

**SUPPORT FOR IMPLEMENTATION OF THE SANITATION SECTOR  
REFORM PROGRAM  
INSTITUTIONAL DEVELOPMENT SECTOR FACILITY  
(PE-L1077)**

**EXECUTIVE SUMMARY**

<b>Borrower:</b>	Republic of Peru	
<b>Executing agency:</b>	Ministry of Economy and Finance (MEF)	
<b>Amount and source of financing:</b>	IDB (OC):	US\$2 million
	Local:	—
	Total:	US\$2 million
<b>Financial terms and conditions:</b>	Amortization period:	20 years
	Grace period:	3.5 years
	Disbursement period:	3.5 years
	Currency:	U.S. dollars from the Single Currency Facility, Operational Framework for Lending in Local Currency
	Interest rate:	LIBOR
	Inspection and supervision fee:	*
	Credit fee	*
<b>Objectives:</b>	The goal is to help consolidate the reforms agreed between the Government of Peru and the Bank under the Sanitation Sector Reform Program (PRSS). The purpose is to support implementation of the Water and Sanitation Information System (SIAS), the Capacity-building System (SFC), and the new regulatory system for small sanitation utilities.	
<b>Components:</b>	<b>Component I. Implementation of the Water and Sanitation Information System (US\$425,000).</b> The aim of this component is to consolidate implementation of the SIAS at the national level and to pilot implementation in seven regions of Peru.	

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\* 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.

**Component II. Initial implementation of the new regulatory system for small sanitation utilities (US\$900,000).** This component's objective is to begin to introduce the new regulatory system for small communities established in Supreme Decree 031-2008-VIVIENDA.

**Component III. Capacity-building System (US\$475,000).** The aim of this component is to implement phase one of the sector SFC, which was designed to build water and sanitation sector capacities through a network of public and private institutions, thereby contributing to the sustainable development of sanitation services.

**Component IV. Coordination and evaluation (US\$200,000).** Resources from this component will partially cover the cost of the project executing agency's technical team, which will coordinate this institutional sector facility operation.

**Special contractual clauses:**

**As conditions precedent to the first disbursement,** the executing agency must submit to the Bank, and the Bank must approve, the model interagency implementation agreement to be signed by the executing agency, the Ministry of Housing, Construction, and Sanitation (MVCS), and the National Superintendency of Sanitation Services (SUNASS), in accordance with terms agreed in advance with the Bank.

**As a special condition for execution,** the parties agree that prior to execution of SIAS activities in the regions participating in the project, the MVCS must sign a cooperation agreement with the respective regional government, in accordance with terms agreed in advance with the Bank.

**Consistency with the Bank's country and sector strategy:**

This project is consistent with the new country strategy (document GN-2472-2) and its areas of major focus: (i) raising the economy's productivity and competitiveness; (ii) improving the efficiency of social policy; and (iii) creating a modern, decentralized, and efficient State. The PRSS supports the main elements of this strategy given that the proposed reforms will optimize investments in a social sector such as water and sanitation, promote joint participation by the public and private sectors at the national and subnational levels, and support the municipalities in the context of the decentralization process.

**The project and the Bank's Water and Sanitation Initiative.** This project is consistent with the sector challenges described in the Bank's Water and Sanitation Initiative, particularly the Efficient and Transparent Utilities component, given its support for the consolidation of a regulatory, institutional, and policy environment that promotes efficiency and equity.

<b>Coordination with other multilateral development institutions:</b>	This operation is the result of joint work by the Peruvian government and the Bank within the sector policy framework. The project will strengthen the PRSS, for which both the German cooperation agency Kreditanstalt für Wiederaufbau and the Bank financed consulting projects for the Peruvian government to conduct the studies required to meet the commitments of each of the program's operations.
<b>Environmental and social classification:</b>	The actions financed by the institutional sector facility will have no direct or indirect adverse environmental or social impacts, given that the operation involves only studies, consulting services, and computer equipment. The ESR reviewed the profile for this project and classified it as a category "C" operation, as described in the Bank's Environment and Safeguards Compliance Policy (operational policy OP-703). As a next step, it recommended incorporating mitigation measures, in the event that associated environmental or social risks are identified.
<b>Potential benefits:</b>	The Institutional Development Sector Facility operation for Support for Implementation of the Sanitation Sector Reform Program (FISS) will make it possible to implement part of the reforms agreed under the Sanitation Sector Reform Program, which aims to make significant, sustainable reforms.
<b>Potential risks:</b>	<p>Implementation risks. The risk assessment identified these risks: (i) the MVCS and SUNASS, the agencies directly responsible for project implementation, might not be responsive to the Sector Loan Coordination Unit (UCPS), as they operate within a different hierarchical reporting structure; and (ii) regional and local governments might lose interest in implementing the SIAS and delay actions and authorizations for the creation of small sanitation utilities, which is why the cooperation agreements between the MVCS and each of the governments involved need to be signed.</p> <p>Sustainability risks. Regional and local governments might lose interest in implementing the SIAS and delay actions and authorizations for the creation of small sanitation utilities, which is why the cooperation agreements between the MVCS and each of the regional governments involved need to be signed.</p>
<b>Social equity and poverty reduction classification:</b>	This project does not qualify as a social equity enhancing operation, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704), nor does it qualify as a poverty-targeted investment.

**Procurement plan and timetable / international competitive bidding thresholds:**

All selection and contracting of services and procurement of goods under the project will be conducted in accordance with the Bank's procurement policies and procedures. Where goods are valued at or above US\$250,000, and consulting service contracts are valued at more than US\$350,000, international competitive bidding and/or international calls for proposals will be required. For amounts below these thresholds, procurement and contracting will be conducted pursuant to procedures agreed with the Bank or established in national legislation, provided such legislation is compatible with Bank policy.

**Key performance indicators and supervision benchmarks:**

(i) Implementation of the SIAS in seven regions; (ii) implementation of the new regulatory system in 12 small communities; and (iii) implementation of the SFC at seven sector companies.

**Information shared by the Bank and the executing agency:**

Monitoring of the institutional sector facility operation will focus on the specified outputs, for which the operation's inputs (i.e. contracting of consulting services and equipment purchases) will also have to be realized. This process will be the primary responsibility of the UCPS, which should have the tools for verifying outputs and inputs, such as monitoring reports and financial statements.

The evaluation of the institutional sector facility operation will mainly address outcome and impact indicators related to the goal and purpose of the facility, data for which will be gathered by the UCPS through the MEF department or agency that generates or collects them. The UCPS will compile, file, and store all information, indicators, and guidelines, including annual work plans, monitoring reports, and financial statements, which will help the Bank to prepare the project completion report.