

MULTILATERAL INVESTMENT FUND
STRENGTHENING FOR THE WATER AND BASIC SANITATION
SERVICE REGULATORY COMMISSION (CRA)

(TC-95-03-22-9-CO)

EXECUTIVE SUMMARY

EXECUTING AGENCY: The Ministry of Economic Development through the Water and Basic Sanitation Service Regulatory Commission (CRA)

MIF FACILITY: Technical-cooperation funding (Facility I)

FINANCING: Donation

Beneficiary:	US\$ 710,000
MIF:	US\$ 990,000
Total:	US\$1,700,000

BENEFICIARIES: The CRA and those entities involved in the water and sanitation sector, users of these services, and the private sector.

OBJECTIVES: The project's general objective is to support the Colombian government in promoting efficient delivery of water and basic sanitation service by implementing a regulatory system that encourages competition and greater private-sector participation.

DESCRIPTION: The project provides for the use of MIF funds for execution of four components (see project summary in Annex I):

Component I. Establishment of the criteria and methods for the sector's regulatory function, including: (i) the conceptual development of a regulatory framework; (ii) developing regulatory mechanisms and models, taking account of a strategy for providing incentives to private-sector participation; (iii) systems for evaluation and follow up of company management to monitor the performance of the utility companies and to help them provide better service.

Component II. Promotion of private-sector participation, including: (i) design of mechanisms which facilitate competition and promote private-sector participation; (ii) preparation of guidelines and procedures for the utility privatization processes; and (iii) support for the evaluation and monitoring

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of standards and procedures with private companies by means of periodic meetings and on-going contact that lead to the sharing of views with the Commission.

Component III. Training of the sector's human resources, including training programs for the Commission's specialists as well as those of the companies subject to regulation.

Component IV. Development of the CRA's computer system development plan, including design and implementation of a database, development of the computer systems, and installation and purchase of equipment.

IMPLEMENTATION	Execution period:	18 months
SCHEDULE:	Time limit for disbursement in full:	24 months

ENVIRONMENTAL CLASSIFICATION:	The Environment Committee, at its meeting of July 6, 1995, classified this as a Category II operation.
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SPECIAL CONTRACTUAL CONDITIONS:	In addition to the relevant general contractual conditions, the following should be included as conditions precedent to the first disbursement: evidence that a contract has been signed with the specialized agency for administrative management of the operation, that the Project Coordinator has been hired, and that a work plan for the operation has been submitted.
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I. COUNTRY ELIGIBILITY

- 1.1 On November 1, 1993, the Donors Committee declared Colombia eligible for all forms of MIF financing.

II. FRAME OF REFERENCE

A. General framework

- 2.1 During the 1980s, Colombia underwent a severe crisis in the provision of public utility services marked by a loss of institutional credibility because of deficient delivery of services, severe financial and administrative difficulties, and the impossibility of generating sustained development in these circumstances. In this context, the excessive dependence of the municipalities and regions on the central government began to be questioned and a process of establishing a new public utility legal framework with respect to the role of the municipalities and the provision of residential utility services commenced. As a result, with the passage of Law 14 of 1983, the 1986 Municipal Reform, and especially the new Constitution of 1991, roles were reversed and municipal governments assumed full responsibility for providing utility services.
- 2.2 The institutional reforms laid down in the 1991 Constitution, which redefine the role of the State in the economy, stipulate that a great effort must be made in its development and consolidation to ensure the efficiency of the decentralization process by applying modern management practices in the delivery of social services, development of community participation mechanisms, consolidation of a culture of consultation to replace the culture of conflict, and regulation of private-sector participation in the provision of public goods and services.
- 2.3 Further, this Constitution lays down that public utilities are inherent to the State's social purpose and that its duty is to ensure the efficient provision of these services to all people residing in Colombian territory. This rule also indicates that the services may be provided by the State directly or indirectly, by organized communities or by private individuals, but in any case, the State will continue to regulate, monitor, and supervise these services. It also lays down that it is the duty of the President of the country to issue general policies on administration and control of efficient residential utility services, in accordance with the law.
- 2.4 Similarly, the Constitution indicates that the law will establish the jurisdictions and responsibilities relating to provision of residential public utility services, their coverage, quality and

financing. It also sets out that these services will be delivered directly by the municipality only when the technical and economic features of the service and general convenience make it possible and advisable.

- 2.5 One of the principles on which the present government's national development plan is based is maintenance of sound macroeconomic management and a regulatory framework which facilitates and does not hinder private activity. It is therefore necessary to combine traditional macroeconomic management with a true policy of internationalization which makes liberalization consistent with active sector policies aimed at improving conditions for competitiveness.
- 2.6 As part of its macroeconomic strategy, the government's national development plan (*El Salto Social*) is guided by the principle of maintaining freedom of foreign investment in Colombia and of investment by Colombian companies abroad. It thus recognizes that direct foreign investment is vital for maintaining economic growth, accelerating the transfer of technology, modernization of the productive apparatus, and promotion of competition.

