Guaire basin downstream (from Macarao to El Llanito), so that the works can operate independently as further sanitation works are executed in the basin. Moreover, the subbasins at the head of the catchment area (western part of the city) have the least water and sanitation infrastructure, contribute the largest amount of sewage, and are home to the CMA's most vulnerable population. Accordingly, this population would be the first to benefit from the execution of this program. Until the sewage treatment plant has been built, the sewage and wastewater collected by the aforementioned sanitation works and conducted to the collectors along the waterway will be discharged outside the CMA into the current channel of the Río Guaire.

- 1.19 After the network of sanitary collectors has been completed, with own resources or with financing such as from this loan operation, and the entire water and sanitation infrastructure has been constructed, so that sewage from the subbasins is collected, piped, separated, and discharged from the subbasins into the collectors along the waterway, the sewage treatment plant is scheduled to be built between late 2014 and early 2015. The objective of the RBVE authorities is to provide sewage collection and treatment services to the entire population of the CMA, thereby improving the quality of life of its inhabitants and the quality of the water resources that pass through it.

II. OBJECTIVE, COMPONENTS AND COST, EXPECTED OUTCOMES

- 2.1 **Objective.** The objective of the program is to contribute to the cleanup of the Guaire River basin in the Caracas Metropolitan Area (CMA), through the execution of water and sanitation infrastructure works in the 12 beneficiary subbasins, for sewage intake, piping, separation, and disposal through collector sewers along the watercourse, and socioenvironmental improvements to prevent and reduce vulnerability to floods and landslides in the areas surrounding the subbasins.
- 2.2 **Component 1. Studies and institutional strengthening (US\$38.4 million).** This component will finance: (i) studies and designs for the subbasins; (ii) a diagnostic assessment of the collectors along the waterway; (iii) the design, development, and equipment of a geographic information system (GIS) for the basin; (iv) the design, implementation, and equipping of the monitoring network instrumentation unit; (v) studies and modeling of the Río Guaire flow; (vi) design of the sewage treatment plant; (vii) training, courses, and equipment of the UEPSRG; (viii) dissemination of institutional, socio-environmental, preventive, and educational information; (ix) community training and equipment; and (x) a follow-up, monitoring, and information system for the Río Guaire program.

- 2.3 **Component 2. Engineering and infrastructure (US\$303.6 million).** The following activities will be included: (i) construction, rehabilitation, intake, disposal, repair, control, and expansion works for channeling, collectors along the waterway, sewage, urban drains, flood control and prevention, improvement, equipping, and socioenvironmental recovery; and (ii) inspection and supervision.
- 2.4 **Program cost and financing.** The total cost of the program is US\$370 million. The financing from the Bank's Ordinary Capital, through the Flexible Financing Facility, will be US\$300 million. The local contribution will be US\$70 million, with the borrower being responsible for the entire contribution. The borrower will transfer the loan proceeds to the executing agency. The table below shows the distribution of estimated costs, including the monitoring and evaluation line item, and the source of financing required for each program component (figures in thousands of US\$).

Category / Component	IDB	Local	Total	%
I. Administration and equipment	1,000	10,700	11,700	3.16
1. Executing unit	1,000	10,700	11,700	3.16
II. Direct costs	289,000	53,000	342,000	92.43
1. Studies, institutional strengthening, training, dissemination, and equipment	30,000	8,400	38,400	10.38
2. Engineering and infrastructure	259,000	44,600	303,600	82.05
III. Unallocated	9,000	6,300	15,300	4.14
1. Contingencies	5,500	1,300	6,800	1.84
2. Price escalation	3,500	5,000	8,500	2.30
IV. Concurrent costs	1,000		1,000	0.27
1. Audit	400		400	0.11
2. Monitoring and evaluation	600		600	0.16
Total cost	300,000	70,000	370,000	100.00

- 2.5 **Expected outcomes.** The following outcomes are expected as a result of program execution: (i) an increase in the amount of organic matter (kg BOD5/d) intercepted in the stretch of the Río Guaire basin served by the program; (ii) an increase in the percentage of sewage and wastewater intercepted in the 12 subbasins targeted by the program; (iii) an instrumentation system for the Río Guaire basin designed, implemented, and being used for monitoring; and (iv) detailed engineering plans prepared for water, sanitation, and supplementary works for 16 subbasins. The indicators and outcomes of the different components are described in the results matrix (Annex II). The most significant indicators and their expected values are as follows:

Table of indicators

Indicator	Target value
Increase in the amount of organic matter intercepted in the stretch of the Río Guaire basin served by the program (kg BOD5/d)	The instrumentation system designed and implemented for monitoring purposes, and financed with program resources, will be used to determine the baseline value and the targets to be achieved.
Increase in the percentage of sewage and wastewater intercepted in the 12 subbasins targeted by the program.	
Instrumentation system in the Río Guaire basin designed and implemented monitoring and producing information.	1
Detailed engineering plans prepared for water, sanitation, and supplementary works in the remaining subbasins.	16

