

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**URUGUAY**

**INTEGRATED SANITATION PROGRAM FOR CIUDAD DE LA COSTA  
CCLIP  
(UR-X1006)**

**AND**

**INTEGRATED SANITATION PROGRAM FOR CIUDAD DE LA COSTA  
FIRST OPERATION  
(UR-L1017)**

**LOAN PROPOSAL**

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## CONTENTS

### PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING .....	1
A.	Background, problem addressed, rationale .....	1
B.	Objective, components, and cost .....	3
C.	Results framework and key results indicators.....	5
II.	FINANCING STRUCTURE AND MAIN RISKS .....	5
A.	Financing structure .....	5
B.	Environmental and social safeguard risks .....	6
C.	Other risks.....	7
1.	Institutional viability .....	7
2.	Financial viability .....	8
3.	Socioeconomic viability .....	9
III.	IMPLEMENTATION AND MANAGEMENT PLAN.....	11
A.	Summary of implementation arrangements .....	11
1.	Execution mechanism .....	11
2.	Operation and maintenance .....	12
3.	Procurement.....	13
B.	Execution period.....	13
C.	Financial statements, internal controls, and external audits .....	14
D.	Monitoring and evaluation of results.....	14

Annexes	
Annex I	Results Framework
Annex II	Procurement Plan

Electronic Links	
<b>REQUIRED</b>	
A.	<a href="#">Annual work plan (AWP)</a>
B.	<a href="#">Monitoring and evaluation arrangements</a>
C.	<a href="#">Procurement plan</a>
D.	<a href="#">Safeguard Screening Form for classification of projects</a>
<b>OPTIONAL</b>	
A.	<a href="#">Financial assessment</a>
B.	<a href="#">Institutional capacity assessment</a>
C.	<a href="#">Analysis of project economic viability</a>
D.	<a href="#">Environmental and social management report (ESMR)</a>
E.	<a href="#">Risk matrix</a>

## ABBREVIATIONS

CCLIP	Conditional credit line for investment projects
EIA	Environmental impact assessment
EIRR	Economic internal rate of return
ESMR	Environmental and social management report
FN VyU	Fondo Nacional de Vivienda y Urbanización [National Housing and Urban Development Fund]
ICAS	Institutional Capacity Assessment System
IMC	Intendencia Municipal de Canelones [Municipality of Canelones]
INE	Instituto Nacional de Estadística [National Statistics Institute]
INE/WSA	Infrastructure and Environment Sector / Water and Sanitation Division
MEF	Ministry of Economy and Finance
NPV	Net present value
MVOTMA	Ministry of Housing, Land Use Planning, and Environment
OSE	Administración de las Obras Sanitarias del Estado [National Water Supply and Sanitation Administration]
PDAPM	Plan Director de Agua Potable del Área Metropolitana de Montevideo [Water Master Plan for the Montevideo Metropolitan Area]
SSF	Safeguard Screening Form for classification of projects
URSEA	Unidad Reguladora de Servicios de Energía y Agua [Energy and Water Services Regulation Unit]