B. The policy of private-sector participation in physical infrastructure

- 2.7 Last April, the National Council on Economic and Social Policy (CONPES), the highest Colombian planning authority, which approves government policies, plans, programs and projects in the economic and social areas, in pursuit of the objectives of the national development plan, approved the strategy of "private-sector participation in physical infrastructure." The policy guidelines in this area seek to define and formulate the private-sector participation schemes in relation to allocation of risk, compensation systems, responsibilities, financial aspects, macroeconomic project planning, protection of investment, and legal and procedural matters.
- 2.8 For purposes of supporting, developing, and coordinating this process of tying-in the private sector to public infrastructure activities related to the transport, energy, telecommunications, water and basic sanitation sectors, the Interinstitutional Committee on Private-Sector Participation was created. An attempt was made to obtain technical consultancy and maintain on-going activity in the evolution of the private-sector participation scheme, as well as to promote the carrying out of studies of the legal and financial framework and adopt the corresponding measures to stimulate private-sector interest by various means such as concessions (in various forms - BOT, BOO, BLT, concessions for construction work, or franchises for delivery of services), direct delivery of utility services, joint ventures with government enterprises, purchase of government enterprises and administration of government participation in enterprises. Similarly, there is an institutional agency to channel the bids and provide information on

the difficulties arising in this process so that the appropriate corrective action can be taken.

- 2.9 This Committee is formed by the Ministry of Finance and Public Credit, the Director of the Planning Department, the Minister of the sector with which the project or activity is associated, and the Director of the agency in charge of that activity. In the case of water supply, drainage systems, and solid waste collection, representation falls to the Ministry of Economic Development and the Water and Basic Sanitation Service Regulatory Commission (CRA).
- 2.10 Among the general activities, the Committee has proposed the carrying out of work aimed at standardization, coordination, and regulation of processes through three activities: comprehensive promotion, technical support (development of a general framework that ensures the success of private-sector participation), and monitoring of projects.

C. The restructuring program for the water and basic sanitation sector

- 2.11 In Colombia, according to recent data, average coverage was 76% for water service, 64% for sewer service, and 60% for solid waste collection. Approximately 9 million inhabitants still do not have water service and 13 million are without sewer service. Only 62% of all urban residents receive water fit for human consumption, while in rural areas only 10% have water of good quality and there is no proper collection of solid waste. Accordingly, waste is usually dumped in watercourses or left on the ground.
- 2.12 This situation has been compounded by the financial and performance crisis of most of the agencies providing utility services, for which reason a program of adjustment and company transformation was undertaken. As a condition of the Colombian government's contributions and guarantees, restructuring processes were initiated in Bogota, Cali, Barranquilla, Cúcuta, Montería, Riohacha, and Sincelejo.
- 2.13 In response to the foregoing, in 1992 the Colombian government began a process of restructuring the water and basic sanitation sector so that the State could focus on the tasks of regulation, planning, and supervision. In 1993, basic laws were enacted on the distribution of jurisdictions and funds, whereby the municipalities were to allocate 20% of their investment funds towards water and basic sanitation when coverage fell short of the target of 70% of the population (Law 60).
- 2.14 In 1994, the Residential Public Utility Services Act (Law 142) was passed, establishing a new residential public utility regime in Colombia and empowering the President to delegate the residential public utility regulatory function to regulatory commissions. In the specific case of water, sewerage, and solid waste collection services, the President, by means of Decree 1524 of 1994, delegated

this function to the Water and Basic Sanitation Service Regulatory Commission, which was created as a special unit with administrative, technical and financial independence, reporting to the Ministry of Economic Development. This law also assigns to the Deputy Minister of Housing, Urban Development, Water and Basic Sanitation the duties of preparing the sector development plan and providing technical and institutional assistance to the sector and local entities for proper performance of their duties. It also establishes that most of the utility operators must convert to stock companies and that the municipalities may enter into contracts through public tender for private companies to finance, operate, and maintain residential public utility services.

- 2.15 This new legal and institutional framework clearly separates the three functions aimed at satisfying consumer needs: regulation at the national level of water and basic sanitation services through the Water and Basic Sanitation Service Regulatory Commission; evaluation and monitoring through the Superintendency of Residential Public Utilities (SSP), and services provided by public utility companies (PUCs), preferably organized as public, private or mixed joint stock companies.

D. The strategy for the sector and the CRA's functions

- 2.16 The principles of the government's national development plan for the 1994-1998 period indicate that it will seek to: (a) achieve 90% water service coverage and 77% sewer service coverage, benefiting an additional 6,100,000 inhabitants with water service and 6,200,000 with waste disposal systems; (b) raise the quality of the water supplied for all inhabitants with service and decrease the systems' vulnerability; and (c) modernize and consolidate the water and basic sanitation system.
- 2.17 With the enactment of Law 142, the general framework for provision of residential public utility services was established, setting out wide-ranging institutional changes, and formulating clear regulatory, supervisory, and monitoring mechanisms based on principles of efficiency, competition, and decentralization. Article 140 also stipulates that service will be suspended for failure to make payment and other reasons. It is important to note that supervision of water quality in Colombia falls to the Ministry of Health.
- 2.18 The CRA is empowered to issue rules and regulations for utility companies for purposes of generating and maintaining conditions of efficiency in utility service provision and preventing abuse of users. Among its main functions are: promoting competition; regulating natural monopolies; defining efficiency criteria; developing indicators and models of evaluation; defining rate-setting methods; indicating service quality characteristics; developing guidelines for business viability; and regulating the terms of utility service contracts.

