

INTER-AMERICAN DEVELOPMENT BANK
TECHNICAL COOPERATION PROGRAM IDB-NETHERLANDS WATER PARTNERSHIP-
INWAP

TC/FUNDS BRIEF

I. GENERAL INFORMATION

Program Name/Number:	Efficiency and transparency in water and sewage operators / RG-T1527		
Name of the Trust Fund:	IDB-Netherlands Water Partnership-INWAP (NWP)		
Team Leader/Members:	Team Leader: Hubert Quille (INE/WSA). Members: Sergio Campos (INE/WSA), Cynthia Nuques (INE/WSA), y Diana Bejar (INE/WSA)		
Beneficiary Country/Region:	Latin America and the Caribbean Region		
Executing Agency:	IDB will be the contracting entity		
Financing plan:	IDB (NWP):	US\$	332,000.00
	Cofinancing:	US\$	334,500.00
	Local:	US\$	0
	Total:	US\$	666,500.00

II. BACKGROUND AND PROBLEM STATEMENT

- 2.1 The IDB approved in May 2007 the Water and Sanitation Initiative (“the Initiative”) in order to position itself as the financing alternative of choice for water and sewage projects in Latin America and the Caribbean,. The Initiative seeks to respond to new sector challenges, especially those brought about by the increased decentralization of responsibility for providing the services. The Initiative includes a program, “100 Cities”, by which it will be committed to an active partnership with cities to resolve the problems of financing water and sewage services. The program will focus on one hundred cities, where there are extensive poor neighborhoods that lack these services.
- 2.2 Water and sanitation utilities continue to face enormous challenges in meeting the ever increasing demands of growing populations. 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, the low skills levels of the staff and poor customer relations among others. There is also the inability to serve the needs of the urban poor, the main target group of the MDGs.
- 2.3 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 a program, “Efficient and Transparent Companies”, 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.

- 2.4 The Efficient and Transparent Companies program will include the establishment of a system for the certification of utilities to streamline the availability of financing for those that are most qualified and to act as an incentive for those that are not so highly qualified. The system will measure: (i) capacity to take on credit, (ii) operational performance, and (iii) transparency. This TC project is fully consistent with the objectives of the Water and Sanitation Initiative that was approved in 2007.

III. PROGRAM OBJECTIVES AND DESCRIPTION

A. Objectives

- 3.1 The general objective of this Technical Cooperation project is to contribute towards efficiency and transparency of water and sewage utilities so that they provide a good quality service in a sustainable manner. The specific objective of the TC is to develop a system to measure and certify the efficiency and transparency of those utilities so that they could access IDB financing. It is envisioned that this system becomes a practical tool that includes indicators for efficiency and transparency that are easy to understand, measure, and verify.

B. Description

- 3.2 The project will be carried out in three phases. The first phase includes: a desk study and field observations based on a sample of four water and sanitation utilities in order to develop a framework for the analysis of efficiency and transparency and the design of a system of measurement. The second phase will include the application of the framework of analysis and the system within a larger sample, the development of a database and the standardization of the system. The Third phase will include the dissemination and implementation of the systems.
- 3.3 The scope of the project will include (i) a desk study, (ii) field observations, and (iii) final recommendations.
- 3.4 The desk study would analyze the present situation and the context within which the utilities operate in four countries, which will be selected at a later stage. It would also analyze other benchmarking initiatives by the World Bank, ADERASA, and other organizations, to promote efficiency and transparency in water utilities to avoid duplication of efforts. The desk study would produce preliminary recommendations. The first phase will comprise the analysis of the following elements, which will include but will not be limited to the parameters indicated below:

- i. **Operational management and maintenance:** this component will include the assessment of unaccounted for water, household coverage for water and sewage, daily consumption per capita, employee per thousands connections, percentage of sewage treated, percentage of wastewater treated, percentage of customers that are metered, percentage of macro metering, separation of sewerage and drainage networks, type of maintenance, response to claims. This component will also look at volume of water produced versus volume billed, volume collected versus volume charged.
- ii. **Financial management:** this component will assess: a) key financial ratios; b) the tariff structure (including the categories of customers) used by the utility to bill its customers, tariff per cubic meter of water, sewage tariffs, waste water treatment tariff when applicable, and full cost recovery tariffs; c) demand side and supply side type of subsidies, mechanisms capital expenditure financing and dividend policy; and d) billing systems, liquidity, and cash management.
- iii. **Strategic management, investment planning and optimization:** this component will focus on evaluation of capital needs and prioritization, planning time horizon, sustainability of resources including the review of Master Plans, and compliance with plans for operation and maintenance.
- iv. **Governance, transparency and reporting assessment:** this component will review and assess the ownership of the company and its organizational structure as well as government influences. It will also look at the legal, regulatory, governance and institutional framework in which the utilities operate, especially aspects that relate to transparency. The consultant will assess: a) good practices of governance specially within the region (selection of directors based on professional criteria, voting rights, tenure, by laws, separation of roles between management and the board of directors, etc.) in particular the internal steps being taken within utilities to promote high levels of institutional performance and transparency.
- v. **Environmental assessment:** this component will include a review and assessment of the utility's compliance with local and national environmental policy, incorporation of environmental goals in investment planning, use of energy per unit produced; existence of Environmental Management systems in place within the public utility.

