

SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

MONTEVIDEO SANITATION PROGRAM (PSU IV)

SUPPLEMENTARY FINANCING

(UR-L1063)

LOAN PROPOSAL

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3.	Procurement plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36416959
4.	Environmental and social management report http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36416963
5.	Safeguard Screening Form for classification of projects (SSF) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36416961
OPTIONAL	
1.	Economic evaluation report http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36363713
2.	Financial report http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36416951
3.	Supporting documentation for supplementary financing request http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36416952
4.	Factors contributing to cost increases http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36416955
5.	Institutional Capacity Assessment System http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36416956
6.	Loan proposal: Conditional credit line and individual loan for the Montevideo Sanitation Program (1819/OC-UR) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=880969
7.	Progress monitoring report for the loan for the Montevideo Sanitation Program (1819/OC-UR) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36416958

ABBREVIATIONS

CCLIP	Conditional credit line for investment projects
DDA	Departamento de Desarrollo Ambiental [Environmental Development Department]
IMM	Intendencia Municipal de Montevideo [Municipal Government of Montevideo]
PSU	Programa de Saneamiento Urbano de la Ciudad de Montevideo [Montevideo Sanitation Program]
UES	Unidad Ejecutora de Saneamiento [Sanitation Execution Unit]

PROJECT SUMMARY

URUGUAY MONTEVIDEO SANITATION PROGRAM (PSU IV)

SUPPLEMENTARY FINANCING (UR-L1063)

Financial Terms and Conditions			
Borrower: Eastern Republic of Uruguay Executing agency: Municipal Government of Montevideo (IMM)		Amortization period:	25 years
		Grace period:	4 years
		Disbursement period:	4 years
Source	Amount	Inspection and supervision fee:	*
IDB (Ordinary Capital)	US\$42,800,000	Interest rate:	LIBOR
Local	US\$7,550,000	Credit fee:	*
Total	US\$50,350,000	Currency:	U.S. dollars from the OC Single Currency Facility
Project at a Glance			
<p>Program objective/description: The objective of this financing is to provide the Municipal Government of Montevideo (IMM) with resources in addition to those provided to the Montevideo Sanitation Program (PSU IV), loan 1819/OC-UR, in order to ensure fulfillment of the program objectives, i.e.: (i) to reduce pollution in Montevideo Bay and adjacent beaches, and (ii) to expand the coverage of sanitary sewer and storm drainage systems, increase the amount of sewage that is adequately treated and disposed of, and improve management of sanitation and storm drainage services.</p> <p>PSU IV experienced significant cost increases during the bidding process for the first package of works, which was for the construction of sanitary sewer and storm drainage systems. These cost overruns were due mainly to factors external to the program: (i) a sharp increase in infrastructure construction costs in Uruguay between February 2006, when costs were estimated, and August 2008, when the bids were opened; and (ii) changes in the exchange rate between the Uruguayan peso and the United States dollar during the same period. In addition, the most recent studies, which were conducted to complete the detailed plans, indicate that the updated construction costs are above the initial estimates for the second and final package of works, including pipes, pumping stations, a pretreatment plant, and an underwater outfall. This request for financing is in response to the need to cover these cost overruns, and complies with the Bank's policy on "Additional financing of cost overruns for operations in progress" (document GN-2329).</p>			
<p>Special contractual conditions precedent to the first disbursement: (i) evidence that a subsidiary agreement has been signed for the transfer of loan proceeds between the borrower and the IMM (see paragraph 3.1.); and (ii) evidence that the program execution plan has been prepared (see paragraph 3.5).</p>			
<p>Special contractual conditions during execution: (i) delivery of midterm and final evaluation reports (see paragraph 3.5); (ii) delivery of an annual report on fulfillment of performance indicators (see paragraph 3.5); (iii) evidence that the Sanitation Execution Unit (UES) has commissioned an engineering firm to provide advisory services during the program (see paragraph 3.1); and (iv) evidence that the service sustainability target has been met (see paragraph 3.14).</p>			
Program consistent with country strategy: Yes			
Other financial conditions: None.			
Exceptions to Bank policies: None.			
Program qualifies as: SEQ [X] PTI [X] Sector [X] Geographic [] Headcount []			
<p>Procurement: The procurement of goods and works and the selection and contracting of consulting services with the loan proceeds will be conducted in accordance with the relevant Bank policies contained in documents GN-2349-9 and GN-2350-9.</p>			

* 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.

I. EXECUTION OUTCOMES AND THE NEED FOR MORE RESOURCES

A. Background, problem addressed, rationale

- 1.1 On 13 December 2006, the Bank's Board of Executive Directors approved loan 1819/OC-UR in the amount of US\$118.6 million to finance the fourth phase of the Montevideo Sanitation Program (PSU IV),¹ with an execution period of six years. The approved program was intended as the first operation under a conditional credit line for investment projects (CCLIP) of up to US\$220 million with a local contribution of US\$40 million. The estimated total cost of the first program was US\$139.5 million, including a local contribution of US\$20.9 million (15%). The objective of the program is to reduce pollution in Montevideo Bay and adjacent beaches, expand the coverage of sanitary sewer and storm drainage systems, increase the amount of sewage that is adequately treated and disposed of, and improve management of sanitation and storm drainage services. The program has four components: (i) construction and rehabilitation of sewer and storm drainage systems; (ii) construction of the final disposal system in the western zone to replace the current system of multiple discharges of raw sewage into the bay; (iii) resettlement of families affected by the sanitation and drainage works; (iv) improved service management. This contract went into effect on 28 December 2006 and calls for works to be executed via competitive bidding for two packages of works.
- 1.2 Up to US\$18.96 million in financing was provided for the first package, which includes the construction of sanitary sewer and storm drainage systems. The bidding process for this package was started in May 2008, and the contract was awarded in August 2009 for US\$38.22 million after a lengthy negotiation process. Seven prequalified companies participated in the bidding, but only three submitted price proposals, the lowest of which was 285.8% above the amount of available financing. Before starting negotiations,² the Municipal Government of Montevideo (IMM) decided not to cancel the bidding process because a new process was not expected to yield lower bids and would entail a very high opportunity cost. The negotiation process included, inter alia: (i) adjustments to technical designs without jeopardizing objectives (reduced pipe diameters and lengths); (ii) scaling back of ancillary works (roadways and urban improvement); (iii) reduction of execution times by

Table I-1 Outcomes of other bidding processes

Project	List price	Bid price	Cost overrun
Sanitation	55.00	98.00	1.78
Transportation	38.00	70.00	1.84
Transportation	39.50	82.00	2.08
Energy	180.00	468.00	2.60
Transportation	90.00	180.00	2.00
Energy	80.00	180.00	2.25
Average	482.50	1,078.00	2.09

Source: Sanitation Division.