**PROJECT SUMMARY**

**CCLIP AND INTEGRATED SANITATION PROGRAM FOR CIUDAD DE LA COSTA**

**(UR-L1017)**

Financial Terms and Conditions <sup>1</sup>						
<b>Borrower:</b> Administración de las Obras Sanitarias del Estado [National Water Supply and Sanitation Administration] (OSE) <b>Guarantor:</b> Eastern Republic of Uruguay <b>Executing agency:</b> Administración de las Obras Sanitarias del Estado [National Water Supply and Sanitation Administration] (OSE)				Amortization period:	25 years	
				Grace period:	4.5 years	
				Disbursement period:	4 years	
Source	CCLIP		First loan		Interest rate:	Adjustable
	US\$	%	US\$	%	Inspection and supervision fee:	*
IDB (OC)	80.0 million	67%	43.0 million	52%		
Local	39.5 million	33%	39.5 million	48%	Credit fee:	*
Total	119.5 million	100%	82.5 million	100%	Currency:	U.S. dollars from the Single Currency Facility LCF Uruguayan pesos
Project at a Glance						
<b>Project objective/description:</b> The objective of the CCLIP and first program is to contribute to better quality of life for the people of the city of Ciudad de la Costa. Increased coverage of sanitary sewer service will enhance the city's environmental quality, especially water quality in the Arroyo Pando river and aquifers, so that the beaches remain safe for swimming. A stormwater drainage system and paving of streets will improve the quality of urban life for the people of Ciudad de la Costa. As part of the Water and Sanitation Initiative, the program will help increase coverage of sanitary sewer service in Ciudad de la Costa and enhance water quality in the Arroyo Pando river, contributing to the <i>100 Cities and Water Defenders</i> programs.						
<b>Special contractual clauses:</b> <b>Conditions precedent to the first disbursement.</b> (a) Evidence will be provided that a corporation capable of serving as the program subexecuting agency is organized and operating, created by the Administración de las Obras Sanitarias del Estado [National Water Supply and Sanitation Administration] (OSE) and the Municipality of Canelones (IMC) (see paragraph 3.1); (b) a coexecution, subexecution, and resource transfer agreement will be entered into between the executing agency, coexecuting agency, and subexecuting agency, with these annexes: (i) evidence that a trust agreement has been signed, in which the IMC structures its financing arrangements; and (ii) evidence that documents have been signed, in which the Ministry of Housing, Land Use Planning, and Environment (MVOTMA) extends financing to the IMC with resources from the Fondo Nacional de Vivienda y Urbanización [National Housing and Urban Development Fund] (FNVyU), with the authorization of the Ministry of Economy and Finance (MEF) under Decree 428/008 of 8 September 2008 (see paragraph 3.3); (c) the Operations Manual previously agreed upon with the Bank will have entered into force (see paragraph 3.6). <b>Execution conditions.</b> (a) A new ICAS institutional capacity assessment will be conducted one year after the loan contract enters into effect (see paragraph 2.8); (b) the stormwater drainage and road infrastructure maintenance unit will be established, with cost center accounting (see paragraph 3.8); (c) the maintenance plan approved by the Bank will be implemented (see paragraph 3.8); (d) a certifier will be contracted for annual review of maintenance plan implementation (see paragraph 3.8); (e) the program's midterm review will be complete (see paragraph 3.14); (f) the program's final evaluation will be complete (see paragraph 3.14); (g) during program execution the Bank will monitor the executing agency's financial position (see paragraph 3.14); (h) during program execution the Bank will require the executing agency to provide evidence that the subexecuting agency has delivered its audited annual financial statements (see paragraph 3.13); (i) before starting construction of works, the executing agency will provide evidence of legal ownership of the property and evidence that any affected families have been resettled (see paragraph 2.4); (j) before starting construction or operation of works, the executing agency will provide evidence that the necessary environmental permits have been obtained (see paragraph 2.4).						
<b>Special considerations:</b> <b>Revolving fund.</b> Considering the procurement timetable for works under the program, a revolving fund of up to 10% of the loan amount is recommended (see paragraph 3.12).						
<b>Exceptions to Bank policy:</b> None.						
<b>Project consistent with country strategy:</b> Yes [    ]                      No [    ]						
<b>Project qualifies as:</b> SEQ [X]            PTI [    ]            Sector [    ]            Geographic [    ]            Headcount [    ]						

<b>Reviewed by ESR on:</b> 18 July 2008
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- \* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provision 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. DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, rationale