III. FINANCING STRUCTURE AND RISKS

A. Financing structure

- 3.1 **Financing terms.** The amortization period of the Bank loan will be 25 years, running from the date the loan contract is signed. The disbursement period will be 4 years, and the grace period 5.5 years, running from that same date.
- 3.2 **Special conditions.** The loan contract will include, as **special conditions precedent to the first disbursement of the loan proceeds, that: (i) the executing agency has demonstrated to the Bank that the UEPSRG has been established, including appointment of the persons responsible for the different areas according to its current structure; and (ii) the executing agency has submitted to the Bank the preliminary design for the Río Guaire basin instrumentation and monitoring system, including its timetable, specifications, and scope.** A special condition for execution is that, before beginning the infrastructure investments in the subbasins, the executing agency will have signed an agreement with Hidrocapital for transferring O&M of the program's works and goods, as the works are completed.
- 3.3 **Disbursement schedule.** The tentative disbursement schedule (in US\$ millions) is as follows:

Source	Year 1	Year 2	Year 3	Year 4
IDB	12	150	130	8
Local	3	38	25	4
Percentage	4.1%	50.8%	41.9%	3.2%

- 3.4 **Disbursements.** Disbursements will be made in accordance with the program's actual liquidity needs. The executing agency will submit disbursement requests along with a schedule of expenditures, by annual work plan activity, for the following 180 days. The program's initial financial plan will be submitted to the

Bank, and is to include the disbursement schedule for the entire project, which may be updated annually or more often, if necessary.

- 3.5 **Review of disbursements.** The program will use the ex post method to review the processes and documentation supporting disbursement requests. Reviews will be performed by Bank personnel and/or consultants, and by the external auditors.
- 3.6 **Recognition of expenditures against the local contribution.** The Bank may retroactively recognize up to the equivalent of US\$3,000,000 from the local contribution for expenditures incurred on or after 12 January 2012, provided the expenditures are related to program activities and meet substantially analogous requirements to those established in the loan contract.

B. Environmental and social safeguards

- 3.7 The project team evaluated the scope of the operation and, based on the tools of policy OP-703, suggested that the program be classified as a “Category B” operation. To meet the requirements of that policy, an environmental and social analysis was performed, which consisted of analyzing program documents and the existing environmental studies, and visiting the sites of the works. After a thorough in situ examination of the layout of the works, it was estimated that in the program’s area of direct influence (ADI), defined as a 25-meter wide band extending in both directions from the center of the channel of the streams or tributaries of the Río Guaire, approximately 1,490 families in the 12 subbasins could be impacted by disturbances associated with works in urban areas, but none of these families would need to be resettled. The Bank’s team has determined that some of these families are already included in the “Gran Misión Vivienda Venezuela” census, which means that they will be resettled because their homes are located in areas at risk for natural disasters such as earthquakes, floods, or landslides. The Environmental and Social Management Report (ESMR) that is part of this document was prepared on the basis of the environmental and social analysis (see electronic link). In addition, an international resettlement specialist was hired to prepare a special report on the layout of the works and the area of direct influence, which will verify and confirm that there is no need for resettlement at the work sites. The report is attached as an annex to the ESMR.
- 3.8 Currently, sewage is openly discharged into the Río Guaire and the rivers and stream channels of the subbasins. Most of the project’s environmental impact will be positive because it will help improve the water quality of the Río Guaire by collecting approximately 15 cubic meters/s of sewage from the urban stretch through the CMA. As a result of natural aeration (slope, speed, concrete channel bed, open culvert, etc.), the Río Guaire’s self-purification processes through the CMA will be strengthened, enabling it to recover its quality to levels compatible with the urban environment through which it flows. By removing 15 cubic meters/s of sewage from the Río Guaire, the 1,490 families in the area of direct influence, as well as the rest of inhabitants of the subbasins, will benefit from not living next to polluted streams. The project will also establish a water-quality monitoring

network, and help finance studies and investments in drainage works, which will supplement the accomplishments of the program.

- 3.9 The negative impacts of the works are specific, short-term, and easy to mitigate with the use of good construction practices. The ESMR includes an annex of technical environmental and social specifications to guide the execution of the project's works. These specifications should be reviewed by the executing agency and the applicable ones included in the bidding documents and works contracts. Compliance will be the direct responsibility of the contractor, who will be supervised by the contracting party, monitored by the Bank, and evaluated at the time of program evaluation by a professional with expertise in the supervision of environmental and social components of infrastructure projects.