- 2.19 The CRA adopted a Plan of Activities having the following objectives: defining the regulatory structure in accordance with the sector's current structure; supporting the interaction between the CRA and the regulated agencies; proposing new cost analysis schemes and design of rate structures, subsidies, and stratification of rates; establishing parameters to evaluate service quality; defining rules, procedures, and indicators which seek to improve efficiency and the management of sector companies; providing incentives to competition and to private-sector participation in the provision of services; and strengthening the private sector's organizational structure.
- 2.20 For the CRA to perform the aforementioned functions, it has a personnel roster made up of three specialists working exclusively for the CRA who are appointed by the Colombian President, for three-year periods, who may be re-elected and who are not subject to the measures regulating administrative careers. The position of coordinator of the Commission will be held by one of the experts in rotation. The CRA includes an Administrative Coordinator, Executive Coordinator, Director of the Office of Regulation, Director of the Legal Affairs Office, Director of the Technical Office, Director of Internal Control and six administrative support personnel. It also has 12 external advisors specializing in the various areas of the Commission's jurisdiction.
- 2.21 As indicated above, Law 142 of 1994 gives broad powers and responsibilities to the recently-created CRA. For this reason, and because of a lack of experience and technical, legal, and institutional expertise at the national level, the need for tools, logistical support, and regulatory mechanisms to exercise these powers is considered imperative.

III. THE PROJECT

- A. General objective
- 3.1 The project's objective is to support the Colombian government in promoting the efficient provision of water and basic sanitation services by means of a regulatory system for the sector based on competition and greater private-sector participation.
- B. Specific objectives
- 3.2 The following specific objectives have been identified:
- a. Comprehensive development of the concept of regulation given the specific characteristics of the sector in Colombia and

identification, design, and implementation of this concept through an institutional plan of action for the medium and long term;

- b. promotion of competition and private-sector participation in providing these services;
- c. transfer of knowledge and experience with regulation in the sector to the Commission's group of specialists carrying out the institutional plan of action;
- d. institutionalization of the means of interaction with regulated companies to evaluate the implications of the rules developed by the CRA;
- e. providing the CRA with a comprehensive information system for decision-making.

C. Description

3.3 The MIF funds would be used to support the CRA in contracting a consulting firm (component I) and independent consultants (components II, III, and IV) to carry out the following activities:

1. Component I. Definition of criteria and methodologies of the sector's regulatory function

- a. **Regulatory framework:** includes conceptual development of a regulatory framework. The consultants must identify regulatory activities to be developed by the Commission in the short and medium term, determining their priority and proposing complementary regulations in accordance with Law 142 of 1994. This subcomponent must relate to the characterization of the institutions providing these services and may create regulations which distinguish between the various operators, taking account of their needs and characteristics. The consultants will also make a clear distinction between the functions assigned to the CRA and those assigned to the Superintendency of Residential Public Utilities.

This subprogram's results will be: (i) preparation and implementation of an institutional plan of action which identifies the activities, content, scope, chronology of the subcomponents of this operation, and the interaction between them or any other activity considered important which takes account of the studies made to date; (ii) the strategy that the Commission will adopt to promote greater private-sector participation and which will serve as the basis for the alternatives to be presented under component II; and (iii) the draft supplementary legislation. Implementation of the plan of action would be as follows: (i) preparation, including a strategy to provide

incentives to the private sector which comprehensively guides the Commission's activities; and (ii) implementation, which acts as a guideline for the activities provided for in the other components. Approval of the plan of action would be the responsibility of the Consultants' Committee and the plan would be implemented for the duration of the operation.

b. **Regulatory mechanisms and models:** consists of the following activities which must take account of a strategy to provide incentives to private-sector participation in delivery of the utility services:

- (i) Regulation of rates: proposal for a progressive regulatory system and a utility pricing policy to ensure that utility rates reflect their economic cost. The work that the Commission has been carrying out must be taken into account in this activity and consultation on the implementation and adjustment processes will be required. The consultancy work must include the development of models to be used as a benchmark in setting rates which previously was under the jurisdiction of the Rate Board and which has now become the CRA's responsibility.
- (ii) Cost functions: based on the information obtained on the companies in implementing the methods currently defined by the Commission, development of models which make it possible to define efficiency cost functions using the system's technical and physical characteristics. To be able to monitor the sector, a price index will be established which represents the variation in costs between companies and allows the resulting trends to be assessed.
- (iii) Quality of service: as an adjunct to the foregoing activities and in a subsequent phase, definition of the criteria, methods and variables to establish the parameters with which utility service quality will be evaluated. The standards which are defined in this activity must have as objectives consumer protection and company efficiency. The standards and regulations on water quality are not part of this operation as they fall within the purview of the Ministry of Health.