- 1.1 **The city and its urban development.** The city of Ciudad de la Costa, in the Department of Canelones, lies on level ground running parallel to the River Plate and is one of the main areas of eastward expansion of the Montevideo metropolitan area. According to the 2004 census, nearly 113,000 people reside in Ciudad de la Costa, and by 2025 the population is projected to be approximately 175,000.
- 1.2 Ciudad de la Costa's water and sanitation services are the responsibility of Administración de las Obras Sanitarias del Estado [National Water Supply and Sanitation Administration] (OSE) (see paragraph 1.5). Nearly the entire city has drinking water coverage, but nearly 80% of its built up area lacks sewer coverage. Residential wastewater is removed by individual water-tight treatment systems (cesspools) emptied by suction trucks and treated at the Pinar Norte treatment plant. Almost without exception, these cesspools are not water-tight; given the nature of the area,<sup>1</sup> this results in groundwater pollution. The Pinar Norte plant treats and then disposes cesspool and septic tank waste in the Arroyo Pando river, upstream of a recreational swimming area. The treatment plant has a system of stabilization ponds whose treatment capacity is now completely exceeded, such that the system is not effective enough to meet the requirements for discharge into the waterway.
- 1.3 Ciudad de la Costa also has shortfalls in stormwater drainage and road infrastructure, for which the Municipality of Canelones (IMC) has responsibility. The city has four subwatersheds draining into the River Plate. In two of these, macrodrainage takes place via canals. Since these subsystems have no microdrainage, runoff reaches the macrodrainage through ditches running alongside residences. In general, stormwater runoff is disrupted at several spots and drainage is very slow, which leads to flooded homes and waterlogging. Nearly all of La Ciudad's neighborhood streets are unpaved and without sidewalks, and so become impassable on rainy days. The road system is in an advanced state of deterioration, which disrupts travel routes and causes delays and congestion. The deterioration is due mainly to the absence of effective storm drainage and maintenance.
- 1.4 The solution for extending sanitation services in Ciudad de la Costa was devised within the framework of the OSE's Water Master Plan for the Montevideo Metropolitan Area (known by its Spanish-language acronym, PDAPM), financed by the Bank, and, especially its Sewerage Master Plan to extend service to outlying areas of Montevideo. The plan identifies three major systems for service extension. These include the coastal system, east-northwest of the capital, which groups Ciudad de la Costa together with the towns of Pando, Capitán Artigas, Toledo-Suárez, and Salinas. By 2030, this system will serve a projected population of 350,000. The plan's **Stage One** in Ciudad de la Costa assigns priority to a high-density residential area of approximately 2,147 hectares and an estimated current

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<sup>1</sup> The level built up area of Ciudad de la Costa between the Carrasco and Pando Rivers, has only a slight gradient, sandy subsoil, and a water table between 0.50 to 1.50 meters in depth.

population of 55,000. In order to address sanitation, stormwater drainage, and roads in an integrated manner, the OSE and IMC entered into an agreement for the design of the Stage One works,<sup>2</sup> with a view to joint execution of these works. The design studies have determined that Stage One will be implemented in three adjacent areas (**A, B, and C**) in accordance with the implementation timetable.

- 1.5 **Administración de las Obras Sanitarias del Estado [National Water Supply and Sanitation Administration] (OSE)**, established in 1952 as a decentralized government agency, provides water and sanitary sewer services at the national level, except for sanitation services in Montevideo. Nationally, 84% of the population has a direct connection to the drinking water supply system, and, in urban areas outside the capital, 32.6% have direct connection to the sanitation system. In 2007, the OSE's operating revenue was US\$230 million, with a 43% operating margin and a debt service coverage index of 2.55.
- 1.6 The OSE has ample experience providing water and sanitation service at the national level, including the design and execution of infrastructure works, and fully meets the CCLIP eligibility requirements. The OSE has demonstrated its capacity to successfully execute projects with IDB and World Bank financing.
- 1.7 Under loan 785/OC-UR, the IDB financed the National Potable Water and Sewerage Program (Stage I), executed by the OSE and completed in 2004. All planned project activities have been implemented: expansion of drinking water systems, construction of sewer systems, implementation of OSE regional offices, and preparation of the PDAPM.
- 1.8 With World Bank financing, the OSE is launching execution of the second phase (APL-2) of the US\$68 million OSE Modernization and Systems Rehabilitation Project, having successfully executed the first phase. The project targets strengthening and institutional renewal of the OSE, reduction of unaccounted-for water, OSE compliance with the service quality norms of the Energy and Water Services Regulation Unit (URSEA), and implementation of sector regulatory accounting. The project includes targets for over 60 operational and financial effectiveness indicators, a selection of which are shown in the table below.<sup>3</sup>