¹ The Bank has been supporting the PSU since 1981 through a series of operations that have succeeded in helping to expand coverage, reduce pollution on the beaches, and improve service management.

² The negotiation process was conducted within the framework of existing laws and regulations and in accordance with the Bank's procurement policies.

up to 20%; and (iv) reduced unit prices, for which an agreement was reached to finance larger advance payments for the contractor to stockpile materials. The decision to award the first package of works at an amount above budget also reflected the fact that in six bidding processes for infrastructure projects in Uruguay in 2007 and 2008, the bid price averaged 109% above the official estimate (see Table I.1).

- 1.3 The second package of works, which includes the construction of pipes, pumping stations, a pretreatment plant, and an underwater outfall, was originally allotted US\$63.23 million in financing. During the program, as stipulated during preparation, the contract for the detailed designs was awarded to a consulting firm, and these designs are in their final review phase. According to the cost estimate for this second package of works, which reflects the effects described above, these works may be awarded for up to US\$95.27 million.

- 1.4 The objective of this document is to submit the borrower's request for supplementary financing in the amount of US\$42.8 million to the Bank's Board of Executive Directors, in order to cover cost overruns for works included in the first and second packages of works for PSU IV, which are mainly the result of:

Table I-2 Cost escalation

Description	Total
Official budget	18.96
Exchange-rate appreciation	5.07
Construction costs	6.97
Roadway parametric	6.20
Other	1.03
Total	38.22

(i) sharp increases in infrastructure construction costs in Uruguay between February 2006, when costs were originally estimated, and August 2008, when the first package of works for the program was put out to bid. During this period, the construction costs index³ and the roadway parametric⁴ experienced a combined increase of approximately 70% (see Table I-2); (ii) changes in the exchange rate of the Uruguayan peso to the United States dollar, which appreciated during the aforementioned period from 24.23 to 19.12 pesos to the dollar. This change, along with higher costs, led to a combined increase of up to 96% in the cost of the works; and (iii) new estimated construction costs for the second package of works, which has yet to be put out to bid. The project team believes that the proposed financing will allow the project's original objectives to be met, and is in compliance with the Bank's policy on "Additional financing of cost overruns for operations in progress" (document GN-2329) (see paragraph 1.24).

B. Montevideo Sanitation Program

- 1.5 **Sanitation service.** The city of Montevideo, located on the left bank of the River Plate, is Uruguay's largest urban area, with more than 1.3 million residents (40% of the country's population). The sanitation system serves 1.1 million residents

³ This index measures month-to-month changes in housing construction costs.

⁴ These indexes reflect changes in the costs of roadway projects, termed "average parametric," and describe temporary changes in prices for the typical roadway project in Uruguay. This index is being used as a proxy because road projects are similar to sanitation and storm drainage projects, in addition to the fact that they often use the same contractors.

through a system of 2,700 km of sanitary sewer networks with 275,000 connections. Sixty-seven percent of all collected wastewater is pretreated and discharged via the underwater outfall at Punta Carretas, southeast of Montevideo. The coastline of the department of Montevideo is 77 km in length, including 11.5 km along the internal perimeter of the bay and a number of beaches in heavy recreational use. The works for this program are located in the western part of the city, which currently has no adequate wastewater treatment and disposal system.

- 1.6 **Institutional framework.** The responsibility for managing sanitation and drainage services in the city of Montevideo, both operations and finances, belongs to the Sanitation Division of the IMM's Environmental Development Department (DDA). The Sanitation Division has a staff of 260 employees assigned to four units: Administration, Studies and Projects, Sanitation Works, and Operations and Maintenance. At the national level, the sector consists of a policy formulation body (the National Water and Sanitation Directorate (DINASA)), the Energy and Water Service Regulatory Unit (URSEA), and two service providers: the State Sanitation Works Administration (OSE) and the IMM's Sanitation Division.
- 1.7 **The Bank's involvement.** The Bank has had a productive partnership with the IMM in the sanitation sector since 1981. The program for which supplementary financing is requested is the fourth of a series of operations that have progressively expanded coverage, reduced pollution levels, and improved service management (see Table I-3).

Table I-3 Urban sanitation projects in the city of Montevideo

Phase	Loan number	Year	Loan (US\$ millions)	Number of connections	Coverage (%)	Adequate final disposal (%)
I	76/OC-UR	1981	65.0	140,000	44.3	0
II	575/OC-UR	1990	26.1	152,000	48.1	35
III	948/OC-UR	1996	153.3	253,000	80.0	45
IV	1819/OC-UR	2006	118.6	275,000	86.0	67

- 1.8 **The IMM's sanitation strategy.** This strategy is intended to: (i) expand the coverage of the sanitary sewer and storm drainage systems to zones where this is economically feasible; (ii) improve water quality in the receiving bodies, compatible with the desired uses; (iii) improve service in the areas already served; (iv) provide timely attention to customer needs and continue educational programs to promote environmentally sustainable behaviors; (v) improve operating and business efficiency; and (vi) generate sufficient revenue to cover the costs of providing services.
- 1.9 **Master sanitation plan.** In 1995 the IMM prepared a master sanitation plan that set investment priorities through 2035, resulting in a phased program with a projected cost of US\$400 million. The plan has served as a planning instrument for the proposed investments under programs PSU III and PSU IV. One of the more

strategic works under this plan is to build an underwater discharge system in the western part of the city that would eliminate dumping of sewage into the bay and reduce pollution levels in the bay and adjacent beaches.

- 1.10 **Program design.** The program in execution reflects the need to pursue two complementary lines of action: (i) reduce pollution of the bay to reach levels consistent with its uses and preserve environmental conditions along the coastline; and (ii) improve service management by increasing revenues and sustainability. The process of bay development through various urban development projects and plans, the expansion of the Port of Montevideo, and the planned expansion of the oil refinery, along with the public's desire for an unpolluted bay, require construction of the western final disposal system. The hydrodynamic and water-quality models used to simulate the various final disposal alternatives found that, in addition to pretreatment, an underwater outfall at least 2,000 meters in length needed to be built in order to meet the desired water quality objectives.
- 1.11 **Program components and costs.** The program included the following components: (i) sanitation and storm drainage works, including construction of a total of 65 km of sanitary sewer systems, 8 km of storm drainage systems, and rehabilitation of 4 km of collector sewers; (ii) the western final disposal system, including 6 pumping stations, 15.5 km of pressure pipes, a pretreatment plant, and 2 km of underwater outfall; (iii) resettlement of families affected by the works; and (iv) improvement in service management, including, inter alia, updating of the register of sewer connections, improvement of the billing system, and updating of the master sanitation plan. The program's original estimated costs are listed in Table I-4.