The final result envisaged for this subcomponent is a group of standards and methods which makes it possible to set rates that reflect efficient service complying with the quality parameters established.

c. **Company management evaluation and monitoring schemes:** to monitor the performance of the utility companies and to assist them in improving their services. This consists of three activities:

- (i) Management evaluation schemes: reviewing the evaluation system that the Commission has been developing and consulting the Commission on the implementation and adjustment processes required. This activity must be moved ahead as the results of the implementation of the REMS (regulation, evaluation and monitoring system of company management, currently being financed by the World Bank) in Colombia's principal cities, are available. Identification of schemes which make comparative evaluation of company performance possible by defining performance indices (yardstick competition).
- (ii) Monitoring of the sector's companies: developing indicators so that companies prepare business plans, give the Commission tools to evaluate the recovery plans which companies in difficulty submit to it for consideration, as well as designing mechanisms to verify these results. For this subprogram, the consultants will take a representative sample of companies and will carry out demonstration exercises utilizing those mechanisms and methods.
- (iii) supplementary studies: this would consist of identifying and preparing studies arising as the result of work provided for in this operation. This activity provides for contracting environmental consulting services which would examine the potential effect on the level of sector rates, and on the regulations and environmental strategies which the Ministry of the Environment may consider.

The final result of this subcomponent is to obtain a method and indicators so that the companies can prepare their business plans and give the Commission tools with which to support those business plans.

2. Component II. Promoting private-sector participation

- 3.4 These activities will consist in implementing the Commission's strategy to promote private-sector participation in the water and sanitation sector in accordance with the thrust of Law 142 of 1994 and the government program of "private-sector participation in physical infrastructure", indicated in paragraphs 2.7 to 2.10. It is important to recognize that the Commission will not carry out

the privatizations but rather will act as their agency of promotion. In this context, one of the basic principles of Law 142 is that all persons are free to organize and operate firms established for the purpose of providing utility services and it lays down that restrictions may not be imposed on the capital, experience or other characteristics; "freedom to enter" the market is thus protected, a basic requirement for competition and for the private sector's unrestricted access.

- a. **Design of mechanisms facilitating competition and promoting private-sector participation.** The new public utility regime defines a "pro active" mission promoting competition for the Regulatory Commissions. These mechanisms must promote clear ground rules for private agents interested in participating in the various activities (new investment, rehabilitation and expansion of existing facilities, management and operating contracts, etc.) related to delivery of these services. Mechanisms will be established that lead to the exchange of views between operators and the Commission to advance the importance of utilizing the private sector as a vehicle to increase efficiency in the provision of services.

The final result of this subcomponent would be a group of rules and mechanisms which are part of the procedures or plans of action facilitating the transfer of services to the private sector. Some specific aspects would be related to: identification of supplementary measures which ensure the investors of a favorable regulatory framework; establishing the State support required by the private sector taking into account the maturities of the investments and a utility's stage of development; definition of the basic elements making possible vertical and horizontal segregation of the activities of utility companies so that more bidders are attracted for processes in the utilities' chain of production, marketing, operation, distribution and disposal (of solid waste) or treatment (waste water); and design of regulatory mechanisms which provide incentives to the transformation of companies into joint stock companies.

- b. **Preparation of guidelines for the privatization process.** On the basis of the plans of action leading towards greater private-sector participation, specific mechanisms will be developed, such as the principles for franchise or other alternatives and the corresponding procedures for undertaking the development of each of these mechanisms.

The final result would be a document which provides guidance for utility companies which explains the principles and procedures for privatization. Among the subjects which must be considered are: the technical contractual conditions common to the private-sector participation contracts; the system of

guarantees for each type of private-sector participation from the legal and financial point of view; and the guidelines and methods for determining the minimal amount of capital and assets which must be included in each type of contract.

3. Component III. Training of the sector's human resources

- a. **Training of sector specialists** in the design and implementation of rate options and in the regulatory framework. This subcomponent must be supplemented with in-service training by the consultants contracted to implement the techniques developed. This activity must serve as a mechanism for dissemination of information to the approximately 2,000 providers of utility services on the scope of Law 142 of 1994 and of other technical knowledge acquired by the Commission. This would be disseminated by means of periodic meetings, publications, and other specialized media.
- b. **Training of specialists** in the use of the information systems and in implementation and use of the models developed. This subcomponent presupposes active participation by the Technical Working Group (who will be selected from the CRA staff to support the project in all phases) in the development of the computerized models envisaged.
- c. **Sharing of experiences**, and knowledge of how the sector regulation has evolved in other countries by means of exchange with specialists on the subject and some related seminars. The end result of this component will be to create a group of specialists who are trained to give appropriate, specialized attention to subjects raised by the Commission by means of proper use of the information systems, and implementation of the rules and methods adopted. As part of this effort, workshops and conferences will be held in the Commission. This subcomponent would be financed with local contribution funds.

4. Component IV. Development of the CRA's computer system development plan

- 3.5 As a prerequisite for development of the computer system development plan, the Commission is in the process of identifying the minimum basic information available in the various companies by utility category and terms of service. This component consists of the following three activities:
 - a. **Design and implementation of a database** which makes it possible to process information on rates, utility costs, indicators, and technical characteristics. The final result of this subcomponent will be to obtain basic, systematized information using an appropriate database and with the corresponding models for statistical processing.

- b. Development and administration of the Commission's document, legal, and administrative information and internal monitoring systems. The final result will be to obtain updated, improved systems for these subjects.
- c. Acquisition and installation of computer equipment (hardware and software). The end result will be the installation and implementation of a computer system and the accessories required to support effectively the Commission's current and future requirements.