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<sup>2</sup> In coordination with the land use plan for Ciudad de la Costa, known as COSTAPLAN, prepared by the IMC under an agreement with the National Land Use Planning Office of the Ministry of Housing, Land Use Planning, and Environment (DINOT/MVOTMA).

<sup>3</sup> The project's targets, including indicators, are publicly accessible on the OSE's website: [www.ose.com.uy](http://www.ose.com.uy).



Indicator	Project year 2007	Target					
		2007	2008	2009	2010	2011	2012
Average residential rate Ur\$2006/m <sup>3</sup>	24.2	22	22	22	22	22	22
Unaccounted-for water, Metropolitan Area	58.01%	58%	57.20%	56.80%	55%	53.50%	52.10%
Employees/1,000 connections	4.1	4.3	4.2	4.2	4.1	4.1	4
% Collected	90%	≥ 93%	≥ 93%	≥ 93%	≥ 93%	≥ 93%	≥ 93%
Operating ratio	0.71	≤ 0.70	≤ 0.70	≤ 0.70	≤ 0.70	≤ 0.70	≤ 0.70
Debt service coverage	2.55	> 1.9	> 1.9	> 1.9	> 1.9	> 1.9	> 1.9
Asset ratio	1.09	> 1	> 1	> 1	> 1	> 1	> 1

- 1.9 **Rationale for the CCLIP and proposed program.** This conditional credit line for investment projects (CCLIP) will provide financing for 100% of sanitation works for Stage One of the Sewerage Master Plan (Areas A, B, and C), with an estimated cost of US\$80 million. The local counterpart resources will finance the Area A stormwater drainage and road paving works (US\$35 million), and other costs totaling an estimated US\$39.5 million. An execution period of nine years is projected for the sanitation, stormwater drainage, and road works in the area covered by the CCLIP.
- 1.10 The wastewater collection and treatment system will serve the entire population of the area of Stage One of the Sewerage Master Plan, that is, a projected approximate 70,000 by the end of the CCLIP (2018). Beginning in 2020, the Sewerage Master Plan calls for modular expansion of the treatment plant to meet the needs of the coastal system outside that area.
- 1.11 The cost of stormwater drainage and paving works in Areas B and C (1,727 hectares) would be US\$118 million, financed by the IMC.
- 1.12 **Dimensioning of the first operation under the CCLIP (2009-2012).** The Area A works are planned for execution as the first operation under the CCLIP, for an estimated total cost of US\$82.5 million. Area A is 420 hectares in size, and its current population is 11,000. The sanitation works planned for Area A consist mainly of collector networks, a wastewater treatment plant, and a discharge outlet for final disposal into the River Plate. In addition to treating the wastewater of the population connected to the Area A sanitation networks, the plant will treat individual system discharge from all three Areas (cesspool contents removed by suction trucks), so that the existing Pinar Norte plant can be closed. The stormwater drainage works will address the micro- and macrodrainage needs in the Area's two subwatersheds and the Area's streets and roads will be paved.
- B. Objective, components, and cost**
- 1.13 **Objective.** The objective of the CCLIP is to contribute to better quality of life for the people of Ciudad de la Costa. Increased coverage of sanitary sewer service will

enhance the city's environmental quality, especially water quality in the Arroyo Pando river and aquifers, so that the beaches remain safe for swimming. A stormwater drainage system and paving of streets will also improve the quality of urban life for the people of Ciudad de la Costa.