Table I-4 Project cost and financing
(US\$000s)

Category	IDB	Local	Total	
I Engineering and administration	6,800	8,000	14,800	11%
II Direct costs	85,240	6,084	91,324	65%
2.1 Sanitation and storm drainage systems	16,734	1,227	17,961	
2.2 Final disposal, western zone	58,911	4,319	63,230	
2.3 Institution-strengthening	2,250	-	2,250	
2.4 Family resettlement	7,345	538	7,883	
III Concurrent costs	4,102	4,800	8,902	6%
IV Contingencies and cost escalation	5,938	1,020	6,958	5%
V Financial costs	16,520	996	17,516	13%
Total	118,600	20,900	139,500	100%
Percentage	85%	15%	100%	

- 1.12 **Expected outcomes:** (i) an improvement in the environmental quality of the bay by providing for adequate final disposal of 100% of the sewage collected; (ii) an improvement in the quality of the beaches in the western zone and preservation of the quality of the beaches that have already been improved in the eastern zone; (iii) an increase in sanitation coverage to 90%, an improvement in the quality of life

of the population, and 11,000 families connected to the system, benefitting some 40,000 people; and (iv) an improvement in the efficiency of the service and the modernization of the commercial management of the IMM's Sanitation Division.

C. Progress of the Urban Sanitation Program of the City of Montevideo

- 1.13 Loan 1819/OC-UR, which was approved and signed in December 2006, was declared eligible for disbursements on 26 November 2007 with the last disbursement scheduled for December 2012. As of 31 July 2011, 47% of the total US\$118.6 million had been committed, and 18% had been disbursed; 17% of the local contribution (US\$20.9 million) had been committed, and 46% had been disbursed. The progress monitoring report for the second half of 2010 describes project implementation as satisfactory and the prospects for achieving the preestablished outcomes for the program as probable, assuming the timely availability of resources.
- 1.14 **Component 1. Sanitation and storm drainage systems.** Construction of works for this component (first bid package) began in January 2010. Table I-5 shows the physical progress on the four lots into which this bid was divided.

Table I-5 Progress on the first package of works (July 2011)

Lot	Sanitation and drainage systems	Term (months)	Price (US\$) miles	Physical progress (%)
1	Subwatershed 1 and 2, Barrio Cerro Norte	17	7,657	67%
2	Barrio Carrasco Noroeste	20	4,979	68%
3	Barrio Casabó Norte and Barrio Rincón del Cerro	30	19,835	61%
4	Rehabilitation and construction of collector sewers in upper watershed of Arroyo de la Chacarita	12	5,754	100%
Subtotal			38,225	

- 1.15 **Component 2. Final disposal, western zone.** This component includes four subprojects: (i) pipes (US\$36.4 million); (ii) pumping stations (US\$19.8 million); (iii) pretreatment plant (US\$11.2 million); and (iv) underwater outfall (US\$23.0 million). The first three subprojects have final designs developed in 2010 by an international consortium of specialized firms. The fourth subproject, for the underwater outfall, has a detailed basic design, and the final design will be the responsibility of the construction firm that wins the bid, due to the close relationship between design and construction method employed. The geotechnical and structural studies for the outfall, as well as available pipe materials, were further developed over the past year to analyze various support options in view of the unfavorable subsoil conditions in the area where the piping will be installed. The aforementioned studies have helped to update the original cost estimates for these subprojects, which should go out to bid in October 2011.
- 1.16 **Component 3. Institution-strengthening.** Improved service management includes an updated registry of users, creation of a business planning and management unit, an improved billing system, and a campaign to promote the sanitation plan. The

bidding process for this contract began in early 2011, and the contract is expected to be signed in late 2011. This component is behind the original schedule partly because the execution unit's attention was needed for the bidding process for the first package of works.

- 1.17 **Component 4. Family resettlement.** This component was designed to resettle approximately 500 families affected by the works through: (i) construction of housing in residential areas, (ii) purchase of existing housing on the local market, or (iii) cash compensation, as decided by each family. The project optimization process (see paragraph 1.19), during the negotiation process, helped reduce the number of affected families to 300. As a result of the first package of works, 270 families were satisfactorily resettled (192 opted for compensation or purchase of existing housing, while 78 opted for new housing). Thirty families will be resettled during the second package of works.

D. Need for more financing resources

- 1.18 During the opening of bids for the first package of works, on 21 August 2008, the lowest bids for each of the four lots into which the package was divided were for US\$73.15 million, well above the cost estimate (US\$18.96 million). In November 2008, therefore, after carefully weighing its options and based on the Bank's procurement policies (document GN-2349-7) and applicable Uruguayan laws and regulations, the IMM began a negotiation process with the companies submitting the lowest bids for each lot. These negotiations were pursued in parallel fashion between March and August 2009 with each of the three winning firms, and entailed a thorough review of the engineering designs, aimed at optimizing the projects in view of the costs for each category, and scaling back or simplifying the contractors' work without jeopardizing the objectives and targets of the program as a whole.
- 1.19 As a result of these negotiations, the amounts of the four construction contracts were reduced to a total of US\$38.22 million equivalent, which is US\$19.26 million over the initial estimate of US\$18.96 million. The main adjustments that helped reduce costs during the project revision process were optimization of collector alignment routes, diameters, and depths; a change in the type of channel lining; simplification of pedestrian and vehicular access routes; and elimination of nonpriority structures. Unit prices for some items were also reduced, as was the execution period, which cut down on fixed costs, such as the guarding of camps and works. A more detailed description of the negotiation process, and of the adjustments agreed upon for each of the tendered works, may be found in [optional electronic link 3](#).
- 1.20 In addition to increased costs for the first package of works, studies conducted after approval of loan 1819/OC-UR for the detailed plans for the second package of works indicate that the updated construction costs will be US\$90.38 million, or US\$24.9 million above the original estimate of US\$65.48 million. These works are mainly for the western underwater treatment and disposal system (US\$63.23 million; category 2.2) and also include some lower-cost works initially

tendered in the first package, such as the pumping station and pressure pipes for Teja and Belvedere Victoria (US\$2.25 million), which were transferred to this second package as a result of the negotiation process.