5. General support

- 3.6 As part of the general support and to ensure that the activities identified in the various components of the operation have adequate support, the following will be included: contracting of the project coordinator who will be responsible for the technical, operating, and financial aspects of the project; contracting of a firm specialized in administrative support; contracting of a general counsel; leasing of offices; and contracting of support personnel. With the exception of the specialized agency, all other items will be financed with local contribution funds.

D. Cost and financing

- 3.7 The total estimated cost of the project is US\$1,700,000, of which US\$990,000 of MIF financing is requested. The Colombian government will contribute the equivalent of US\$710,000 in local counterpart funding. Table II-1 shows a summary of costs by subprogram (see detailed budget in Annex II).

TABLE II-1: PROGRAM BUDGET (in US\$)			
COMPONENTS	MIF	LOCAL CONTRIBUTION	TOTAL
I. Definition of criteria and methods	668,000	93,500	761,500
a. Comprehensive regulatory framework	288,000	4,500	292,500
b. Mechanisms and models	332,000	23,000	355,000
c. Evaluation of management	48,000	66,000	114,000
II. Promotion of private-sector participation	60,000	10,000	70,000
III. Sector training	40,500	317,000	357,500
IV. Computer system development plan	100,000	65,000	165,000
General support	51,000	187,000	238,000
Subtotal	919,500	672,500	1,592,000
Contingencies	70,500	37,500	108,000
TOTAL	990,000	710,000	1,700,000

- 3.8 The costs of component I include contracting a consulting firm to prepare the conceptual framework and integrate all activities required into a coherent whole. This consulting firm must have broad experience in regulatory processes of residential public utilities. The costs of component II relate to the contracting of international consultancy services to prepare the private promotion mechanisms, the privatization guidelines and the evaluation and monitoring processes to be used by the regulated companies. Component III relates to the contracting of international consultants who train the Commission's specialists in the implementation of the mechanisms prepared under components I and II. Component IV relates to the contracting of international consultants for the design of computerized models and for preparation of the database. This component also includes acquisition and installation of the computer equipment with the support of the agency specialized in contracting, in accordance with IDB guidelines. The general support includes leasing of offices, legal support, the project coordinator, costs of the specialized agency, and the support personnel.

E. Organization and execution

1. Organization

- 3.9 The operation will be executed by the CRA (see work plan in Annex III) with the support of a technical working group formed exclusively for this operation by officials selected from the Commission under the Project Coordinator's supervision. The Project Coordinator will report to the Commission's Consultants' Committee.

- 3.10 The project will be carried out by specialized consultants and a consulting firm, who will make the studies required and submit their conclusions and recommendations to the Commission and will implement the Consultants' Committee's recommendations, adjustments and modifications. The CRA will appoint the responsible specialists, who will monitor the operation's progress.
- 3.11 The Consultants' Committee through the Project Coordinator will be responsible for the supervision and coordination of the works, with the following duties: (i) discussing and agreeing, with the selected consulting firm or consultants, the details of the scope and work program of each study or consultancy; (ii) coordinating the local support which must be provided to the consultants by the sector's companies and by other institutions in Colombia; (iii) guiding, supervising and coordinating execution of the studies; (iv) coordinating the required administrative functions; and (v) coordinating the analysis and recommendations of the progress reports submitted by the consultants with those responsible for each study.
- 3.12 To assist the executing agency in contracting the consulting services for the program as well as its administration, a specialized agency will provide advisory support for the contracting and administration of the operation's goods and services. The Project Coordinator and the General Counsel will support the Consultants' Committee in implementing this operation. Goods and services will be acquired in accordance with the relevant Bank and MIF procedures. Annex IV gives the operation's schedule of execution.

2. Schedule of activities

- 3.13 It is estimated that 18 months will be required to implement all of the project's components. A 24-month period for the final disbursement is targeted. (See Annex IV).

F. Disbursements

- 3.14 The technical cooperation funds will be utilized in accordance with Bank procedures. Prior to the first disbursement, the executing agency will submit, to the Bank's satisfaction, evidence that: (a) the Project Coordinator has been hired; (b) a contract has been signed with the specialized agency; and (c) a detailed work plan and final schedule of project execution have been submitted.

G. Monitoring, follow-up, and evaluation

- 3.15 In addition to the supervision by the Country Office in Colombia, periodic visits will be made to Colombia by RE3/EN3 officials responsible for the sector. The executing agency must prepare and submit quarterly progress reports to the Bank. The reports must describe: (i) the progress made in implementing each of the

activities including the potential difficulties in implementation; (ii) an executive summary of the recommendations and results of the studies made by the consultants financed with MIF funds; and (iii) recommendations relating to any redistribution of funds among the budget items, without changing the type of financing or increasing it, and possible rescheduling of activities due to difficulties encountered. These recommendations must be approved by the MIF office and the project team. The executing agency, during the three months following conclusion of the project, will also submit a final report with a summary of the activities carried out, the achievements, main recommendations of the studies, and the action taken for implementing them.