- 1.14 The general objective and purpose of the first operation are aligned with those of the CCLIP. The Area A sanitation works, especially the treatment plant and final discharge outlets, will enhance water quality in the Arroyo Pando river, so that the beaches remain safe for swimming, and will help improve groundwater quality. Stormwater drainage in the Area's two subwatersheds and fully paving streets will help improve the quality of urban life in the Area.
- 1.15 **Description of the first operation.** The first operation has three components, as described below:
  1. **Sanitation works (US\$39.32 million).** The sanitation works to be built under this first operation are: (i) a wastewater treatment plant for an average 875 l/s flow; (ii) a pumping station for a 813 l/s flow; (iii) a 4.7 km ground discharge outlet and a 1 km underwater discharge outlet; (iv) 4.4 km of pump line; and (v) 62 km of sewer networks.
  2. **Stormwater drainage works and paving of roads (US\$31.06 million in counterpart resources).** Stormwater drainage works will include: 1.9 km of stormwater collectors; 84.5 km of ditches and drains; 3,400 driveway bridges; 7 temporary or permanent stormwater retention basins; and 1.27 km of beach discharge channels. Under this component, 36.7 km of neighborhood roads, 16 km of side roads, and 2.8 km of main roads will be paved.
  3. **Institution-strengthening (US\$0.65 million).** The following activities are planned: (i) drafting of the program's Operations Manual (see paragraph 3.6); training on project management with the SAP system; (ii) strengthening the OSE in sanitation system operation and maintenance (O&M): preparation of the sanitation system O&M manual, and environmental training on treatment plant O&M (see paragraph 3.7); (iii) strengthening the Municipality of Canelones (IMC) in stormwater drainage and road infrastructure maintenance: establishment of a program works maintenance unit within the IMC with cost center accounting; drafting of the stormwater drainage and road infrastructure maintenance plan; and procurement of stormwater drainage and road infrastructure maintenance equipment (see paragraph 3.8).
- 1.16 **Cost and financing.** The estimated total cost of this first operation is US\$82.5 million, for which a loan of US\$43.0 million is requested from the Bank. The Bank will finance all costs of the **sanitation and OSE institution-strengthening component**, as well as **OSE's proportional part of the "Engineering and management" and "Associated costs" line items**, or 52.1% of the total cost of the first operation. The finance charges will be OSE's counterpart contribution. The rest of the counterpart resources will be contributed by the IMC, and will finance the road and stormwater drainage works, IMC's institution-

strengthening, and its proportional part of the other costs. The table below shows the cost and financing structure.

<b>Costs and Financing: First Operation</b> <b>(US\$000s)</b>				
<b>Item</b>	<b>IDB</b>	<b>Local</b>	<b>Total</b>	<b>%</b>
<b>I. Engineering and management</b>	<b>1,135</b>	<b>1,028</b>	<b>2,163</b>	<b>2.6%</b>
1.1 Project execution unit	1,095	998	2,093	
1.2 Communication plan	39	31	70	
<b>II. Direct costs</b>	<b>39,544</b>	<b>31,486</b>	<b>71,030</b>	<b>86.1%</b>
II.1 Sanitation works	39,320	-	39,320	47.7%
II.2 Stormwater drainage works and road paving	-	31,060	31,060	37.6%
II.3 Institution-strengthening	224	426	650	0.8%
<b>III. Associated costs</b>	<b>172</b>	<b>133</b>	<b>305</b>	<b>0.4%</b>
III.1 Audits and evaluation	172	133	305	
<b>IV. Unallocated costs</b>	<b>2,150</b>	<b>2,330</b>	<b>4,480</b>	<b>5.4%</b>
IV.1 Contingencies and cost escalation	2,150	2,330	4,480	
<b>V. Finance charges</b>	<b>-</b>	<b>4,523</b>	<b>4,523</b>	<b>5.5%</b>
V.1 Interest		4,394	4,394	
V.2 Credit fee		129	129	
<b>TOTAL</b>	<b>43,000</b>	<b>39,500</b>	<b>82,500</b>	<b>100%</b>
<b>%</b>	<b>52.1%</b>	<b>47.9%</b>	<b>100.0%</b>	