C. Special considerations and viability

- 3.10 **Technical viability.** Detailed designs are available for all the sewage, storm drain, and flood prevention projects in the 12 subbasins targeted by the program.
- 3.11 The projects have been designed with methodologies consistent with the specific typology and characteristics of each subbasin, and are consistent with national regulations pursuant to international standards, including, as necessary, the designs for works to prevent floods and torrential landslides. In addition to the designs for each subbasin, the risk assessment of the CMA along the El Ávila mountain, performed by the Fluid Mechanics Institute of the UCV's School of Engineering, is also available. The program includes financing for supplementary studies to cover the rest of the CMA.
- 3.12 With regard to the sanitation system, the water and sanitation works capture most of the sewage and wastewater discharged into the channels of the rivers and streams of the 12 subbasins covered by the program. Thorough monitoring will be included as part of program execution because of the complexity of the current situation, which includes direct connections to the channels, as well as crossings between storm sewers or combined collectors. Such monitoring will make it possible to determine the progressive increase in the flow of intercepted sewage, from the current 20% to an estimated 90% in the beneficiary subbasins. Additionally, it will be possible to determine the real per capita contribution to flow and organic load.
- 3.13 A design of the sewage treatment plant is available at the feasibility study level, including basic engineering designs. The plant was designed to meet the criteria for effluents established in current RBVE regulations, as well as relevant international regulations, especially with regard to BOD5 and suspended solids. The final designs will take into account actual contributions and a water quality model of the Río Guaire that facilitates efficient design of the treatment plant. Consideration will be given to the possibility and feasibility of increasing the number of treatment plants.
- 3.14 **Institutional viability.** The institutional and fiduciary capacity of the UEPSRG was evaluated, as was the capacity of Hidrocapital, only for operational aspects of

- maintenance. The Institutional Capacity Assessment System (ICAS) (see [electronic link](#)) yielded an overall rating of 94.72, which reflects sufficiently developed institutional capacity in the areas of programming, execution, and control, making it possible to rate the operation as low risk.
- 3.15 **Financial viability.** Hidrocapital is a regional water company that is a full-fledged subsidiary of HIDROVEN. It provides water supply and sanitation services in the states of Vargas, Miranda, and the CMA, the latter being where the program's works will be executed.
- 3.16 The program's financial analysis included determining whether Hidrocapital would have sufficient resources to perform O&M for the infrastructure that will be transferred to it. The sector's rate increase (averaging an increase of around 85%), which entered into effect on 1 November 2011, will enable the company to cover its operating costs with its own resources in subsequent fiscal years (see financial analysis). Although Hidrocapital's financial sustainability is ensured by contributions from the national Executive Branch, which are not significant given the size of the national budget, effective management of its cost structure and generation of revenues (rates) will enable it to finance its operating costs with own revenues in the long term, thereby eliminating the need for contributions from the State to cover these costs in the future.
- 3.17 To ensure appropriate maintenance of the assets, the executing agency undertakes to include the following in the asset transfer agreement to be signed with Hidrocapital: (i) that the works, goods, and equipment transferred within the framework of the program will be maintained in accordance with generally accepted technical standards; and (ii) that the annual maintenance plan and the budgetary resources earmarked for this purpose will be prepared and submitted to the Bank during the program execution period.
- 3.18 **Economic viability.** A cost-benefit analysis was performed of the program-financed projects in the 12 subbasins, which include water and sanitation works, storm drains, and flood control. Investments were analyzed relative to the flow of expected net benefits (expected incremental benefits less costs, in "with" and "without" project scenarios). For projects not within the subbasins studied, ex ante socioeconomic assessments will be made based on estimated values of ability to pay and specific surveys to be carried out for that purpose. The instruments to be used in the surveys will be previously agreed upon with the executing agency. This evaluation will be used to measure the program's impact and to prepare a baseline for the ex post socioeconomic evaluation of the program.
- 3.19 The cost-benefit analysis of the projects was performed on the basis of the solution adopted for the program's 12 subbasins, comparing the net present value (NPV) of costs and the NPV of benefits. The costs considered for the evaluation were incremental investment costs, O&M, valued at social prices (costs without rates or taxes). The benefits of sanitation were obtained using a nonparametric estimate of the ability to pay for the environmental sanitation of the Río Guaire, which was

compared with the ability to pay obtained for similar projects. The benefits of drainage and flood control were obtained by calculating the probable annual cost of floods associated with the December 2010 floods in the Río Guaire basin and the CMA. The annual benefit of an expected flood of this magnitude was estimated by multiplying the probability that it would occur in any year with its total cost. The findings of the analysis show that each project of the program is socioeconomically viable, with economic internal rates of return greater than 12%. In addition, the cost-benefit ratio is greater than 1 (see electronic link).

Summary of the economic cost-benefit analysis						
Type of work						
Work	Economic net present value (US\$000)				EIRR	B/C
	Benefit	Investment	O&M	Net benefit		
Sanitation	108,987.81	85,841.77	12,582.47	10,563.57	13.66%	1.11
Storm drains	173,589.90	104,321.79	22,425.87	46,842.23	17.9%	1.37
Total program	279,440.28	190,163.56	34,629.88	54,646.83	16.01%	1.24

