

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
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REGIONAL

DEVELOPMENT OF A CERTIFICATION SYSTEM FOR EFFICIENCY AND TRANSPARENCY IN WATER AND SANITATION OPERATORS

(RG-T1527)

PLAN OF OPERATIONS

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| <p>This document was prepared by the project team consisting of: Corinne Cathala (INE/WSA), Sergio Campos (INE/WSA), Yvon Mellinger (INE/WSA), Marcello Basani (INE/WSA), Fernando Bretas (INE/WSA), María del Rosario Navia (INE/WSA), Cynthia Nuques; Diana Bejar (INE/WSA), and Hubert Quille (INE/WSA), Team Leader.</p> |
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Appendix 1: [Safeguard Policy Filter Report](#)

Appendix 2: [Safeguard Screening Form](#)

ABBREVIATIONS

| | |
|---------|-------------------------------------------------------------------------------|
| ADERASA | Asociación de Entes Reguladores de Agua Potable y Saneamiento de las Américas |
| AEX | Aqua Express fund |
| IDB | Inter American Development Bank |
| INE | Infrastructure and Environment Department |
| IWA | International Water Association |
| NRW | Non Revenue Water |
| O&M | Operation and Maintenance |
| UFW | Unaccounted-for Water |
| WSA | Water and Sanitation Division |
| W&S | Water and Sanitation |

PROJECT SUMMARY

| | | |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| Beneficiary: | Regional | |
| Team Leader/Members: | Corinne Cathala (INE/WSA), Sergio Campos (INE/WSA), Yvon Mellinger (INE/WSA), Marcello Basani (INE/WSA), Fernando Bretas (INE/WSA), María del Rosario Navia (INE/WSA), Diana Bejar (INE/WSA), and Hubert Quille (INE/WSA), Team Leader. | |
| Executing Agency: | IDB | |
| Sources of Funding: | IDB-Netherlands Water Partnership-INWAP (NWP) | |
| Objectives: | This Technical Cooperation (TC) is part of the “Efficiency and Transparency” special program of the Water Initiative of the Bank. The general objective of the TC is to promote efficiency and transparency of water and sewage utilities so that they provide a good service in a sustainable manner. The specific objective is to develop a certification system to: (i) assess and score water and sanitation utilities’ efficiency and transparency levels, and (ii) certify good performance, and in particular the eligibility to the AquaExpress Program | |
| Target Beneficiaries: | Water and Sanitation utilities in Latin America and the Caribbean , and indirectly the attended and unattended populations and users in their service areas. | |
| Financing plan: | IDB (NWP): | US\$ 730,000 |
| | Co-financing: | US\$ 0 |
| | Local: | US\$ 0 |
| | Total: | US\$ 730,000 |
| Execution periods: | Period for Consultants’ fieldwork | 8 months |
| | Period for delivery of final Report | 9 months |
| | Period for disbursements | 9,5 months |
| | (All dates from the date of contract signing with the Consulting firm to be selected through competitive bidding process) | |
| Special Conditions: | There will be no special contractual conditions. | |
| Exceptions to Bank Policies And Procedures: | There will be no exceptions to Bank policies and procedures. | |
| ESR: | The ESR reviewed the operation on February, 20 th , 2008 | |
| Coordination with other Institutions: | The project execution will be coordinated with institutions and entities that have developed efficiency assessments, benchmarking, or other evaluation and monitoring systems in the sector, to make use of all relevant existing tools and experience, and avoid a duplication of efforts and information systems (see paragraphs 1.7, 2.5, 2.7, and 2.8). | |

I. BACKGROUND AND JUSTIFICATION

A. Background

- 1.1 The latest evaluation of progress made in providing water and sanitation services in Latin America and the Caribbean reveals that the regional coverage for water and sanitation services has increased.¹ However, progress has been uneven among and within countries, with striking differences between urban and rural zones and among income groups. While the region is on track to achieve the millennium targets, a number of challenges will need to be addressed: (i) extend adequate water services to about 85 million additional inhabitants and sanitation services to nearly 110 million, mobilizing funding of nearly US\$30 billion in the period 2004-2015; (ii) improve service continuity and the quality of water delivered, especially to the poor; (iii) conserve water sources and reduce pollution in receiving bodies; and (iv) strengthen institutional and legal frameworks, and make service providers more efficient and transparent in their operation.