3.5 Based on the findings of the Desk Study, the consulting firm will present a full description of a system for certifying the efficiency and transparency of water and sewage utilities as well as a monitoring system to enable the IDB to keep track of progress made by water and sewage utilities. The final product would be a document describing: a) a methodology to assess the performance and transparency of public utilities b) a fully-designed system for establishing the

- 3.6 **Dissemination of findings:** this component will fund a public report outlining findings and observations following completion of the consultancy. The report will include general commentary, patterns indicating strengths and weaknesses of utilities in the water and sanitation sector, trends observed and discussion of any other issues that could help bring awareness of development needs of the industry as they relate to efficiency and transparency.

IV. COST AND FINANCING

- 4.1 The budget for the activities described above will be as follows:

Components	Costs (US\$)			
	Unit cost	Quantity	INWAP	Water Initiative budget
Team coordinator				
Honorarium: US\$650 x 150 days	650	150	97,500	
Per diem: US\$ 300 x 90 days	300	120		36,000
Travel: 4 x US\$,1,500	1,500	4		6,000
Institutional legal expert				
Honorarium: US\$500 x 120 days	500	120	60,000	
Per diem: US\$ 300 x 120 days	300	120		36,000
International travel: 4 x US\$1,500	1,500	4		6,000
Financial Expert				
Honorarium: US\$500 x 120 days	500	120	60,000	
Per diem: US\$300 x 120 days	300	120		36,000
International travel: 4 x US\$1,500	1,500	4		6,000
Sanitation Engineer expert:				
Honorarium: US\$500 x 120 days	500	120	60,000	
Per diem: US\$300 x 120 days	300	120		36,000
International travel: 4 x US\$1,500	1,500	4		6,000
Overheads				166,500
Local transportation				
US\$100 x 40 days x 4 experts			16,000	
Administrative expenses: reports, copies			5,000	
Contingencies			33,500	
Total			332,000	334,500

- 4.2 The IDB-Netherlands Water Partnership-INWAP (NWP) will provide approximately 50% of the funding and the Water and Sanitation Initiative will contribute with the remainder 50% of the resources.

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 One of the activities of the Water and Sanitation Initiative is the development of a certification system for water operators in Latin America and the Caribbean. 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. All contracting activities will be carried out in accordance with Bank policies and procedures (GN-2540-7 dated July 2006)). The Bank Country Office staff, in those countries where project activities are undertaken will liaise with, and monitor the progress of the consulting entity. The project will be implemented in 12 months as of the date of approval of the Plan of Operations; disbursements will be made over 15 months.

VI. MAJOR ISSUES

- 6.1 During the implementation of the project several issues may arise including: (i) the coordination with other entities that have already developed or are currently developing sets of indicators for the water and sanitation sector; (ii) it may be difficult for the consulting firm to obtain accurate information from public operators, which may delay the implementation of the project.

VII. ACTION PLAN

ACTIVITIES/DELIVERABLES	2008			
	Q1	Q2	Q3	Q4
Work Plan	X			
Proposed scope of analysis (financial, technical, institutional, socio-economic) and benchmark	X			
Case Study 1	X			
Case Study 2		X		
Case Study 3			X	
Case Study 4				X
Methodology of Analysis and benchmark system				X
System for monitoring and reviewing the certification				X

VIII. ENVIRONMENTAL AND SOCIAL STRATEGY

- 8.1 Given that the Technical Cooperation will finance the establishment of efficiency and transparency indicators for water and sanitation companies, it is expected that no negative environmental and social impact will result from this operation.
- 8.2 This operation is category "C" following the Bank Safeguard Environmental Guidelines.

IX. RESPONSIBILITY IN THE BANK

- 9.1 INE/WSA will be responsible for all aspects for this technical cooperation including disbursements. Technical responsibility: Corinne Cathala (INE/WSA)

will be responsible for all aspects of this technical cooperation. Tel.: (202) 623-2759, e-mail: corinnec@iadb.org.

X. RECOMMENDATION

- 10.1 Corine Cathala, designated team leader for the technical cooperation of the reference, recommends the approval of this operation and the use of resources from the IDB-Netherlands Water Partnership – INWAP (NWP) totaling up to US\$666,500.00 in order to finance the corresponding project.

XI. CERTIFICATION

- 11.1 I certify that this operation was approved for financing under the IDB-Netherlands Water Partnership-INWAP (NWP) through 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 \$26,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of six 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. 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 Brief. 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.
- 11.2 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.

XII. APPROVAL

Approved:

(Original Signed)

07/29/08

C. Federico Basaños
Chief

Date

Water and Sanitation Division, INE/WSA