## C. Results framework and key results indicators

- 1.17 Annex I presents the Results Framework, which describes the program's main outputs and outcomes. As part of the Water and Sanitation Initiative, the program will help increase coverage of sanitary sewer service in Ciudad de la Costa and enhance water quality in the Arroyo Pando river. Of the initiative's 10 impact measurement indicators, only the sewer system coverage indicator applies.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing structure

- 2.1 **Borrower, guarantor, and executing agency.** The program borrower will be Administración de las Obras Sanitarias del Estado [National Water Supply and Sanitation Administration] (OSE), and the guarantor will be the Eastern Republic of Uruguay. The OSE will be the executing agency. The Municipality of Canelones (IMC) will be coexecuting agency of the program, responsible for its execution in coordination with the executing agency (see paragraphs 3.1 and 3.2).

- 2.2 **Financing structure.** The loan sought from the Bank (US\$43.0 million) will finance the OSE sanitation works planned for the first operation, and a portion of the program's administrative and indirect costs. The amortization period will be 25 years, with an execution period of four years and grace and disbursement periods of four years. The loan will be denominated in U.S. dollars from the Single Currency Facility. The borrower has requested the Local Currency Facility, Uruguayan pesos, as a financing option.
- 2.3 The finance charges will be the OSE's local counterpart contribution. The balance of the counterpart resources, approximately US\$35 million, will be contributed by the IMC. Of that amount, US\$25 million will be financed on IMC's behalf by the Ministry of Housing, Land Use Planning, and Environment (MVOTMA) with existing resources of the Fondo Nacional de Vivienda y Urbanización [National Housing and Urban Development Fund] (FNVyU)<sup>4</sup> (see paragraph 3.3). The IMC will set up a trust fund for such purpose that will issue 25-year non-interest-bearing bonds, to be purchased by the FNVyU as necessary to pay for the investments. The trust fund will receive an annual contribution of public funds from the IMC that will supplement the contribution from the FNVyU during program execution, and thereafter will be used to operate and maintain the works and repay the bonds held by MOVOTMA.

**B. Environmental and social safeguard risks**

- 2.4 **Environmental assessment.** The environmental and social impact of execution of both the CCLIP and its first operation will be wholly positive, since it will improve the living conditions of the people of Ciudad de la Costa and its environmental quality (see paragraphs 1.13 and 1.14). The project team has followed the guidelines of the Bank's Environment and Safeguards Compliance Policy (OP-703) and proposes that the operation be classified as category "B," upgrading the category "C" proposed by the toolkit, since the program works may have a short-term adverse local impact of low to medium intensity during construction and operation (e.g. noise, generation of rubble, traffic disruption, etc.), which will be mitigated by well-known measures. This will be done through environmental and social evaluation and management instruments that meet the requirements of Bank policy and national legislation. No need is envisaged for displacement of businesses as a result of program activities. During preparation of this operation, it was confirmed that one family will need to be resettled to build the treatment plant, which will be done in accordance with the principles contained of Operational Policy OP-710. **As execution conditions: (i) before starting construction of works, the executing agency will provide evidence of legal ownership of the property and evidence that any affected families have been resettled; and (ii) before starting**

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<sup>4</sup> The country's Integrated Financial Reporting System (SIIF) indicates that FNVyU resources far in excess of the amount stated here are available to purchase bonds from the IMC trust fund. The use of FNVyU resources by municipalities for investment projects for works ancillary to OSE sanitation works is governed by Decree 428/008 of 8 September 2008.