B. The issues to be addressed

- 1.2 Water and sanitation utilities continue to face enormous challenges in meeting the ever increasing demands of growing population. Most utilities suffer from a number of interrelated institutional weaknesses, including inadequate cost recovery mechanisms compounded by a low customer base and limited physical coverage, dilapidated physical infrastructure, high levels of unaccounted for water, low skills levels of the staff and poor customer relations among others. The reforms undertaken by several of the region's countries, supporting services decentralization, have not always been implemented matching resources with responsibilities and building the capacity of decentralized entities. At the same time, while communities have shown great capacity and inventiveness in resolving their water and sanitation problems, few service providers have proved to be efficient and transparent.

C. The Bank's sector strategy

- 1.3 As a response to these new sector challenges, in May 2007, the Board of Directors approved the Water and Sanitation Initiative (WSI) with the objective of helping countries in the region to achieve universal access to sustainable services. The Initiative not only proposes ambitious targets, but also supports changes in operational processes to enable the institution to adopt a much more *dynamic and proactive* approach in order to achieve *universal access* to adequate services. The Initiative set up benchmarks for the implementation of four special programs: 100 Cities, 3,000 Rural Communities, Water Defenders, and Efficient and Transparent Utilities. The implementation of the Water Initiative also entails the design of new

¹ World Health Organization, UNICEF, Meeting the MDG drinking water and sanitation target: the urban and rural challenge of the decade, Geneva Switzerland, 2006.

instruments such as an express credit line - AquaExpress (AEx), to finance more expeditiously water and sanitation service operators that meet certain efficiency criteria.

- 1.4 Financing for water and sewage utilities, public or private, come from their internal generation, grants, or credit. The key to increase internal generation is to improve efficiency; the key to attracting credit is financial capacity and sustainability; the key to attracting grants is showing that the financing will be used with transparency and effectively. To complement the 100 Cities program, the Initiative includes the Efficient and Transparent Companies program, by which it will provide technical assistance to water and sewage utilities to improve their operational and financial performance as well as make their businesses transparent.
- 1.5 As part of the same strategy, efficient and transparent operators, with a demonstrated capability including with regards to fiduciary capacity and financial soundness, will be eligible to access AEx funds, by which the Bank delegates most of the loan preparation tasks to the operator. For those operators, and under specific conditions, the Bank would rely on the borrower's capacity to prepare and execute projects from a technical, financial, socio-economic and environmental point of view. Execution of individual projects financed under AEx will follow the borrower's procurement, auditing, environmental, social, financial, and socio-economic policies provided that they are acceptable to the IDB.
- 1.6 The Bank thus needs an appropriate instrument to assess water and sewerage utilities' efficiency and transparency level. The purpose of the present Technical Cooperation project is to design and implement such instrument, which will enable the Bank to better appraise and monitor the level of performance and sustainability of service providers.

D. Coordination with other donors

- 1.7 Given the sector's needs and the wide variety of feasible solutions, sector development will require coordination and collaboration among donors and institutions. Other institutions, such as the International Water Association – IWA, and the World Bank, have been developing benchmarking systems or efficiency criteria for public water utilities, with sets of indicators. The Association of Water and Sanitation Regulatory Entities of the Americas (ADERASA - Asociación de Entes Reguladores de Agua Potable y Saneamiento de las Américas), has developed its own system of indicators to measure operators efficiency. The project team will ensure that there is coordination with those institutions in order to avoid duplication of efforts and to exploit potential synergies.