- 3.20 **Sensitivity analysis.** The sensitivity analysis took into account variations in the values obtained for the ability to pay for sanitation, the benefits expected for damage avoided, the return rate of rains associated with the damage, and cost increases. The drainage project is robust and can absorb cost increases of up to 30% and reductions in benefits of up to 30%. The sanitation project can tolerate cost increases of up to 20% and reductions in benefits of just 10%.
- 3.21 **Ability to pay.** Beneficiaries' ability to pay was calculated for the sanitation works, but not for drainage and rehabilitation works. It was determined that the value of the monthly bill for the service would be less than 5% of the family income for the program's beneficiary population. Taking into account Hidrocapital's rates and assuming an average monthly consumption of 20 cubic meters, the average basic cost of water and sanitation services is US\$29 per customer. According to income distribution information in the program's areas of influence, the average basic value does not exceed 5% of monthly incomes.
- 3.22 **Social equity and poverty reduction.** This operation qualifies as a social equity enhancing (SEQ) and poverty reduction (PTI) project, as described in the report on the Ninth General Capital Increase (GCI-9) (document AB-2764). The operation also qualifies under the geographic criterion because the percentage of poverty in the program area is higher than the average for the Capital District (16.22% INE-Census 2001). In accordance with data furnished by parish, the percentage of poor households ranges from 7.31% in the El Recreo parish to 30.76% in the Macarao parish. On average, 18.28% of direct beneficiaries are from poor households.
- 3.23 **Risks.** Risks related to execution are minimized by the executing agency's experience as executing agency of the Integral Management of the Caroní River Watershed Program (1687/OC-VE) and the Program to Strengthen National

- Capacity for Integrated Solid Waste Management (2322/OC-VE). It obtained a “satisfactory” and “low-risk” rating in the ICAS institutional assessments, and under the program’s risk assessment matrix, which was carried out in accordance with project risk management (PRM) guidelines. During the PRM analysis and at the time it was performed, the operation’s general level of risk was determined to be low since no social, environmental, technical, or institutional risks were identified for it and for the sewage treatment plant.
- 3.24 At the time of its assessment, a medium risk was identified in the risk matrix, which is associated with the delay in administrative and legislative approvals for signing the loan contract. In addition, a medium risk was identified associated with possible delays in the full implementation of the LOPSAPS, which could affect the situation of operators in the medium and long terms. The progress achieved, coupled with the significant rate adjustments that have been implemented, in addition to the strategy of intervening in actions that reduce O&M costs, are all factors that provide an adequate degree of comfort with respect to this risk. The assessment of these areas will be monitored and updated during the program execution period.
- 3.25 **Fiduciary risk.** Fiduciary management was evaluated by means of an institutional capacity assessment (ICAS) of the program’s executing unit, as well as a risks (PRM) workshop with key personnel of the executing agency who will be involved in program implementation and administration. The risk assessment exercises performed during the design stage determined that the overall fiduciary risk of the program is low. Nevertheless, certain specific actions are recommended as preventive measures, given the executing agency’s recent experience with implementing other Bank programs (see Annex III).

IV. IMPLEMENTATION AND MANAGEMENT PLAN

A. Execution arrangement

- 4.1 **Borrower and executing agency.** The borrower will be the Bolivarian Republic of Venezuela (RBVE). The Ministry of the People’s Power for the Environment (MPPA) will be the executing agency for the program, through the UEPSRG in the Office of the Deputy Minister for Water (see paragraph 1.11). The UEPSRG will be responsible for overall coordination of all activities.
- 4.2 **Executing unit.** The UEPSRG is attached to the Office of the Deputy Minister for Water of the MPPA. Its staff members have expertise at the technical, environmental, social, and fiduciary levels, and have executed investments during the 2005-2010 period totaling more than around US\$150 million. It will be responsible for all technical, supervisory, social, administrative, and financial operational management aspects of the program for execution of the entire program. Its Technical Management Department oversees the work of the subdepartments for: engineering, urban projects and reorganization, release of areas, social development and community management, contract analysis and

administration, and national and international financing. The UEPSRG will obtain the support of specialized services for its inspection responsibilities.

- 4.3 **Financial-accounting management.** The executing agency will be responsible for the consolidated accounting-financial management of the program, to which end it will: (i) keep specific accounting and budgetary accounts for managing program funds; (ii) have a detailed accounting and reporting system for the administration, registration, and payment of contracts for works and for the procurement of goods and consulting services; (iii) submit in timely fashion the program's consolidated financial reports, and make the necessary accounting information available to the Bank and to the external auditors; (iv) maintain suitable records of disbursement requests; and (v) maintain a suitable filing system for the supporting documentation of eligible expenditures to be checked by the Bank and the external auditors.

B. Procurement of goods and services

- 4.4 **Procurements.** The procurements policies that will govern the operation will be those established in the Bank's documents GN-2349-9 and GN-2350-9. The procurement plan contains a breakdown of the procurements to be made during the first year and a half of the program and includes: (i) the contracts for works, goods, nonconsulting services, and consulting services; (ii) the proposed methods for contracting the works, goods, and nonconsulting services, and for selecting consultants; and (iii) the procedures to be used by the Bank for the review of the contracting (see [procurement plan](#)). Once the program has been launched, the rest of the contracting can be identified and will be indicated in the procurement plan. Given the program's dynamics and risk level, the borrower will update the procurement plan semiannually, or whenever changes are made.