**construction or operation of works, the executing agency will provide evidence that the necessary environmental permits have been obtained.**

- 2.5 To meet environmental licensing requirements, national legislation requires only one specific environmental impact study for certain program interventions, namely the series of works for the Ciudad de La Costa treatment and disposal system, which the OSE has now conducted. In view of that study, the Bank suggested and agreed with the counterpart that the program's environmental and social strategy would consist of preparing a program environmental impact assessment (EIA) (CCLIP and first operation). That EIA included an environmental and social impact assessment for all program components (sanitation, including the above-mentioned treatment and disposal system, drainage, and paving of roads) in the construction and operation phases; identification of the mitigation and compensation measures required for all program interventions; review of the institutional framework for environmental and social management; and any recommendations regarding the program's environmental and social management structure that result from this process; and identification of all management and monitoring instruments required for the program. All these elements are summarized in the Environmental and Social Management Report (ESMR). The costs of the environmental and social management and monitoring measures identified in the ESMR are included in the OSE and IMC operating budgets and in the program component costs, including works.
- 2.6 The environmental mitigation and compensation measures resulting from the program EIA constitute an Environmental and Social Management Plan (ESMP), which includes environmental monitoring and works supervision mechanisms under an Environmental Supervision Plan (ESP) (see the ESMR). The ESMP also provides for a monitoring and supervision program that includes, inter alia, qualitative and quantitative indicators of environmental water quality and environmental discharge control. To provide the necessary opportunity for access to information and consultation regarding the CCLIP and first operation, a strategy for exchange with affected communities was agreed upon with the counterpart, which includes consultation rounds, and publication and release of reports, in accordance with the requirements of the Bank and of national legislation. Specifically, the project was presented to the community in March 2007, the program's EIA was made available at the Bank's Public Information Center and in the country in early April 2008, and the community participated in preparation of the EIA through a consultation workshop in October 2008.

## **C. Other risks**

### **1. Institutional viability**

- 2.7 The program's institutional viability was evaluated based on the results of the ICAS institutional capacity assessment of the executing agency (OSE) (see Annex A), which indicated satisfactory development and low risk. All systems assessed show low risk, with the sole exception of internal control, whose risk was classified as

medium owing to the absence of a code of conduct signed by the employees. The remaining findings result from the OSE's extensive experience in program execution with the Bank and other international lenders.

- 2.8 The executing and coexecuting agencies plan to enter into a partnership to execute the program through a corporate vehicle whose sole purpose is to act as subexecuting agency on behalf and by order of the executing and coexecuting agencies (see paragraph 3.1). The implementation plan for this arrangement includes provisions and measures to ensure the permanence of the executing agency's institutional capacity, while sharing that capacity with the coexecuting agency: (i) the OSE's institutional capacity will be incorporated into the organizational and functional design of the subexecuting agency through direct involvement in its functions by assigning human resources to the corporate vehicle, and through use of the executing agency's information systems (see paragraph 3.5); (ii) a coexecution, subexecution, and resource transfer agreement will assign duties and responsibilities for the components or activities to be executed by the OSE and the IMC; responsibilities for reporting, payment, and communications; and the subexecuting agency's role (see paragraph 3.2); (iii) an Operations Manual will be prepared that defines execution procedures with the subexecuting agency (see paragraph 3.4). To enhance security, **as an execution condition, a new ICAS institutional capacity assessment will be conducted one year after the loan contract enters into effect.**