- 1.21 The increased costs for the aforementioned works, plus the increase in associated concurrent, financial, engineering, and administration costs, have generated a financing deficit in the program, estimated at US\$50.35 million, which would hinder execution of the proposed works, especially for the component involving the western underwater disposal system, which for technical reasons has to be taken as an indivisible unit. The calculation of the total deficit reflects available amounts for contingencies (US\$3.75 million) and cost escalation (US\$3.2 million) in the original schedule of program costs, which proved to be insufficient.
- 1.22 The price increases for the first package were due mainly to factors external to the program arising during a period of accelerated growth that saw sharp increases in public investment in infrastructure. This, combined with the restricted nature of the domestic market and lower competition, led to high costs in the bids submitted by construction firms. These factors were felt mainly in: (i) sharp increases in infrastructure construction costs in Uruguay; and (ii) the effect of changes in the exchange rate between the Uruguayan peso and the United States dollar. An analysis by the executing agency (see [optional link 4](#)) concluded that the costs estimated during the project preparation phase in 2004 were reasonable and based on engineering studies performed by highly experienced construction firms, and that they incorporated lessons learned and information on the execution of previous phases. The executing agency, prior to the bidding processes, updated the budget and took into account the rapid urban growth in the project areas. The prequalification process for the construction firms featured broad participation by national and foreign firms.
- 1.23 The expected increase in prices in the second package of works is due mainly to the amount of time elapsed since the initial estimate, as construction costs have risen and the Uruguayan peso has appreciated during that time. The costs for the western final disposal system listed in the cost schedule for the loan contract (second package of works) were reasonably estimated on the basis of the draft developed in 2006 by a consortium of consulting firms that specialize in this type of work. The estimated 38% increase in the prices for these works is supported by: (i) the increase in the construction cost index between the date of the original estimate (September 2006) and the time when costs were updated, i.e., from 193.9 to 265.67, or an increase of 37%; (ii) an 8.6% decrease in the average parametric of the National Road Directorate, which reflects cycles of public investment; and (iii) appreciation of the Uruguayan peso vis-à-vis the United States dollar, from 23.871 to 20.859 pesos to the dollar, or an increase of 14.4%. As a result, the expected increase in the cost of the works could climb as high as 43.3% as a result of the three aforementioned factors.
- 1.24 Thus, the request for supplementary financing satisfies all conditions of the Bank's policy on "Additional financing of cost overruns for operations in progress"

(document GN-2329), inasmuch as: (i) it was requested before the disbursement period expires (see paragraph 1.13); (ii) the program is proceeding satisfactorily (see paragraph 1.13); (iii) the costs above the estimates are the result of exceptional circumstances beyond the borrower's control (see paragraphs 1.18 and 1.22); (iv) scaling back the agreed targets would jeopardize the possibility of achieving program objectives (see paragraph 1.21); (v) the requested financing would make it possible to achieve the program objectives without adversely affecting economic, financial, institutional, and environmental feasibility (see the feasibility analysis in paragraphs 3.6 and 3.14); (vi) the borrower has no resources of its own to finance the program in full, and deems it necessary to request additional resources; (vii) the borrower is in a position to provide additional counterpart resources to maintain the original ratios approved in the project financing matrix (see paragraph 3.14); and (viii) the country is current on its payments to the Bank.

- 1.25 **Lessons learned and experiences.** (i) Cost escalation: Although the extent of the increase in construction prices and the appreciation of the peso were difficult to predict, the need for more resources should have been reflected in calculating the program's cost escalation, as was done on previous projects; (ii) delays in eligibility: A delay of approximately 18 months occurred between loan approval by the Bank's Board of Executive Directors and the opening of bid envelopes for the first package of works. This should have been minimized in light of the project's degree of maturity; and (iii) additional works: The incorporation of additional urban improvement structures in detailed plans for the first package of works was the result of good practices and lessons learned on PSU II and PSU III (minimize the work done in a given area by building out additional works from the sanitation project). However, this approach led to a considerable increase in costs, so its use should be reviewed on a case-by-case basis.
- 1.26 **Consistency with the Bank's country strategy.** Both the original program and the supplementary financing are consistent with the Bank's country strategy with Uruguay (document GN-2626), approved on 28 July 2011, inasmuch as it contributes to the goal of ensuring water and sanitation sector infrastructure through increased coverage and access to sanitation services and storm drainage.

II. SUPPLEMENTARY FINANCING FOR PSU IV

A. Objectives

- 2.1 The objective of the financing is to provide the Municipal Government of Montevideo (IMM) with resources in addition to those provided for the Urban Sanitation Program for the City of Montevideo (PSU-IV), loan 1819/OC-UR, to ensure that the objectives set for this program are met. Thus, the general objectives of PSU IV remain unchanged with this supplementary financing, i.e.: (i) to reduce pollution in Montevideo Bay and adjacent beaches; and (ii) to expand the coverage of sanitary sewer and storm drainage systems, increase the amount of sewage that is

adequately treated and disposed of, and improve management of sanitation and storm drainage services.

Table II.1 Project cost and financing

Category	Loan 1819/OC-UR ¹			Supplementary loan UR-L1063			Consolidated			
	IDB	Local	Total	IDB	Local	Total	IDB	Local	Total	%
Engineering and administration	6,800	9,020	15,820	1,046	3,274	4,320	7,846	12,294	20,140	10.6
Executing unit	-	6,920	6,920	-	2,520	2,520	-	9,440	9,440	
Support for executing unit	4,800	-	4,800	-	-	-	4,800	-	4,800	
Studies and designs	2,000	2,100	4,100	1,046	754	1,800	3,046	2,854	5,900	
Direct costs	91,178	6,084	97,262	36,387	2,613	39,000	127,565	8,697	136,262	71.8
Sanitation and storm drainage works	26,176	2,679	28,855				26,176	2,679	28,855	
Final disposal, western zone	53,407	2,867	56,274	36,387	2,613	39,000	89,794	5,480	95,274	
Institution-strengthening	2,250	-	2,250	-	-	-	2,250	-	2,250	
Family resettlement	9,345	538	9,883	-	-	-	9,345	538	9,883	
Concurrent costs	4,102	4,800	8,902	1,900	-	1,900	6,002	4,800	10,802	5.7
External certifier, monitoring and evaluation	792	-	792	-	-	-	792	-	792	
Land	1,310	-	1,310	700	-	700	2,010	-	2,010	
Household connections fund	-	4,582	4,800	-	-	-	-	4,582	4,800	
Projects in the second CCLIP program	1,800	-	1,800	1,200	-	1,200	3,000	-	3,000	
Monitoring the environmental and social management plan	200	218	418	-	-	-	200	218	418	
Unallocated ²	-	-	-	1,437	1,453	2,890	1,437	1,453	2,890	1.5
Contingencies	-	-	-	784	831	1,615	784	831	1,615	
Cost escalation	-	-	-	653	622	1,275	653	622	1,275	
Financial costs	16,520	996	17,516	2,030	210	2,240	18,550	1,206	19,756	10.4
Interest during construction	16,520	-	16,520	2,030	-	2,030	18,550	-	18,550	
Commitment fee	-	996	996	-	210	210	-	1,206	1,206	
Inspection and supervision fee	-	-	-	-	-	-	-	-	-	
Total	118,600	20,900	139,500	42,800	7,550	50,350	161,400	28,450	189,850	100
Percentage	85%	15%	100%	85%	15%	100%	85.0%	15%	100%	

¹ Reflects transfer of resources due to contract award amounts from the first package of works.

² The amounts for the second package of works include 15% for contingencies.