C. Program monitoring and evaluation

- 4.5 **Monitoring and evaluation.** This will be performed using the Bank's supervision tools, based on the annual work plan, the Program Execution Plan (PEP), the procurement plan, and the plan developed for collecting information for the results matrix, designed by the UEPRG and acceptable to the Bank. The costs of these activities are duly included in the program budget (paragraph 2.4). The performance of two independent evaluations will be a condition of execution; the first is to take place 18 months after disbursement eligibility or when 20% of the loan proceeds have been disbursed, whichever occurs first; the final evaluation will take place six months before the last disbursement or when 80% of the loan resources have been disbursed, whichever occurs first. The evaluations will include an ex post socioeconomic evaluation, the instruments for which will be agreed upon previously with the executing agency. Terms of reference and the selection process will be agreed upon with the Bank in advance.
- 4.6 For program monitoring, the UEPSRG will submit semiannual progress reports, which will also be used to prepare the Project Monitoring and Project Completion Reports (PMR and PCR). Once a year, fulfillment of program objectives will be

reviewed, problems that arose during execution will be analyzed, and relevant adjustments will be agreed upon jointly.

- 4.7 **Audit and control.** The executing agency will submit the program's annual audited financial reports to the Bank within 120 days after the close of the fiscal year. The program's final audited financial reports will be submitted within 120 days after the date stipulated for the last disbursement. The external audit will be performed by independent auditors acceptable to the Bank, pursuant to its requirements, and based on previously approved terms of reference.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	(i) Lending for poverty reduction and equity enhancement, and (ii) Lending to support climate chance initiatives, renewable energy and environmental sustainability.		
Regional Development Goals	Infrastructure for competitiveness and social welfare: Incidence of waterborne diseases (per 100,000 inhabitants).		
Bank Output Contribution (as defined in Results Framework of IDB-9)	Infrastructure for competitiveness and social welfare: Households with new or upgraded sanitary connections.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2618-2	The Program will contribute to the strategic objectives of: “Improved quality of water sources through treatment of urban wastewater” and “Universal access to water and sanitation services	
Country Program Results Matrix	GN-2661-4	The operation is included in the 2012 Country Program Document	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	8.3		10
3. Evidence-based Assessment & Solution	6.7	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	6.6	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Low		
Environmental & social risk classification	B		
III. IDB´s Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)			
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment	Yes	Environmental management of residual waters.	
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			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.	Yes	En ex post socioeconomic evaluation will be undertaken to determine if project analysis assumptions hold.	

The program aims to contribute to the improvement of the Rio Guaire basin (RG) in the Metropolitan Area of Caracas, by running the plumbing infrastructure in the 12 sub benefited, enabling the capture, handling, separation and disposal of water served in the channel marginal collectors as well as social and environmental improvements to prevent and reduce vulnerability to floods and landslides in the areas surrounding these basins.

The POD presents problems to be addressed by the project as well as the factors causing these problems. The results matrix has vertical logic up to the Outcome level, as there are no indicators for expected impact. The main outcome indicators refer to the project's contribution to the interception of organic matter in the section of Guaire River basin served by the program. However, not all indicators are SMART. The proposed project includes a full cost-benefit analysis. The monitoring system is adequate and the evaluation plan includes an assessment of ex-post cost net benefits. It does not propose an impact assessment.

The main risks and mitigation measures have been identified, as well as their monitoring indicators.

Results matrix								
Objective	The objective of the program is to contribute to the cleanup of the Guaire River basin in the Caracas Metropolitan Area (CMA), through the execution of water and sanitation infrastructure works in the 12 beneficiary subbasins, for sewage intake, piping, separation, and disposal through collector sewers along the watercourse, and socioenvironmental improvements to prevent and reduce vulnerability to floods and landslides in the areas surrounding the subbasins.							
Component 1. Studies and institutional strengthening								
	Baseline	Year 1	Year 2	Year 3	Year 4		Target	Observations / Means of verification
Outputs								
Detailed engineering plans prepared for water, sanitation, and supplementary works in the remaining subbasins	0		5	11			16	Completion certificate and acceptance report endorsed by the UEPSRG
Geographic information system (GIS) in operation	0			1			1	
Instrumentation system for the Guaire River basin designed, implemented, and providing monitoring	0			1			1	Acceptance certificate and outcome report endorsed by the UEPSRG
Modeling of the Guaire River regime operating	0			1			1	
Wastewater treatment plant designs prepared	0			1			1	Completion certificate signed by the UEPSRG
Training courses offered for the UEPSRG	0		53	53			106	Certificates of participation delivered
Institutional publicity campaign designed for the program (publicity material, radio, TV)	0		1	1	1		3	Publicity materials, TV spots, programs, etc.
Workshops held for community training and equipping, and environmental awareness	0		400	400	66		866	Summary profiles of workshops held, containing information on participants, location, duration, content, and facilitators.
Outcomes								
Number of reports generated per year by the water quality monitoring system in the Guaire River basin and subbasins (annual reports)	0	2	2	2	2		8	Consolidated periodic reports on program outcomes
Percentage of the population informed and aware of the scope and impact of the program	0	20	50	70	80		80	Perception survey in the participating communities to measure changes in attitude and in their environment.
Communities are aware and have positive attitudes toward water, sanitation, and environmental matters in the program area	0	8	24	40	48		48	