IV. VIABILITY AND RISKS

- 4.1 The project's main risks are possible institutional limitations in implementation of the plan of action; that the regulatory framework does not offer the private sector sufficient confidence to participate more actively in the sector; and the service-providing companies' lack of absorption capacity for the new responsibilities the Commission imposes on them due either to technical limitations and/or to excessive regulation.
- 4.2 As a response to the foregoing, these institutional risks would be reduced by designing a realistic plan of action and a flexible regulatory framework which reflects clear, transparent ground rules. The training component would also be directed towards implementing many of the directives developed in component I. The basic function given to the CRA by Law 142 of 1994 is to promote competition in the delivery of utility services, thus stimulating greater private-sector participation; and this operation includes the interaction between the CRA and the utility companies, as well as on-going dissemination of information on methodologies developed, describing their capabilities.
- 4.3 Similarly, the continuity of the operation is ensured by means of the contributions the utility companies will transfer to the CRA as laid down in Law 142 of 1994. The appropriate mechanism will be established under the program for the annual collection of these contributions, which have been estimated at US\$1,250,000.

V. FULFILLMENT OF ELIGIBILITY CRITERIA

A. General project eligibility criteria

- 5.1 The technical-cooperation project, designed for the purpose of supporting the efforts towards modernization and private-sector

participation in the water and basic sanitation sector, is fully compatible with the MIF's general objective, which seeks to strengthen investment and expansion of the private sector as a basis for accelerating economic growth and the social development of the country.

B. The technical-cooperation facility's project eligibility criteria

- 5.2 The proposal is compatible with the criterion of extending financing under the technical-cooperation facility, Art. 3, Section 2(c) and (d) of the Agreement Establishing the Multilateral Investment Fund, which stipulates that its funds shall be extended to governments to finance consultancy services required to establish and/or strengthen the regulating agencies and to consult on the design and implementation of the privatization programs. As part of the MIF efforts to encourage private investment in the water and sewerage sector, similar projects are being financed in Argentina, Ecuador and Nicaragua and one is in preparation for Chile.

VI. COMPATIBILITY WITH THE BANK'S COUNTRY STRATEGY

- 6.1 The IDB is supporting the strategy for restructuring the water and basic sanitation sector by means of the technical-cooperation funding for a private investment program (Loan No. 666/OC-CO), currently in execution, which includes two related studies. The first relates to regulation of the urban solid waste service and sets out the responsibilities and rights of users and utility companies; the second is an initial attempt to define the Commission's duties to give coherence to the various elements of the regulatory system defined by the rules currently in force. The latter study will serve as a point of departure for the comprehensive conceptual development of this operation's regulatory framework.
- 6.2 The present operation seeks to give continuity to IDB support for the sector reform, strengthening the Water and Basic Sanitation Service Regulatory Commission, for purposes of enabling it to promote competition between utility companies regulated for the users' benefit in regard to service quality, price, and coverage by means of increasing participation by private investors in the sector. For this purpose, mechanisms will be designed to promote the tying-in of the private sector and tools will be created to facilitate the municipalities' private-sector participation processes and promoting the transformation of the companies into joint stock companies. Participation may take the form of direct investment, acting as stockholders of the utility companies, or of arrangements of different kinds with the municipalities for the systems' financing, operation and maintenance.

VII. AVAILABILITY OF MIF FUNDS

- 7.1 Type of financing: This operation is financed by donation on the basis of the following considerations: on November 1, 1993, the Donors' Committee declared Colombia eligible for all forms of MIF financing details are given of Colombia's fulfillment of the eligibility criteria to obtain donation on a national scale in Section III of the Country Eligibility Memorandum; the proposed operation will have a significant catalyzing effect on the flow of investment, pursuant to Article 3, Section (a), of the Agreement Establishing the MIF, in that its objective is to create the conditions for private-sector participation in the delivery of water and basic sanitation services.

MIF - FACILITY I - COLOMBIA: SUPPORT FOR THE
WATER AND BASIC SANITATION SERVICE REGULATORY COMMISSION

Objective of the operation: To assist Colombian government in promoting efficient water and sanitation service through a regulatory system based on competition and greater participation by the private sector.

Objective of the operation: To strengthen the Water and Basic Sanitation Service Regulatory Commission as a means of achieving integrated water supply development, in light of the nature of the Colombian water and sanitation sector.

Subprograms	Activities planned	Expected results
Establishment of criteria and methodologies for regulation of the sector.	Conceptual development of regulatory framework, determining its priority and proposing supplemental regulations as required.	Policy paper and development of regulatory framework. Development and implementation of institutional action plan that clearly identifies Commission's strategy of promoting greater private-sector participation (to be prepared during operation). Supplemental regulations, decrees, decisions, and circulars to help implement this policy (Time: 8 months).
	Establishment of regulatory mechanisms and models, to include preparing the following studies: quality of service, cost functions, and rate regulation.	Set of standards, methodologies, and indicators to permit rates commensurate with efficient service so rates can be set in accordance with quality parameters established. Time: 15 months.
	Preparation of management evaluation plans, business monitoring, and other studies to be determined by the consultants.	Methodologies and indicators to help companies prepare management and cost recovery plans as part of the effort to promote greater private-sector participation. Time: 6 months.
Promoting participation by private sector. These activities would lead to implementation of Commission's strategy for promoting participation by private sector.	Design of mechanisms conducive to competition and participation by the private sector.	Set of standards and mechanisms forming part of the guidelines and action plans to assist the private sector in delivering services. Time: 3 months.
	Preparation of guidelines for process of privatizing water and sanitation service.	Includes specific guidelines and mechanisms conducive to greater private-sector participation. Guidelines to be prepared for private operators clearly setting out guidelines and procedures for participation. Time: 3 months.
Resources training private sector.	Formation of team of professionals with expertise in design and application of different rate options within a regulatory framework. Mechanisms will be established to encourage the sharing of views between the operators and the Commission on the importance of using private sector as vehicle for increasing efficiency of service.	Timely, specialized focus on issues raised by Commission (to be carried out during operation). Subcomponent should serve as mechanism to disseminate information to nearly 2,000 operators on application and scope of Law 142 of 1994 on regulation, private-sector participation, management, rate policy, etc.
	Training of professional staff in use of information systems.	Proper use of information systems. Time: 3 months.