B. Program components

2.2 The supplementary loan will partially finance program infrastructure works that could not be executed with financing from the original loan as a result of the observed cost increase. The investments for this supplementary loan are: (i) pumping stations (US\$19.81 million): financing will be provided for construction of the Miguelete, Intermedia, Casabó, Cerro, Belvedere Victoria, and La Teja pumping stations; (ii) pretreatment plant (US\$11.2 million): financing will be provided for construction of a wastewater pretreatment plant with a capacity of 3.4 m³/s, which corresponds to the average flow for 2025; and (iii) underwater outfall (US\$23 million): financing will be provided to install an outfall 2,000 meters in length and 1.5 meters in diameter at Punta Yeguas.

C. Project financing

- 2.3 This proposal is for US\$42.8 million (85%) in supplementary financing by the Bank, with a local counterpart contribution of US\$7.55 million (15%), for a total of US\$50.35 million. Table II-1 shows the distribution of costs by source of financing.

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The activities financed by the supplementary loan will be executed within the same parameters set forth in loan 1819/OC-UR. The borrower will be the Eastern Republic of Uruguay, and the executing agency will be the Municipal Government of Montevideo (IMM), acting through the Sanitation Execution Unit (UES) of the Environmental Development Department (DDA). **As a condition precedent to the first disbursement, evidence will be provided that a subsidiary agreement has been signed for the transfer of loan proceeds between the borrower and the IMM.** As an execution condition, evidence will be provided that the UES has commissioned an engineering firm to provide advisory services during the program.

B. Procurement

- 3.2 Procurements will be conducted in accordance with the Bank policies in force, particularly documents GN-2349-9 (goods and works) and GN-2350-9 (consulting services), using the same procurement methods as in the original contract for loan 1819/OC-UR. Procurements will be conducted in accordance with the agreed Procurement Plan (see Annex III). The thresholds for international competitive bidding and short lists for consulting services will be those currently in effect in Uruguay. The bidding process for the underwater outfall will include the final designs and construction in the same contract.

C. Project disbursements

- 3.3 In view of the use of the loan proceeds and progress on the original project, this supplementary loan will have an execution period of four years, which reflects the time needed to complete the works for the western final disposal system. The disbursement schedule is shown in Table III-1.

**Table III-1 Disbursement schedule
(US\$ millions)**

Source	IDB	Local	TOTAL
Year 1	9.50	1.30	10.80
Year 2	13.50	1.90	15.40
Year 3	15.30	2.35	17.65
Year 4	4.50	2.00	6.50
TOTAL	42.80	7.55	50.35

D. Accounting/financial management, audits, and project evaluation

- 3.4 **Accounting/financial management and audits.** The UES will be responsible for accounting/financial management of the program, just as it has been for loan 1819/OC-UR. Since this is supplementary financing operation for the aforementioned loan, consolidated financial statements will be delivered at the close of each year and audited by the State Audit Office.

- 3.5 **Project evaluation and monitoring.** This supplementary loan will be evaluated in accordance with the Results Matrix for loan 1819/OC-UR and this operation (see Annex II), as agreed with the executing agency, and through midterm and final evaluations that will be execution conditions for this loan. These evaluations will be integrated with the one planned for loan 1819/OC-UR and will serve as the basis for six-monthly updates of a single project monitoring report (PMR) for both loans, the draft of which has been agreed upon with the executing agency (see [electronic link 7](#)). The midterm evaluation will be an input for the program's loan results report (LRR). The following Bank supervision instruments will be used for monitoring and evaluation purposes, along with others agreed upon in loan 1819/OC-UR: the program execution plan, the annual work plan, the procurement plan, and results matrix, and the risk management plan. **As a condition precedent to the first disbursement, evidence will be provided that the program execution plan has been prepared.** Delivery of annual reports on fulfillment of performance indicators will be an execution condition.

E. Program viability

- 3.6 **Technical viability.** The works to be partially financed by this supplementary operation are the wastewater pretreatment plant, six pumping stations, and the underwater outfall at Punta Yeguas, which are part of the western final disposal system and the second package of bids in the original program. The final designs for the pretreatment plant and the pumping stations were completed in 2011 by an international consortium of specialized firms. The underwater outfall has a detailed basic design and has recently undergone additional geotechnical and structural studies due to the unfavorable subsoil conditions in the area of the piping. The designs have been prepared in accordance with generally accepted engineering standards and principles, and were reviewed by the Bank at the relevant time. The final design of the outfall will be provided by the construction firm that wins the bid, due to the close relationship between the final design and construction method employed. The aforementioned studies have helped to update the original cost estimates for these works and to reduce uncertainty over the amounts required for construction.
- 3.7 **Socioeconomic viability.** A socioeconomic evaluation was conducted for the projects financed by loan 1819/OC-UR, which includes the projects for storm drainage and networks previously tendered and in execution since 2010, and the western final disposal system not yet tendered. The evaluation employed the same methodology as the original program evaluation. The benefits were calculated using the same figures for willingness to pay as in the original study, updated to July 2011 with monetary corrections for average household income and the consumer price index. The evaluation factored in current investment and operation and maintenance costs at efficiency prices. For storm drainage and networks, "actual" works contract costs were used, according to the work execution timetable up until that time, and for the final disposal system, the current costs of the final design prepared by the IMM were used, according to the projected work execution timetable. The cost-

benefit analysis was done for each project, and for the program as a whole. This analysis showed that the program, evaluated with the additional costs, remains economically viable with internal rates of return above 12%. The benefit-to-cost ratios are above 1. The economic analysis (see [optional electronic link 1](#)) describes the analysis and methodology used. A sensitivity analysis was done with the projected parameters that might affect the outcome of the economic evaluation. These parameters are willingness to pay for sanitation and drainage, the percentage of effective connections to the networks, and project costs. The analysis yielded robust viability results, except for investments in the Carrasco Noreste sanitation projects, which can tolerate up to a 15% increase in costs, or up to a 10% decrease in benefits. Other projects can tolerate up to a 20% increase in costs, or up to a 25% decrease in benefits.