Component 2. Infrastructure in the Guaire River basin								
	Baseline	Year 1	Year 2	Year 3	Year 4		Target	Observations / Means of verification
Outputs								
Meters of collectors constructed and/or rehabilitated (subbasins)	27,908		39,449	24,178			91,535	Completion certificates for each contract with its respective acceptance certificate, endorsed by the UEPSRG
Pumping station in San Pedro completed and operating	0.5		0.5				1	
Meters of collectors alongside the Guaire River watercourse rehabilitated	0			4,936			4,936	
Meters of drainage channels of the Guaire River constructed and/or rehabilitated	738		8,670	6,800	1,530		17,738	
Meters of subbasin drainage channels constructed and/or rehabilitated	2,276		6,712	4,363	112		13,463	
Meters of storm drain collectors constructed (El Valle, Qda. Honda Maripérez, and La Vega)	0		3,080	457			3,537	
Number of sediment retention dams and risk mitigation activities (San Pedro, Qda. Honda Maripérez, Anauco, Caroata) completed and operating; intake structure in Caroata; and rehabilitation of sand catch in La Vega	5.5		8	5.5			19	
Number of channel development, equipping, and socioenvironmental recovery works constructed	7		1	11	3		22	
Outcomes								
Percentage of sewage and wastewater intercepted in the 12 subbasins covered by the program	(*) 20		35	70	90		90 (*)	(*) An instrumentation system will be designed and implemented for monitoring purposes, financed with program resources. It will be used to determine the baseline value and the objectives to be achieved in each subbasin covered by the program.
Organic matter intercepted in the stretch of the Guaire River basin covered by the program (kg BOD5/d)	0 (*)	0	38,500	69,300	77,000		77,000 (*)	(*) An instrumentation system will be designed and implemented for monitoring purposes, financed with program resources. It will be used to determine the baseline value and the objectives to be achieved. The biochemical oxygen demand (BOD) test will be the parameter used for measuring water quality.
Homes affected by floods in the program's intervention areas with a 10-year return rate	30,000 (2010)						3,000	Survey of homes after rainfall event with design return rate

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Bolivarian Republic of Venezuela
Project number: VE-L1037
Name: Guaire River Sanitation Program (Phase III)
Executing agency: Ministry of the People's Power for the Environment (MPPA)
Prepared by: Ricardo Posada, Financial Management Specialist; Ezequiel Cambiasso, Procurement Specialist; Jenny Gragirena (Procurement Consultant)

I. EXECUTIVE SUMMARY

- 1.1 Fiduciary management was evaluated on the basis of an analysis of the institutional capacity of the program's executing unit, using the Institutional Capacity Assessment System (ICAS). In addition, a workshop on project risk management was held with key personnel of the executing agency who will be involved in implementing and administering the program. Also taken into account was the experience of the staff of the Bank's Country Office in Venezuela who are currently working with the MPPA in executing the "Integral Management of the Caroní River Watershed Program" (1687/OC-VE) and the "Program to Strengthen National Capacity for Solid Waste Management" (2322/OC-VE).
- 1.2 The fiduciary agreements that will govern execution of this program were based on the overall findings of the analyses, which determined overall low risk.
- 1.3 The program will not receive funding from other multilateral agencies.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 As is the case of the country's other public agencies and decentralized entities, the MPPA makes partial use of country financial management systems. Of the different subsystems comprising the country system, the MPPA uses the budget and treasury subsystems as the management tool for the projects it executes; it handles its accounting and generates financial reports through parallel non-integrated accounting systems. The budget system is used in part to formulate and process transfers of funds, and the other stages are handled autonomously with separate modules. The loan proceeds will be transferred by the IDB to a special account opened for the program in the Central Bank. The National Treasury Office (ONT) will charge to that account the authorizations for payment issued by the executing agency and covered by the financing. The MPPA will manage program funds autonomously through a national commercial account in local currency, issuing

payment authorizations that will be sent to the ONT, which centralizes all income and payments of the agencies that belong to the treasury system. With regard to country procurement systems, no procurement modality is currently being used in the country with loans financed by multilateral lending agencies.

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 According to the risk assessment exercise performed during the design stage, overall program risk is low. With regard to fiduciary matters specifically, risk is also considered low given the MPPA's operating capacity and the specific characteristics of the program.

IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE CONTRACTS

- 4.1 For purposes of reporting to the Bank, the exchange rate will be the effective exchange rate used by the Central Bank of Venezuela to convert the funds denominated in the program currency to local currency.
- 4.2 It is recommended that the program's annual audited financial reports be submitted in accordance with the new guidelines on financial reports and external audits for Bank-financed operations.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

A. Procurement execution

- 5.1 Procurements will be made in accordance with documents GN-2349-9 and GN-2350-9.
- 5.2 **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services¹ under the program and subject to international competitive bidding (ICB) will use the Bank's standard bidding documents. Bidding processes subject to national competitive bidding (NCB) will use country bidding documents agreed to with the Bank (or satisfactory to the Bank if they have not yet been agreed upon). The program's sector specialist will be responsible for reviewing the technical specifications of procurements during the preparation of procurement processes.
- 5.3 **Selection and contracting of consultants.** Contracts for consulting services for the program will use the standard request for proposals (RFP) issued by the Bank or agreed upon with the Bank regardless of the contract amount (or satisfactory to the Bank if they have not yet been agreed upon). The program's sector specialist will be responsible for reviewing the terms of reference used for contracting consulting services.