objective of the operation: To assist Colombian government in promoting efficient water and sanitation service through a regulatory system based on competition and greater participation by the private sector.

objective of the operation: To strengthen the Water and Basic Sanitation Service Regulatory Commission as a means of achieving integrated development, in light of the nature of the Colombian water and sanitation sector.

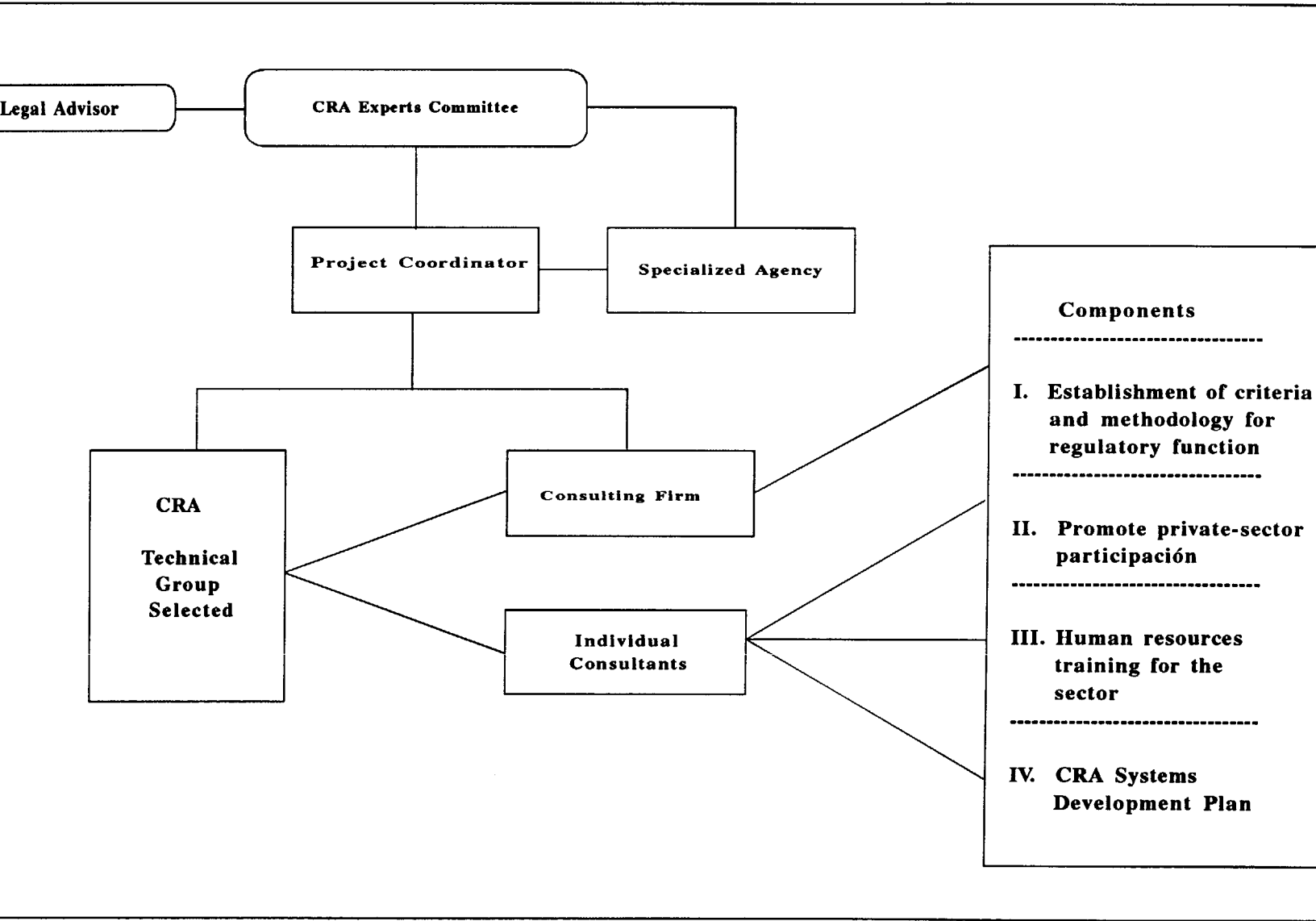
Subprograms	Activities planned	Expected results
	Sharing sector experiences in other countries through seminars and conferences attended by experts in the field.	Workshops and conferences organized by the Commission and synoptic reports. To be carried out during operation.
ment of ion's information plan for decision and procurement.	Design and implementation of data base and statistical information system for management of rate information, service costs, ratios and indicators, and technical characteristics.	Access to systematic basic information on suitable data base with models and tools for its statistical processing. To be carried out during operation.
	Development and administration of Commission's document, legal, and administrative information and internal control systems.	Access to updated systems with selective information on these issues. To be carried out during operation.
	Procurement (hardware and software).	Purchase of computers and accessory computer equipment. Time 3 months.

