

PE-T1472: Peru's Sewage and Wastewater PPP Program

1. Basic Information for TC

▪ Country/Region:	PERU
▪ TC Name:	Peru's Sewage and Wastewater PPP Program
▪ TC Number:	PE-T1472
▪ Team Leader/Members:	Astesiano, Gaston Team Leader; Lembo, Carolina Maria Alternate Team Leader; Garcia Merino, Lucio Javier (INE/WSA); Gouvea Berto, Maria Eduarda (INE/WSA); Mendoza Benavente, Horacio (LEG/SGO); Paez Rubio, Tania (INE/WSA); Perroni, Maria Alejandra (INE/WSA); Sidore, Alessandro (VPS/ESG); Alvarez Pagliuca, Claudia Patricia; Astesiano, Gaston; Castrosin, Maria Pilar; Debaeke, Pauline; Lembo, Carolina Maria
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	.
▪ Beneficiary:	PROINVERSION (PERUVIAN PPP UNIT)
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Global Infrastructure Facility(FGI)
▪ IDB Funding Requested:	US\$2,200,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months (from the date of signature of the TC agreement between the Bank and the Beneficiary).
▪ Required start date:	04.15.2021
▪ Types of consultants:	Firms
▪ Prepared by Unit:	VPC-VP - Countries
▪ Unit of Disbursement Responsibility:	VPC/VPC-VP - Countries
▪ TC included in Country Strategy (y/n):	Y
▪ TC included in CPD (y/n):	N
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Gender equality; Productivity and innovation; Social inclusion and equality

2. Objectives and Justification of the TC

2.1. Objective. The goal of this TC is to support the Peruvian government – through its Agency for the Promotion of Private Investment (PROINVERSION)¹ in: (i) the project management (PMO) of six private initiatives sewage and wastewater treatment plants projects through Public-Private Partnerships (PPP) (hereinafter the “PPP Program”)²; and (ii) the preparation, structuring, and tender of one sewage and wastewater treatment system. Therefore, this operation will support

¹ PROINVERSIÓN is a specialized technical body, attached to the Ministry of Economy and Finance, which promotes private investment through Public-Private Associations for their incorporation into public services, public infrastructure, assets, projects and State companies. More information: <https://www.proinversion.gob.pe/>

² The PPP Program will be taking place in the following municipalities: (i) Cusco; (ii) Cajamarca; (iii) La Libertad; (iv) Cañete; (v) Chinchá and (vi) Tarapoto.

PROINVERSION in the design, financing, construction, expansion, rehabilitation, operation, and maintenance of the main collectors, pumping stations, impulsion lines, treatment, and final disposal systems in selected municipalities.

- 2.2. Peru faces unique water safety challenges. Access to safe water and sanitation has improved in the country in recent years, yet significant shortfalls in both public infrastructure and household facilities remain. With a total population of 32 million, 5 million people lack access to an improved water source and 11 million lack access to improved sanitation³. Peru's diverse landscape includes a rapidly expanding urban population, leading to urban slums which have limited or no access to safe piped water. This is in addition to communities in the remote regions of the Amazon and Andes with no access to piped or treated drinking water or safe human waste disposal. The water & sanitation systems are under strain and many cities are already facing water shortages which are expected to become severe over the coming years, unless major investments in new water production and sanitation is undertaken.
- 2.3. Peru's private financing in the water and sewage sector has mobilized more than USD 1.5 billion in investments distributed in 10 successful projects in the last 30 years according to the PPI Data base. Recently, due to the criticality of the sector to Peru, there has been a surge of new projects to address exiting issues, which includes using co-financed private initiative.
- 2.4. The Program will support the country in its efforts to improve service provision to more than 3.4 million citizens by: (i) providing efficient treatment and final disposal of wastewater; (ii) restoring and expanding sewage infrastructure; (iii) reducing the rates of waterborne diseases in order to preserve the health and improve the quality of life of the population in project's municipalities; and (iv) contributing to the decontamination of rivers in Peru. In addition to the sectoral goals, the PPP Program will ensure the development of PPP best practices that can be replicated in future projects in Peru.
- 2.5. **Coordination process and Funding.** The IDB PPP Team (VPC/PPP) was established to coordinate PPP activities within the Bank. In this sense, the PPP Unit became the liaison team with the FGI (The Global Infrastructure Fund)⁴. Proinversión, with the support of the IDB PPP Team, and the IDB Water and Sanitation Division (INE-WSA), applied to access FGI resources up to US\$2.2 million, in order to support the Beneficiary through a contingent recovery technical cooperation with specialized transaction advisory service during the formulation, structuring and procurement phases of the Program. On January 2020, the FGI approved the IDB's application, including the contingent recovery modality as explained in paragraph 4.3 below.
- 2.6. **Resource mobilization and complementarity.** In addition to the FGI resources authorized through this TC, the projects financed by the Program also receive

³ Available at: https://ww3.vivienda.gob.pe/ejes/agua_saneamiento/agua_y_saneamiento.html