¹ According to the IDB's procurement policies, nonconsulting services are treated similarly to goods.

- 5.4 Individual consultants will be selected on the basis of their qualifications to perform the work; in this process, the qualifications of at least three candidates will be compared. When called for by the situation, announcements may be published in the local or international press for the purpose of obtaining information on qualified consultants.

Table of threshold amounts (US\$)

Works			Goods ²			Consulting services	
International competitive bidding (ICB)	National competitive bidding (NCB)	Shopping	ICB	NCB	Shopping	International publicity	Short list 100% national
≥5,000,000	<5,000,000 and ≥350,000	<350,000	≥250,000	<250,000 and ≥50,000	<50,000	≥200,000	<350,000

Threshold amounts for ex ante review³

Works	Goods ⁴	Consulting services
Processes valued at more than US\$5 million; the first two processes of each method, regardless of the amount, as well as all direct contracting	Processes valued at more than US\$250,000; the first two processes of each procurement method, regardless of the amount, as well as all direct contracting	Processes valued at more than US\$200,000; the first two processes of each selection method, regardless of the amount, as well as all direct contracting

B. Major procurement processes

- 5.5 A detailed procurement plan can be seen at [electronic link](#). The most important procurements include:
- Goods.** Goods related to the equipment for the geographic information system (GIS); equipping of the instrumentation unit, UEPSRG equipment, community equipment, and equipment for the Guaire River Program's follow-up, monitoring, and information system.
 - Works.** Construction, rehabilitation, intake, disposal, repair, control, and expansion for channeling, collectors alongside the waterway, sewage, urban drains, flood control and prevention, and repairs.
 - Consulting services.** Studies and designs for 16 subbasins; diagnostic assessment of collectors alongside the waterway; design and development of the GIS; design and installation of the instrumentation unit; studies and

² Includes nonconsulting services.

³ During the implementation period, the Bank may modify, without further formalities, the threshold amounts for ex ante review if it considers that the fiduciary context of the MPPA and/or the country have changed. Should this occur, the Bank will communicate its decision to the MPPA, setting out the new conditions for execution in the procurement plan.

⁴ Includes nonconsulting services.

modeling of the Guaire River regime; design of wastewater treatment plants; training and courses for the UEPSRG; dissemination of institutional, socioenvironmental, preventive, and educational information; community training Guaire River program; follow-up, monitoring, and information systems and works inspection and supervision.

C. Procurement supervision

- 5.6 Given the program's low risk in fiduciary matters, one inspection visit per year will be considered. In creating the supervision arrangement, consideration was given to the MPPA's capacity and knowledge of the Bank's procurement procedures, and the opinion of the team leader. Later Bank reviews will examine, at the very least, one out of three contracts signed, and at least four physical inspections of goods procured.

D. Special provisions

- 5.7 Calls for tenders and for expressions of interest will be published on the country's official website where public sector procurement notices are posted, as well as on the MPPA's website, and in any other appropriate media.
- 5.8 For national competitive bidding processes (NCB): (i) the documents agreed upon with the Bank should effectively cover the matter of prohibited practices and include the eligibility guidelines for the Bank's member countries; (ii) the amount of time between the publication of the call for tenders and the deadline for receiving bids should be no less than four weeks (28 calendar days) to ensure effective dissemination and allow sufficient time for preparing the bids; (iii) consideration should be given to the public opening of technical and economic bids at the same event; (iv) only the envelopes or bids received after the deadline will be rejected; and (v) if foreign companies wish to participate in a NCB, they should be able to participate under the same conditions as national companies, with the exception of requirements not applicable to them since their businesses are not established in the country.

E. Records and files

- 5.9 The program's executing unit will be responsible for setting up a filing system to maintain all the documentation on the procurement processes to ensure that it is possible to reference and clearly and directly identify all the transactions of each process (one file per process). Each file should have the documentation filed in chronological order, and files should be kept in a safe environment in accordance with practice. The filing system should use the formats or procedures agreed upon with the Bank.

VI. FINANCIAL MANAGEMENT

A. Programming and budget

- 6.1 The National Budget Office (ONAPRE) is the lead agency of the national budget system. Each year, ONAPRE prepares the public sector consolidated budget, which

includes the decentralized entities. To this end, the agencies and entities have a new stage system that allows them to: (i) individually record project data and budget information for control, monitoring, and evaluation purposes; and (ii) produce reports on project actions and progress. This information is then uploaded into the budget system, a computer application used to prepare the draft budget bill and the general distribution of expenditures. The approved budget is then loaded into the Integrated Public Finance Management and Control System (SIGECOF), which is used to execute the budget and which ONAPRE uses to monitor it. The Bank will reimburse eligible program expenditures pursuant to the budget lines identified and executed through the program, as of 1 January 2012.