- 3.8 **Ability to pay.** The ability to pay of users of the sanitation system was calculated. The average basic payment for sewer service according to the Sanitation Division, assuming monthly average residential consumption of 10 m³, is US\$5.71. According to information on income distribution in the program's areas of influence and for the total population of Montevideo, this represents less than 2% of the average monthly income of low-income families. The IMM has a system of subsidies that apply to the variable charge for the first 10 m³ used, depending on the zone of the department where the building is located. At the subsidized rate, the cost averages US\$4.68 per month and represents less than 1.3% of the average income of low-income families. Even with the projected rate increases, the monthly cost of the service would be 1.8% of monthly income without a subsidy, and 1.3% with one.
- 3.9 **Social equity and poverty reduction.** The operation qualifies as a social equity enhancing project (SEQ) and a poverty targeted investment (PTI), as described in the "Report on the Ninth General Increase in Resources of the Inter-American Development Bank" (CGI-9) (document AB-2764). According to data from the National Statistics Institute (INE), 54.23% of the beneficiaries of the works to expand sanitation and storm drainage systems are low-income families. For the western final disposal system, low-income beneficiaries represent 16.4% of total beneficiaries.
- 3.10 **Distributive impact.** Three possible groups of direct beneficiaries were identified for the distributive impact analysis of benefits for the low-income population: (i) the public sector; (ii) the private sector, partitioned by income among low-income beneficiaries; and (iii) other beneficiaries. The analysis shows that 22.8% of the net economic benefit generated by the program would be captured by low-income beneficiary groups. Taking this estimate as representative, and applying this percentage to the amount of direct investment (US\$136.6 million), it may be concluded that some US\$31.14 million will benefit low-income groups.
- 3.11 **Environmental and social viability.** The project team has classified this program as category "B" under the Environment and Safeguards Compliance Policy (Operational Policy OP-703). An environmental and social analysis during the

design process concluded that the project substantially satisfies the relevant provisions of Operational Policies OP-703, OP-102 (Access to Information), OP-270 (Gender Equity in Development), OP-704 (Disaster Risk Management Policy), and OP-710 (Involuntary Resettlement).

- 3.12 The selected alternative will significantly improve water quality in Montevideo Bay and adjacent beaches, with decreased risks to human health stemming from the discharge of untreated sewage into the bay, as now occurs. To foresee undesirable impacts in the discharge areas and take the necessary steps, the executing agency is monitoring water quality, biota, and sediment before the outfall goes into operation, as a baseline for evaluating the impact of the discharge. These monitoring and evaluation activities will continue when the outfall and pretreatment plant are in operation. The executing agency will also review and update Montevideo's sanitation master plan, which will provide the framework for analyzing the technical, economic, and environmental feasibility of increased wastewater treatment levels.
- 3.13 **Institutional viability.** The program's institutional viability was analyzed using the Institutional Capacity Assessment System (ICAS) and a risk management analysis. The institutional capacity of the UES and the Sanitation Division was evaluated covering the areas of activities programming, administrative organization, personnel management, administration of goods and services, financial administration, internal control, and external control. The results indicate that the UES and the Sanitation Division have a low level of weighted risk for program execution and subsequent administration of the works.
- 3.14 **Financial viability.** The executing agency is meeting the financial sustainability targets agreed upon in PSU IV; the cost coverage rate is 82%. The IMM's five-year plan (2011-2015) includes revenues for a 25% increase in sanitation service user charges during this period. The first rate increase, of 5.6% in real terms, went into effect in February of this year. This increase will help meet the sustainability indicators for loan 1819/OC-UR. As an execution condition, the executing agency will meet the service sustainability target.

F. Program risks

- 3.15 Actions related to installation of the underwater outfall require the involvement of specialized construction firms and equipment for this type of work, and are subject to a higher degree of uncertainty due to subsoil conditions and the hydraulic behavior of the River Plate during the construction period. The IMM has been promoting the involvement of relevant subject-matter experts, in order to fully leverage international know-how, including additional soil studies, and lower the usual risks associated with works of this kind.
- 3.16 The risk of increased costs for the rest of the works to be financed is low, and, in general, the second package of works is substantially different from the first one, inasmuch as the bidding process will be shorter. Once the loan is approved, the works are expected to be tendered and awarded within six months. However, if cost

increases occur in the contracts signed with participating companies in excess of the updated costs and estimated contingencies, these increases will be financed by counterpart resources at 100%.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives			
Lending Program	The intervention contributes to the lending program to small and vulnerable countries, to reduce poverty and enhance equity.		
Regional Development Goals	The intervention contributes to: i) Reduce incidence of waterborne diseases, and ii) Proportion of terrestrial and marine areas protected to total territorial area (%).		
Bank Output Contribution (as defined in Results Framework of IDB-9)	11,000 households with new or upgraded sanitary conexions.		
2. Country Strategy Development Objectives			
Country Strategy Results Matrix	GN-2626	The operation contributes to increase coverage of sanitation.	
Country Program Results Matrix	GN-2617	In preparation.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program).			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	8.4		10
3. Evidence-based Assessment & Solution	6.9	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	6.6	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood		Medium	
Environmental & social risk classification		B	
III. IDB´s Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	The project relies on the use of Financial Management System.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.	Yes	The program will measure changes in the values of the determinants of socioeconomic feasibility of the projects to determine whether projects remain feasible.	

This is an investment loan for a small and vulnerable country that provides supplementary financing to complete important sanitation works in Montevideo, contributing to poverty reduction and equity enhancing. The project is included in the most recent country strategy, and it is aligned to the country's and Bank's priorities.

The loan document has a solid justification of the required supplementary financing and explains how the recent procurement processes have developed. The analysis convincingly shows that to meet the development objectives of the original project the supplementary financing is necessary. The results matrix is well constructed, with adequate impact, outcome and output indicators. Furthermore, the economic analysis is rigorous and allows examining the original project with the new costs implied by this loan. The monitoring and evaluation arrangements are well specified, and the monitoring system of the original operation will be used as well. The risk matrix is complete and it includes indicators to monitor mitigation measures.

UR-L1063

RESULTS MATRIX

Program impact	The purpose of the CCLIP is to support the Municipal Government of Montevideo (IMM) in its efforts to improve the standard of living of the population in the department of Montevideo by reducing pollution in Montevideo Bay and adjacent beaches.
Program purpose	<ul style="list-style-type: none"> (i) to expand the coverage of sanitary sewer and storm drainage systems (ii) to increase the amount of sewage that is adequately treated and disposed of (iii) to improve management of sanitation and storm drainage services

Impact indicators		Baseline (2010)		Target	Means of verification			Contribution to target ¹	
1. Organic load discharged into the bay from the sanitation system in dry season (tons BOD/day)		47		16	Environmental Quality Laboratory and Industrial Effluents Unit, Environmental Development Department, IMM			50% 1819/OC-UR 50% UR-L1063	
Outcome indicators (purpose)		Baseline (2010)		Target	Contribution to target ¹				
1. Average flow of sewage adequately disposed of (m³/s)		2,3		3.9	10% 1819/OC-UR 90% UR-L1063				
2. Households with sanitation system coverage in Montevideo (%)		85		90	100% 1819/OC-UR				
3. Cost coverage index with increased own revenues (%)		85		95	100% 1819/OC-UR				
Output indicators by component		Baseline ² (2009)	2010	2011	2012	2013	2014	2015	Contribution to target ¹
Component 1: Sewer and storm drainage systems									
1.1 Sanitary sewer and storm drainage systems built									
Sewage collectors built (km)	0	36	37	8		-	-		100% 1819/OC-UR
Sewage collectors rehabilitated (Chacarita) (km)	0	3				-	-		

¹ Associated with loan 1819/OC-UR, operation UR-L1063, or a combination of the two.