II. PROGRAM DESCRIPTION OF THE TECHNICAL COOPERATION

A. Objectives and description

- 2.1 The general objective of this Technical Cooperation (TC) project is to promote efficiency and transparency of water and sewage utilities so that they provide a good service in a sustainable manner. The specific objective is to develop a certification system to: (i) assess and score water and sanitation utilities' efficiency and transparency levels, based on objective and standardized criteria, reflecting the sector specificities, and (ii) certify good performance, and in particular the eligibility to the AquaExpress Program.
- 2.2 The certification system will be a practical tool that includes indicators for efficiency and transparency that are easy to understand, measure and verify. Its design will be substantially consistent with the International Standards ISO 24510, 511, and 512: *Guidelines for the Assessment of Drinking Water Services, Wastewater Services, and Services to Users*.
- 2.3 The scope, key criteria and performance indicators of the utility assessment are identified in the Terms of Reference in ANNEX I. The efficiency and transparency assessment will be performed through the analysis of 12 functions or characteristics of the utility:
 1. Legal status and Governance: *implications in terms of autonomy, institutional performance and transparency*
 2. Policy formulation and Regulation: *separation of functions, definition of performance targets and standards of service, regulatory incentives for performance.*
 3. Reporting and Transparency: *extent and quality of external reporting, disclosure, and control; compliance with international standards (auditing, procurement);*
 4. Community Outreach and Customer Relation Management: *quality of the information to community and stakeholders, and of customers contract management.*
 5. Service coverage and Quality of Service: *performance of the utility*
 6. Tariff and Revenue: *tariff levels, efficiency of the tariff structure and adequateness for a sustainable development*
 7. Operational Efficiency: *quality of management and level of efficiency (productivity and costs) in the areas of Operation & Maintenance of W&S systems, customer management, reduction and control of Non-Revenue Water*
 8. Human Resources management: *autonomy of HR management, corporate culture and incentives for performance*

9. Financial management and performance: *adequacy of the information system, financial situation and performance of the utility*
 10. Environmental management: *quality of the environmental and social management, gaps with good performance and comparison with Bank's policies*
 11. Strategic Planning and Sustainability of the services: *development planning capacity; strategic development orientations and synthesis over the sustainability of the service for the medium to long-term*
 12. Project design and execution: *Project preparation and execution capacity*
- 2.4 For each of these functions the performance level will be measured, using a software to be developed as part of the TC products, to arrive at the certification result. The result will clearly identify the areas and functions of the utility needing improvement, and will include an action plan for its strengthening.
- 2.5 The efficiency and transparency certification will make use of, and be consistent with the existing certifications², ratings, and relevant ranking or scoring results obtained by a utility. The performance indicators used in the system will be consistent with existing international standards or recommended definitions (International Water Association - IWA, ISO, World Bank) and benchmarking systems (IWA, World Bank's IBNET, ADERASA).
- 2.6 The consultancy will be developed in 4 phases:
1. System conceptual design, and consultations with stakeholders
 2. System detailed design.
 3. System development and field testing.
 4. Dissemination of results and training.
- 2.7 **First phase: System conceptual design.** The first phase the study will: (i) review the current state of the art regarding utility assessment, performance scoring, benchmarking systems, certification and rating methodologies. This will include: a review of international standards and recommended practices (OECD, ISO, IWA, World Bank, ADERASA), and an analysis of the Banks' policies and their related evaluation tools and instruments; (ii) Propose the conceptual design of certification methodology; (iii) Propose a draft certification results disclosure and publication policy; and (iv) Propose preliminary orientations for the institutional organization for the ownership, use, control and maintenance of the system.
- 2.8 Consultations will take place (i) with an advisory Panel of Experts to be formed by the Bank for the project, (ii) with potential institutional partners of the Bank for the deployment and management of the certification system and other stakeholders; and (iii) the certification system will be introduced to a meeting of regional Water Operators (WOP). The consultation process with institutional

² Such as ISO 9000 and ISO 14000 for example.

partners, stakeholders, and the group of Water Operators will be organized and financed by the Bank with funds of the Water Initiative.