B. Accounting and information systems

- 6.2 The National Public Accounting Office (ONCOP) is the lead organ of the national accounting system and, as such, it sets technical public accounting standards. The system is based on the accounting guidelines set by the Comptroller of the Republic (CGR), and on other generally accepted accounting principles for the public sector. ONCOP has the SIGECOF accounting module, the only module that has all the given functionalities (resources, payments, financial movements) developed and in operation. However, since the SIGECOF's other modules are still being developed, its integration is incomplete, meaning that at this time it cannot issue financial statements on assets. The absence of an integrated system makes the transactional load somewhat unmanageable for ONCOP, which, despite its efforts, cannot keep up to date given the technological limitations. At present, these circumstances make it impossible for Bank-financed projects to process accounting and obtain financial reports from the national public accounting system. Currently, financial reports for projects in execution are prepared directly from independent accounting modules.

C. Disbursements and cash flow

- 6.3 The IDB will transfer the loan proceeds to the program's special account to be opened with the Central Bank of Venezuela, against which the National Treasury Office (ONT) will execute payment orders issued by the MPPA and chargeable to the loan. The MPPA will manage program resources autonomously through a bank account by issuing payment orders that will be sent to the ONT, which centralizes all income and payments of the entities belonging to the treasury system. The MPPA, through the SAMAR,⁵ will make payments directly by electronic means (payment orders), except for direct payments that the executing agency may ask the IDB to make (in the case of international suppliers). These will be reported on a quarterly basis to the ONAPRE (in other words, they will not be managed online and will not be entered in real time). Exceptionally, payments may be made directly by the Central Bank, following receipt of a request from the MPPA through the ONT.
- 6.4 Disbursements will be made by advance of funds, based on the program's actual liquidity needs. The executing agency will submit disbursement requests to the

⁵ SAMAR: Autonomous System of the Ministry for Environment.

- Bank using the e-disbursement tool; supporting documentation will be reviewed ex post by the Bank. Requests will be accompanied by a program of expenditures (financial plan), by annual work plan activity, for up to a maximum of 180 days. Supporting documentation must be provided on at least 80% of the funds advanced in order to qualify for the next advance.
- 6.5 The executing agency will submit the program's initial financial plan to the IDB. The plan will reflect the disbursement schedule for the entire program and will be updated when necessary.
- 6.6 The executing agency will open a dedicated bank account for the management of the loan proceeds.
- 6.7 The exchange rate will be the official rate on the day the United States dollars are converted to Bolívares Fuertes by the Central Bank.
- 6.8 Expenditures not considered eligible by the Bank will be reimbursed from the local contribution or with other resources, depending on the nature of the ineligibility.
- D. Internal control and internal audit**
- 6.9 The control environment, control activities, communication and information, and monitoring of the activities of the executing agency and the executing unit are governed by the country's rules, which are based on the national internal control system, the lead agency of which is the National Internal Control Authority. The MPPA's internal audit function is the responsibility of the Internal Control Office (OIC), the director of which is under the authority of the CGR; the rest of the unit's personnel is attached administratively to the MPPA. The scope of the OIC's work does not extend to the program's activities.
- 6.10 The executing agency will include the main internal control processes in the Operating Regulations to ensure that the controls operate effectively. This task will be performed by an independent audit firm.
- E. External control and reporting**
- 6.11 The CGR is the lead entity of the national external control system, and has limited capacity to perform the external control of externally-financed programs. Therefore, external control is performed for the IDB by eligible independent audit firms. Given the program's size and complexity, the following is required: (i) selection of one level 1 independent audit firm; and (ii) annual audited financial reports, at an estimated cost of US\$500,000, which will be covered by the loan proceeds.

Financial supervision plan				
Supervision activity	Supervision plan			
	Nature and scope	Frequency	Responsible party	
			Bank	Third party
Fiduciary management	Comprehensive ex post review of disbursements and procurements	Semiannual	Fiduciary team	External auditor
	Financial audit	Annual		External auditor
	Review of audited financial statements	Annual	Fiduciary team	Executing agency
	Review of disbursement requests	Periodic	Fiduciary team	
	Updating of fiduciary risk	Annual	Fiduciary team	
	Inspection visit /analysis of internal controls and control environment	Annual	Fiduciary team	External auditor
Compliance	Annual allocation of budgetary resources required for program implementation	Annual	Fiduciary and technical teams	Executing agency
	Delivery of audited financial statements	Annual	Fiduciary and technical teams	Executing agency
	Conditions precedent to the first disbursement	Once	Fiduciary and technical teams	Executing agency

F. Execution arrangements

6.12 The execution mechanism described in the proposal for operations development (POD) calls for a centralized administrative-financial administration arrangement, through the executing unit, which will be responsible for formulating the budget every year, both for the local contribution and for the IDB's contribution. The executing unit will be responsible for processing the disbursements with the Bank and furnishing the required supporting documentation.

6.13 **Other financial management agreements and requirements.** None.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/12

Venezuela. Loan ____/OC-VE to the República Bolivariana de Venezuela
Rio Guaire Sanitation

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 República Bolivariana de Venezuela, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Rio Guaire sanitation program. Such financing will be for the amount of up to US\$300,000,000 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 _____ 2012)

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