² Baseline updated in 2009, when works for components 1, 3 y 4 were awarded, is for the original operation approved in 2006. The annual targets for each component are based on the amounts in the progress monitoring report, which were calculated on the basis of the logical framework of the original operation.

Output indicators by component	Baseline ² (2009)	2010	2011	2012	2013	2014	2015	Contribution to target ¹
Rainwater collectors built (km)		2	4	1				
New connections to sewer system available (number)	0	49	209	2742		-	-	
Component 2: Western final disposal system								
2.1 Western final disposal system built								
Underwater outfall at Punta Yeguas built (km)	0	-					2	60% 1819/OC-UR 40% UR-L 1063
Wastewater treatment plants built	0	-					1	
Pumping stations built (number of stations)	0	-		1	2	2	1	
Pressure pipes built (km)	0			3	5	6	2	
Component 3: Family resettlement								
2.2 Families resettled								
New housing delivered (number of housing units)	0	-	78					100% 1819/OC-UR
Families compensated (number of families)	0	92	100	30				
Component 4: Improvement of management of IMM Sanitation Division								
Level of usage of household connections fund (%)	0		10	30	30	30		80% 1819/OC-UR 20% UR-L 1063
Master sanitation plan updated and agreed by consensus (plan)	n/a			1				
Detailed plans for works in second phase of CLIPP developed (plan)	0					1		
Projects implemented to improve the business management of the Sanitation Division (number of projects)	0			8				

FIDUCIARY AGREEMENTS AND REQUIREMENTS

COUNTRY: Uruguay

PROJECT NUMBER: UR-L1063

TITLE: Montevideo Sanitation Program (PSU IV) Supplementary Financing

EXECUTING AGENCY: Municipal Government of Montevideo (IMM)

PREPARED BY: Gabriele M. del Monte and Nadia Rauschert

I. THE COUNTRY'S FIDUCIARY CONTEXT

- 1.1 The Fiduciary Agreements and Requirements for this program are based on the 2005 Country Financial Accountability Assessment (CFAA) for Uruguay, on the 2004 Country Procurement Assessment Report, on the knowledge of the executing agency (Montevideo municipal government), which has been responsible for several loans (76/IC-UR; 575/OC-UR; 948/OC-UR; 1425/OC-UR; 1819/OC-UR; and 2040/OC-UR, in execution), and on the 2011 Institutional Capacity Assessment System (ICAS) analysis and the GRP for loan 1819 of 2010.
- 1.2 Uruguay's fiduciary risk is considered low, i.e., there is little likelihood that public and donor funds will be used for unauthorized purposes. In general, public financial administration in Uruguay is considered responsible and transparent, although excessively bureaucratized. As for public procurement, although the country has a recognized legal and institutional framework with a sound legal foundation, its weaknesses foster inefficient practices that undermine effectiveness and generate higher costs. Studies conducted in 2005 and 2008 show that corruption is not perceived as a problem. Procurement-related risk in Uruguay is considered to be "medium."
- 1.3 The estimated total cost of the program is US\$50.3 million (US\$42.8 million in Bank financing and US\$7.5 million from the local counterpart). The borrower and guarantor for the operation will be the Eastern Republic of Uruguay, and the executing agency will be the IMM, which will maintain an administrative/financial structure responsible for administering the operation's resources and funding the local counterpart contributions in a timely manner.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 From a fiduciary perspective, the executing agency is considered to be of LOW RISK, based on the June 2011 ICAS analysis and the knowledge of the executing

agency, which has matured in recent years, with the following notable features: (i) the executing agency's capacity for planning and organization was rated as "highly satisfactory" in the ICAS analysis. This is directly related to the execution of projects regularly supervised and monitored by the Bank in accordance with its policies, or rules that the borrower is required to follow under the loan contract; (ii) the external control system has received the same rating in connection with fiduciary considerations that are regularly monitored by the Bank; (iii) the executing agency has consolidated previous experience in procurement activities conducted in accordance with Bank policies using ex ante reviews; (iv) the executing agency staff have solid experience with the Bank's procurement processes and identify closely with the mission; (v) the SABS yields a value of 89%, indicating that the executing agency is rated as "highly satisfactory" (LOW RISK) for procurement and a candidate for the use of ex post reviews in procurement processes up to the threshold for international competitive bidding; (vi) for the budget, the project, and its corresponding loans must be included in the IMM's annual general budget; (vii) for cash management, the General Treasury Account will be used through the specific bank account that the project must open at the Central Bank of Uruguay; (viii) for accounting and financial reports, parallel records to those of the IMM's Financial/Economic System (SEFI) are being maintained; (ix) for internal control, the IMM operates in an environment of satisfactory, low-risk internal controls; and (x) external control is performed by the State Audit Office, which has an eligibility rating of "I."

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 The IMM has a **low-risk** profile, so fiduciary mitigation actions will be those typical for this level of risk (see the Financial Supervision Plan at the end of this annex), supplemented by the following:
- a. In procurement there is a potential risk related to the slow pace of the approval process by the government's external control of contracting processes for individual consultants (approximately 3-4 months). The mitigation actions cut across the Bank's entire portfolio in Uruguay and include actions with the National Civil Service Office and the State Audit Office, which the Country Office is pursuing.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 Below are the agreements and requirements to be reflected in the Special Provisions:
- a. Exchange rate: For dollar-based accounting, it is suggested that the same criterion be used as in operation 1819/OC-UR, i.e., the base exchange rate published by the Central Bank of Uruguay on the day prior to the payment date.

- b. Financial statements: Considering that this operation involves supplementary financing for the aforementioned loan, it is suggested that, if possible, consolidated financial statements be delivered at the end of each year and audited by the State Audit Office. Also, the State Audit Office should report on its review of disbursements processes and requests, evaluation of the internal control environment, and potential breach of provisions of the loan contract.
- c. Taxes: The same criterion will be used as in loan 1819/OC-UR with regard to financing.
- d. Bank account: For operational management, a specific account will be opened at the Central Bank of Uruguay.
- e. Interest: The Ministry of Finance will confirm whether interest will be capitalized for program costs, as has been the case with loan 1819/OC-UR.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The procurement policies applicable to this loan are GN-2349-7 and GN-2350-7, inasmuch as this is a supplementary loan for loan 1819/OC-UR, the contract for which was signed under the Bank procurement policies in place before new policy went into effect in March 2011.