- 2.9 **Second phase: System detailed design.** The study will produce: (i) the detailed design of the certification methodology; (ii) the design of the software, (iii) a preliminary format for the standard certification report to be produced for each utility, (v) a draft plan of action for the dissemination of the system in the sector; and (vi) a draft institutional organization and implementation plan for the ownership, use, control and maintenance of the system.
- 2.10 The detailed design will be presented to the Panel of Experts and to the Bank.
- 2.11 **Third Phase: System development and testing.** The system will be develop and field tested on 3 utilities to be identified with the Bank. Based on the results of the field test exercise, the system development will be completed and all the system documentation will be prepared. The plan of action for the dissemination of the system in the sector, and the institutional organization and implementation plan for the ownership, use, control and maintenance of the system will be completed.
- 2.12 **Fourth Phase: Dissemination of results and training.** The certification system, its results, and the institutional arrangements for its operation, control and maintenance will be presented to a meeting of the WOP (regional Water Operators) with partners and other stakeholders, organized and financed by the Bank. Training sessions will be held for Bank staff and for the entity in charge of the certification system.

III. BUDGET

A. Cost and financing

- 3.1 The estimated cost for the Project is US\$ 730,000.00, to be financed by the IDB-Netherlands Water Partnership-INWAP (NWP). The budget is summarized in Table 1 below, and given in detail in ANNEX II. The activities of consultation with stakeholders and water operators will be organized and financed by the Water Initiative.

| Table 1: Summary of Budget | | | |
|-------------------------------------------------|--------------------|--------------------|----------------|
| Item | INWAP total (US\$) | Counterpart (US\$) | Total (US\$) |
| Honorarium (USD 850/day x 488 days) | 415,020 | | 415,020 |
| Per Diem (USD 300/day x 270 days) | 81,000 | | 81,000 |
| International Travel (USD 1500/trip x 31 trips) | 46,500 | | 46,500 |
| Overheads (30%) | 162,756 | | 162,756 |
| Local Transp & com. (USD 50/day x 270 days) | 13,500 | | 13,500 |
| Admin. & Report Edit. | 11,224 | | 11,224 |
| TOTAL | 730,000 | 0 | 730,000 |

IV. EXECUTING AGENCY AND MECHANISM

A. Executing agency

- 4.1 The IDB will be the Executing Agency for the project, through the Water and Sanitation Division (INE/WSA). The project will be carried out by a single consulting entity, which might be a private firm of consultants. The consulting entity will be contracted by competitive process in accordance with Bank Procedures (GN – 2350-7).

B. Project execution and administration

- 4.2 The Water and Sanitation Division (INE/WSA) will act as the responsible unit for this consultancy and will be responsible for advertising, short listing of proponents and final qualification and selection of the consulting firm. Once selected, the consulting firm will be responsible to guarantee compliance with the work program, timely providing deliverables and recommendations.
- 4.3 The project will finance a single procurement process, namely the selection and contracting of a consulting firm to carry out the entire work required for the present TC, as stipulated in the Terms of Reference.
- 4.4 It is anticipated that the project will have an execution period of 8 months and a disbursements schedule of 9.5 months. Disbursement to the consultancy firm will be made accordingly to the terms of payment to be established.

V. MONITORING AND EVALUATION

A. Monitoring

- 5.1 The work of the consulting firm and its compliance with the Terms of Reference will be monitored by INE/WSA, based on the submission of intermediate and final products as required in the TOR. The Bank Country Office staff, in those countries where project activities are undertaken, will liaise with, and monitor the progress of the consulting entity.

B. Evaluation

- 5.2 This TC will be evaluated based on the intermediary and final products listed in the Terms of Reference. Given that the project has an execution period of 8 months, no logical framework will be developed. Nevertheless, the TOR clearly detail the contents of the various reports, and strict adherence to the requirements in the TOR will be ensured by the project team, as well as verified during the consultations with stakeholders.