⁴ In 2016, the IDB Board of Directors approved that the Bank would become one of the FGI's technical partners (GN-2841), and an agreement was signed to that end between the World Bank (FGI's trustee) and the IDB on April 15, 2016.

resources through other complementary technical cooperation operations, particularly ordinary capital resources (through operation PE-T1475) and the Japan Special Fund (through operation RG-T3222). Thus, through all these complementary operations, estimated resources⁵ will be mobilized as follows:

Table 1: Resource mobilization for the PPP sewage and wastewater treatment plants projects in Peru

FGI (PE-T1472)		Ordinary Capital (PE-T1475)		Donor Resources		Total
Project Management	1,500,000	Project 2 (structuring phase)	500,000	Project 2 (transaction phase)	200,000	-
Project 1	700,000			Project 3 (RG-T3222)	700,000	
				Project 4 (RG-T3222)	700,000	
				Project 5	700,000	
				Project 6	700,000	
				Communication Budget	100,000	
USD	2,200,000		500,000		3,100,000	5,800,000

- 2.7. **Strategic Alignment.** This TC is consistent with the IDB's Updated Institutional Strategy (UIS) (AB-3190-2) with the area of: (i) increasing resource mobilization, by enhancing mobilization from traditional and non-traditional partners, promoting domestic resource mobilization and catalyzing private financing. This TC is also focused on deepening the development achievements identified in said update (AB-3190-2): i) social inclusion and equity, since it will provide inclusive infrastructure and infrastructure services, as well as increase the inclusive provision of goods and services, basic services, including through the private sector; and ii) productivity and innovation since it will provide adequate and reliable infrastructure and affordable public services. As well as with the cross-cutting themes of the Institutional Strategy of: i) gender equality and diversity as it helps to analyze development gaps that affect women and / or men; ii) climate change and environmental sustainability, as it supports the development of projects that use financial mechanisms and incentives to promote environmental sustainability. Likewise, the TC is aligned with the IDB's Infrastructure Strategy (GN-2710-3),

⁵ VPC / PPP is currently working on the approval of additional resources to the programs mentioned in this paragraph to guarantee the complete execution of the APP Project Package.

deepening the preparation and structuring of better PPPs. Also, this TC is aligned with the Country Strategy of Peru (GN-2889), which has among its priorities the promotion of private participation, facilitating the planning and structuring of PPPs and, therefore, the generation of projects whose bankability makes them attractive to private sector participation (paragraph 3.17).

3. Description of activities/components and budget

3.1. To achieve the proposed objectives, two components will be developed:

Component 1: Project management report completed. The hiring of a Project Management (PMO) of the PPP Program, which will be responsible to support IDB and PROINVERSION in activities that shall insure standardization among the projects within the package. The PMO activities will consist principally in supporting the IDB in monitoring, following and approve reports and activities made by the consulting firms for the six Water projects (that will be structured almost at the same time). The PMO will allow to maintain high coordination level between all the projects ensuring that all six projects are following the same international standards in terms of PPP structure and impact for the regions, generating synergies within the consultancies and efficiencies in the relationship and revision made by the public counterpart (Proinversion, MEF and MVCS) in order to demonstrate strong credibility of the Peruvian government to the market in launching such ambitious WWTP program.

During the 3 years period of the contract, The supervisor will:

- Develop Formulation phase activities like elaborate the Evaluation report and preliminary financial models for four projects in order to achieve the structuring phase for each one of them.
- Elaborate ToRs to engage with the consulting firms and help IDB to define the best technical and economical offers to elaborate the structuring and transaction phase of six wastewater treatment plants projects and, accompany the public sector until the commercial close of each project.
- Support IDB, for the six wastewater treatment plants projects, in participating in all the meetings, realizing follow-up reports, comment and improve all the reports, financial models, PPP contracts and tender documents elaborated by the consulting firms from the technical, financial and legal point of view.

3.2. **Component 2. PPP project documents completed.** Structuring of one PPP project that contributes to economic growth and the reduction of inequality. This component will finance feasibility studies necessary for the preparation and structuring of PPP projects, including legal, technical, socioeconomic, financial, value for money, social, environmental, and budgetary sustainability studies of the project. At the same time, this component will finance the elaboration of the tender documents for the project's tender, award and contracting under the PPP scheme.

Activities such as support governments during all stages of the bidding process will also be financed under this component.