ANNEX II

**PROGRAM FOR STRENGTHENING OF THE CRA
COST ESTIMATE
(IN US\$)**

DESCRIPTION	CONSULTANTS		TRAVEL		PERDIEMS	OVH	OTHER	MIF	LOCAL	TOTAL US\$
	Mo	Subt.	Qty.	Subt.						
1. Methodology and criteria		440,000		68,250	32,100	221,100		667,750	93,700	761,450
a. Regulatory framework		173,500		14,500		104,100		287,600	4,500	292,100
Specialized consultants	6	43,500	4	10,000		26,100				
International consultants	20	130,000	18	4,500		78,000				
b. Models and mechanisms		195,000		43,000		117,000		332,000	23,000	355,000
(i) quality of service	3	19,500	2	5,000		11,700				
			14	3,500						
(ii) costs function	15	97,500	2	5,000		58,500				
			50	12,500						
(iii) water rate regulation	12	78,000	4	10,000		46,800				
			28	7,000						
c. Management evaluation		71,500		10,750	32,100			48,150	66,200	114,350
(i) models for management evaluation	5	32,500	1	2,500	26,700					
			18	4,500						
(ii) Monitoring	3	19,500			3,240					
			9	2,250						
(iii) supplementary studies	3	19,500			2,160					
			6	1,500						
2. Promote private-sector participation		32,500		7,500	19,620	10,000		59,620	10,000	69,620
a. Promotion mechanisms		19,500		5,000	16,020			40,520	10,000	50,520
Independent international consultants	3	19,500	1	2,500	16,020					
			10	2,500						
Meetings US\$ 2000						10,000				
b. Guidelines for privatization		13,000		2,500	3,600			19,100		19,100
Independent international consultants	2	13,000			3,600					
			10	2,500						
3. Training		158,500		58,750	77,820	7,800	55,000	40,520	317,350	357,870
a. Specialized group training		145,500		46,250	71,820		30,000	40,520	253,050	293,570
Independent international consultants	3	19,500	2	5,000	16,020					
Independent local consultants	45	126,000	135	33,750	48,800					
Seminars, travel and per diems			30	7,500	7,200		10,000			
(Manuals and publications)							20,000			
b. Training-systems development		13,000				7,800			20,800	20,800
International consultants	2	13,000				7,800				
c. Sharing of experiences				12,500	6,000		25,000		43,500	43,500
Registration, per diems and travel			5	12,500	6,000		25,000			
4. Systems development plan		65,000					100,000	100,000	65,000	165,000
a. Data base		32,500							32,500	32,500
Independent local consultants	5	32,500								
b. Development information systems		32,500							32,500	32,500
Independent local consultants	5	32,500								
c. Computer equipment							100,000	100,000		100,000
Hardware							59,000			
Software							41,000			
5. General support		115,000					123,000	51,000	187,000	238,000
a. Office rentals							18,000		18,000	18,000
b. Legal advisor	5	25,000							25,000	25,000
c. Project coordinator	18	90,000							90,000	90,000
d. Specialized agency							51,000	51,000		51,000
e. Support personnel							54,000		54,000	54,000
SUBTOTAL		811,000		134,500	129,540	228,900	288,000	918,890	673,050	1,591,940
6. Contingencies								71,110	36,950	108,060
TOTAL		811,000		134,500	129,540	228,900	288,000	990,000	710,000	1,700,000
Percentage								58%	42%	100%

EXECUTION SCHEME



[illegible][illegible]

WATER AND BASIC SANITATION SERVICE REGULATORY COMMISSION							
TECHNICAL-COOPERATION PROJECT (MIF TC-95-03-22-9)							
PROJECT COMPONENTS							
	IV QTR 95	I QTR 96	II QTR 96	III QTR 96	IV QTR 96	I QTR 97	II QTR 97
Establishment of Methodologies and criteria for regulatory action							
Regulatory framework							
Regulatory models and mechanisms							
Water-rate regulation							
Basic functions							
Quality of service							
Management evaluation							
Models for management evaluation							
Monitoring							
Promote private-sector participation							
Operation mechanisms							
Guidelines for privatization							
Training for sector							
Group of experts specializing in regulation							
Training in information systems							
Gathering of experiences							
RA Information system plan							
Design of Data base and statistical information system							
Development and administration of information systems							
Procurement of equipment (hardware y software)							
General support							

PROPOSED RESOLUTION

COLOMBIA. NONREIMBURSABLE TECHNICAL COOPERATION FOR
THE PROGRAM FOR THE STRENGTHENING OF THE COMMISSION ON POTABLE WATER
REGULATION AND BASIC SANITATION PROGRAM

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary and to adopt such other measures as may be pertinent for the execution of the Proposal Memorandum referred to in Document MIF/AT-_____ with respect to a technical cooperation with the Republica de Colombia for the Program for the Strengthening of the Commission on Potable Water Regulation and Basic Sanitation Program.

2. That up to the sum of US\$990,000 is authorized for the purposes of this resolution, chargeable to the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.