VI. PROGRAM BENEFITS AND RISKS

A. Benefits and beneficiaries

- 6.1 The main product of this TC will be the development of a system for certifying the efficiency and transparency of water and sanitation utilities. This will benefit greatly the utilities themselves, enabling them to monitor their progress, benchmark their indicators, access IDB funds more easily, and to the users of the services. The initiative will also benefit IDB, enabling it to keep track of progress made by water and sewage utilities.

B. Institutional viability and risks

- 6.2 The project institutional viability will be guaranteed by the nature of the initiative. No significant risks are anticipated. However, during the implementation of the project specific issues may arise including:

a Coordination – the initiative may lose its significance and its relevance if other similar initiatives implemented by other agencies or local actors are not taken into account. This would lead to overlapping efforts and waste of resources.

b Data availability and reliability – it may be difficult for consulting firms to obtain accurate information from public operators, which may delay the implementation of the project.

c Acceptance of the Certification system by the operators – the product may find a low acceptance / interest from the operators for lack of dialogue and participation during its conception and design.

- 6.3 To mitigate these risks to the extent possible, the IDB will make sure that current or past efforts made in the same direction are taken into due account. The consultant will review the existing experience in the sector, and the Bank will create an advisory Panel of Experts of the sector. The Bank will organize consultations with stakeholders, and the project will be introduced to Water Operators (WOP) at an early stage of its design. The final product will be presented again to stakeholders and water operators. The project will be designed and developed in a very transparent way, highlighting as much as possible the potential mutual benefits of the initiative so to ensure their full collaboration and support.

VII. ENVIRONMENTAL AND SOCIAL ASPECTS

- 7.1 Given that the TC will finance the establishment of indicators and benchmarking system, it is not expected to have any negative social or environmental impacts. While promoting efficiency and transparency the project represents a critical step towards addressing specific environmental issues linked to inefficient provision of

water and sewage services. Based on this assessment, the project team proposes that this TC be classified as a category "C" project.

VIII. RESOURCES AND TIMETABLE

- 8.1 The tentative principal milestone dates for the preparation and execution of the Technical Cooperation are given in Table 2.

| Table 2: Timetable for Program preparation and approval | |
|---------------------------------------------------------|-----------------------------------|
| Consulting firm contracted. | November 30 th , 2008 |
| Consulting firm mobilized. | December 15 th , 2008 |
| Consultancy fieldwork completed. | July 15 th , 2009 |
| Consulting firm final report circulated. | July 31 st , 2009 |
| Technical cooperation completed. | August 31 st , 2009 |
| Final disbursement made. | September 15 th , 2009 |

IX. APPROVAL



Federico Basañes
Chief.

Water and Sanitation Division

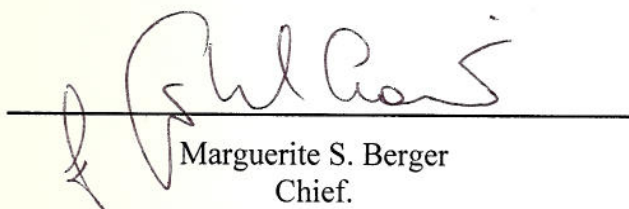
7/24/08
Date

EFFICIENCY AND TRANSPARENCY IN WATER AND SANITATION OPERATORS

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CERTIFICATION

I hereby certify that this operation was approved for financing under the IDB-Netherlands Water Partnership-INWAP (NWP) Trust Fund an email dated February 13, 2008 from Wijnand Marchal, First Secretary of The Netherlands Embassy. Also, I certify that resources from the INWAP Trust Fund (NWP) are available for up to US\$730,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of five (5) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in dollars of the United States of America. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this TC. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk


Marguerite S. Berger
Chief.
Grants and Cofinancing Management Unit


Date