- 3.3. The total TC budget is US \$ 2,200,000, intended to finance technical assistance under the contingent recovery modality. The distribution of costs is presented in the following table:

Table 2. Indicative Budget

Activity/Component	Description	FGI Fund
Component 1. Project management report completed	Hiring of a project management that will support IDB and the beneficiary with the standardization of documents and ensuring the efficiency gains of structuring a 6 projects program	1,500.00
Component 2. PPP project documents completed	Structuring of a wastewater management facility PPP project	700,000
Total		2,200.00

4. Executing agency and execution structure

- 4.1. **Executing Agency.** By request of the Beneficiary, according with appendix 10 of GN-2629-1, the IDB through VPC/002 (PPP Team) will be the executing agency of this TC and will oversee the studies in coordination with the Beneficiary. The project execution by the Bank is justified given the experience and knowledge of the IDB on best practices and methodologies in PPPs in the region. The UDR is going to be in VPC/002.
- 4.2. **Procurement.** All activities to be executed under this TC have been included in the Procurement Plan -see Annex IV- and will be contracted in accordance with IDB policies as follows: (a) AM-650 for individual consultants; (b) GN-2765-4 and its Guidelines OP-1155-4 for consulting firms for services of an intellectual nature; and (c) GN-2303-28 for logistics and other related services.
- 4.3. **Contingent recovery modality.** This operation has been designed as a contingent recovery TC, under which the reimbursement to the Bank will be as follows⁶:
- i. When a PPP Project successfully reaches commercial close⁷, the GIF Activity costs should be reimbursed to the GIF. The mechanics of such reimbursements will be determined by the relevant Government Counterpart and the IDB and may include requiring payment from the successful project sponsor, such requirement to be built into the transaction documentation.

⁶

These reimbursement arrangements have been authorized by the FGI and are in accordance with its Operating Guidelines.

⁷ Commercial close, for the purpose of this operation, is understood as the signature of the concession or PPP contract between the Beneficiary and the respective winning bidder.

- ii. **Project Failure:** If the GIF Activity is terminated at any stage because the Project or Program is found to be non-viable or relevant, and hence cancelled, no reimbursement should be required, but if required, reimbursement to GIF should follow the process set forth in (iii) below.
- iii. **Activity Cancellation:** If the GIF Activity is terminated by the Government Counterpart prior to reaching commercial close, without cause or is terminated by the IDB due to failure of the Government Counterpart to comply with the terms of the GIF Activity engagement, the agreed level of incurred costs should be reimbursed by the Government Counterpart.

4.4. Reimbursement conditions. GIF funding of US\$2,200,000 will be reimbursable in six payments triggered by the successful commercial close of each of the six planned transactions and according to the terms and conditions of the Agreement between IDB and the beneficiary.

4.5. Execution period. The execution and disbursement period of the TC will be 36 months.

4.6. Intellectual Property. The Bank will own all intellectual property rights over the products resulting from the consultancies contracted under this TC. At the request of the Beneficiary, the bank may grant licenses or transfer/assign intellectual property related to the products of the consultancies financed with this TC resources, according to the Bank's norms and procedures. The project team will coordinate with LEG any necessary arrangements for that purpose.

5. Major issues

- 5.4.** The main risk of this TC is related to a low-quality structuring of the project that may, in turn, lead to a potential lack of interest from the market to participate in the bidding process. This risk will be mitigated by selecting a highly competitive consulting firm with experience in structuring successful concession projects, this will assure that during the bidding process the project will be attractive for the market. To achieve the latter, during the structuring process, market soundings will be carried out with investors, financiers, and infrastructure developers.
- 5.5.** Another risk foreseen is the incoming government not giving the operation due priority or changing its focus. This risk will be mitigated by the fact that those projects are understood by the Peruvian Ministry of Housing, Construction and Sanitation (MVCS) as top priorities in order to reduce the gap in sewerage and wastewater treatment in urban areas. In addition to that, the beneficiary will be signing an agreement that stipulate that if they give up of the projects unilaterally, they will need to reimburse the resources used so fair.
- 5.6.** Furthermore, the possible delay in the execution of consultancies as a result of COVID-19; will be mitigated by virtual meetings and a well planified schedule. We have been working with Proinversion in Puerto Maldonado Wastewater Treatment

Plant for the last two years, and the project did not suffer any impact, as the channels of coordination are already well established.

6. Environmental and Social Strategy

- 6.4.** In accordance with the Directive B.3 of the Environment and Safeguards Compliance Policy (OP-703), and in light of the fact that only project preparation (but no direct infrastructure investments) will be financed through the TC, this operation is classified as Category "C", i.e. as an operation that entails "minimal or no negative environmental and associated social impacts" (please see Safeguard Policy Filter and Safeguard Screening Form as reference). These operations do not require an environmental or social analysis, beyond the screening and scoping analysis for determining the classification.
- 6.5.** However, should the financing of the projects associated with the TC be funded by the Bank, then these projects will be subject to the strict compliance of the IDB's environmental and social safeguards policies. Similarly, other potential investors may require compliance with alternative environmental and social safeguards policies as a condition for financing.
- 6.6.** To this end, in order to assess compatibility with the requirements of potential investors, the level of compliance of each project associated with the TC will be verified against the Bank's and other commonly referred environmental and social safeguards policies and, when appropriate, the Bank will promote the adoption and implementation of environmental and social policies in the development of each of these projects.

7. Required Annexes:

Required Annexes:

[Request from the Client - PE-T1472](#)

[Results Matrix - PE-T1472](#)

[Terms of Reference - PE-T1472](#)

[Procurement Plan - PE-T1472](#)