A. Procurement execution

- 5.2 The execution unit will update the Procurement Plan Execution System (SEPA) with the new amounts, and keep it updated.
- 5.3 The appropriateness of the expenditure, i.e., the terms of reference, technical specifications, bidding documents, and budget, is the responsibility of the project's sector specialist, and always requires prior no objection for the start of the procurement process, in accordance with the operational requirements of the JdP.
- 5.4 **Procurement of works, goods, and nonconsulting services.**¹ Contracts generated and subject to international competitive bidding will be executed using the Bank-issued bidding documents. Bidding processes subject to national competitive bidding will use bidding documents satisfactory to the Bank.

B. Procurement, selection and contracting of consultants

- 5.5 **Consulting firms** will be selected and contracted in accordance with Bank policies. Bidding processes with international publicity (for amounts above US\$200,000) will be subject to ex ante review.

¹ "Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank" (document GN-2349-9), paragraph 1.1: Nonconsulting services are treated as goods.

- 5.6 **Individual consultants**² will be selected and contracted in accordance with Bank policies.
- 5.7 **Training.** Not applicable.
- 5.8 **Advance procurement/Retroactive financing.** Not applicable.

**Threshold amounts applicable to Uruguay
(US\$000s)**

Works			Goods ³			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International publicity	Short list, 100% national
≥ 3,000	250-3,000	≤ 250	≥ 250	50-250	≤ 50	> 200	≤ 200
Ex post review threshold for project UR-L1063							
Works		Goods and consulting services		Consulting firms and individual consultants			
<ul style="list-style-type: none"> Shopping up to US\$250,000 NCB up to US\$3,000,000 		<ul style="list-style-type: none"> Shopping up to US\$50,000 ICB up to US\$250,000 		<ul style="list-style-type: none"> Firms: QCBS up to US\$200,000 (NCB) Individual consultants up to a contract amount of US\$50,000 			

- 5.9 **Main procurement processes.** This list of the main groupings of procurement processes for the program essentially supplements the existing loan in progress (1819/OC-UR), and has no procurement plan of its own, per se. However, the procurement plan for loan 1819/OC-UR (see required link) indicates which line of the procurement plan is being strengthened.

² According to Section V of document GN-2350-9, short lists are not required, and the standard bid request is not used.

³ Includes nonconsulting services.

Main procurement activities

WORKS	39,000
Supplementary contribution to the second package of works	39,000
CONSULTING SERVICES	5,520
Supplementary contribution to the consulting services for adjustment of the Montevideo master sanitation plan	1,800
Supplementary contribution to the consulting contract for detailed plans in the subsequent phase of the CCLIP	1,200
Supplementary contribution for executing agency staff	2,520
OTHER COSTS	4,480
Land	700
Cost escalation	1,275
Contingencies	1,540
Financial costs	2,240
TOTAL	50,350

5.10 **Recurring costs.** Not applicable.

5.11 **Funds awarded by competition.** Not applicable.

5.12 **Procurement supervision.** In accordance with the conditions for loan 1819/OC-UR.

VI. FINANCIAL MANAGEMENT

A. Programming and budget

6.1 For preparation of the IMM's departmental budget, the Constitution establishes the deadlines for the mayor to submit the budget for payroll, expenditures, and capital investments for the current year to the Department Council. Once approved by the Department Council, the budget goes into effect and its line items for execution of program UR-L1063 will be authorized for use in accordance with the program execution plan and the annual work plan of the respective operation.

6.2 For this project, the local counterpart is US\$6.2 million, or 13% of the total. The executing agency will demonstrate to the Bank that the local counterpart resources for the first year of the program have been allocated upon the fulfillment of conditions precedent and subsequently on an annual basis (by the end of February).

B. Accounting and information systems

6.3 An accounting system parallel to SEFI will be used to keep records of project operations.

- 6.4 Financial statements will be delivered on at least an annual basis, in accordance with relevant accounting standards and the Bank's guidelines for financial reports and external audits. Preferably, these statements will be delivered in a consolidated format with the financial statements for program 1819/OC-UR and audited by the State Audit Office.

C. Disbursements and cash flow

- 6.5 For the purpose of executing project funds, the Treasury Office of Uruguay, at the request of the project execution unit, will open a special account at the Central Bank of Uruguay.
- 6.6 Disbursements will be made in the form of advances, based on actual liquidity needs supported by sound financial and disbursement projections. Preferably, these advances will be disbursed every six months, after an accounting has been provided for at least 80% of the amount advanced. The accounting reports must be submitted as documentation and processed by the Document Submittal System (SISPREDES), as well as the financial planning form. The exchange rate used in converting payments in local or other currency to United States dollars will be the rate for the day prior to the payment.

D. Internal control and internal audit

- 6.7 The internal control system is based on the country system established by laws and regulations in force. In accordance with the Amended Accounting and Financial Administration Code (TOCAF), the State Audit Office must conduct a preventive intervention for all project-related expenditures. The level of reliability for the execution of this operation is high.

E. External control and reports

- 6.8 The national external control system is managed by the State Audit Office. Loan 1819/OC-UR, now in execution, is audited by the State Audit Office with timely delivery and unqualified opinions for the corresponding annual reports. On this project, the executing agency's intention is for the State Audit Office to continue to provide these services, which has a degree of eligibility I.
- 6.9 The reports on the annual financial audit, review of disbursement processes and requests, compliance with contractual conditions, and the internal control evaluation will be delivered for each fiscal year during the disbursement phase, by 30 April of the following year. The audit rules issued by the International Organization of Supreme Audit Institutions will be taken into consideration. The audit costs will be agreed upon in the Service Agreement Letter of the State Audit Office, and will be financed with local counterpart resources.

F. Financial supervision plan

- 6.10 The initial financial supervision plan includes the following:
- a. Review of the annual work plan and the initial financial plan prepared by the execution unit as support for the first advance to be requested after program eligibility.
 - b. One financial visit per year will be carried out during project execution (jointly with the financial visit for loan 1819/OC-UR), and will evaluate such matters as: reconciliation of the advance and investment account, implementation of recommendations of the external audit, quality and timeliness of accounting records, storage of documentation, and consolidation of financial statements with those of loan 1819/OC-UR.

G. Execution arrangements

- 6.11 The borrower for the program will be the Eastern Republic of Uruguay. The IMM will have basic responsibility to the Bank, maintaining a direct relationship it and determining the course of action to be taken. The program will be executed on the basis of the IMM's successful experience in previous programs. The program will have no Operating Regulations, since the proposal for operation development describes the execution mechanisms and criteria for resource allocation.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/11

Uruguay. Loan ____/OC-UR to the Eastern Republic of Uruguay
City of Montevideo Urban Sanitation Program
Supplementary Financing

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Eastern Republic of Uruguay, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the City of Montevideo Urban Sanitation Program – Supplementary Financing. Such financing will be for an amount of up to US\$42,800,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _____)

LEG/SGO/CSC/IDBDOCS#36441947
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