## **2. Financial viability**

- 2.9 The analyses of the OSE's audited accounts for the last four years (see Annex B) show that the borrower's financial condition is good and has improved over that period. Operating results before interest and taxes grew by 292%, and the fiscal year result (profit) rose by 260%, for 20% cumulative inflation in the period. The current liquidity index rose from 0.85 to 1.23, easily enabling short-term obligations to be met with current assets. Net operating results for the entire period were higher than total interest: 2.26 times more in 2004, and 32.35 times more in 2007. Stated in relation to long-term debt servicing (interest plus repayments), net operating results rose from 0.29 to 1.74, leaving a margin for the assumption of additional debt. Several indicators show efficiency gains, such as administrative and selling costs, which were 5% higher than the cost of the services in 2004, declined to 26% lower in 2007; and the ratio of own employees/1,000 connections declined from 4.9 to 4.1. These and other improvements should continue under the program being executed with World Bank financing. Among actions envisaged is a program to reduce unaccounted-for water, and another to increase the percentage of connections to the sewer system, where available.
- 2.10 Based on historical data, and taking into account the OSE's investment plans and existing, contracted, and foreseen debts, including this program, financial projections were made for the company showing its capacity to contribute the proposed counterpart resources (limited to finance charges under the arrangement for the operation) and to repay the loan and the incremental costs of operation and

maintenance. Under conservative assumptions, it was determined that earnings would continue to grow, increasing on the order of 260% in 2020 with respect to 2007, for cumulative inflation on the order of 100%. The earnings to debt service ratio is 1.32, rising steadily to 20.8 in 2020. Cumulative cash flow remains consistently positive, ranging from 600 to 800 million Uruguayan pesos, an amount approximately equal to the amount invested in the year. The current liquidity index stays around 1 until 2011, rising to 1.20 the following year, and continuing to rise until it reaches 3.2 in 2020. Sensitivity analyses showed that, even with significantly falling revenues or rising costs, the program remains viable.

- 2.11 Under the financing structure (see paragraph 2.2), the IMC must contribute US\$35 million in counterpart resources via the trust fund, which will receive a US\$25 million contribution from the national government as purchaser of the bonds. Therefore, the IMC must contribute US\$10 million in public funds to the trust fund during program execution, and, thereafter, the incremental costs of operation and maintenance, as well as repay the national government's bonds. The projections reflected renegotiation of the agreement with the electricity company, which collected—at high cost—the IMC's revenue on a decentralized basis, and renegotiation of the IMC's debts, with a substantial reduction and payment over 10 years, based on an earlier Supreme Court judgment, as well as a large increase in tax revenue in 2009 and 2010, resulting from a series of court judgments and the incorporation of revenue-generating works. From 2013 onward, the projections reflected a user charge to be paid by the 18,000 beneficiaries of the road and drainage works. Also reflected is the fact that, from 2011 onward, wages will rise only to keep pace with inflation. Based on these assumptions, the analysis established the viability of the IMC contributing resources to the trust for execution, operation and maintenance, and repayment.

### **3. Socioeconomic viability**

- 2.12 A socioeconomic evaluation was made of the package of works to be financed under the program. The evaluation was based on a comparison of benefits and costs in scenarios with and without the program. The costs and benefits of sanitation projects were analyzed by comparing the net present value (NPV) of costs with the NPV of benefits. The costs used in the analysis were the shadow incremental costs of investment, operation and maintenance. The benefits of sanitation were estimated based on a contingent valuation survey, which calculated the willingness to pay (WTP) for sewer service and transfer of environmental benefits, using discounted WTP values for similar works. The benefits of drainage and road improvements were calculated using hedonic prices to estimate rising real estate values. The results of the analysis show that the program is socioeconomically viable at the level of each project, with economic internal rates of return (EIRR) in excess of 12%. In addition, the benefit/cost coefficient was greater than 1. A detailed account is given in Annex C.

ECONOMIC COST-BENEFIT ANALYSIS Projects of the first loan under the CCLIP						
Project	Economic net present value (in US\$ thousands)				EIRR	B/C
	Benefit	Investment	O&M	Net benefit		
Stage 1 networks	7,171.6	6,183.7 <sup>(1)</sup>	315.2	672.6	13.30%	1.10
Treatment plant	36,795.6 <sup>(2)</sup>	25,522.8	7,839.3	3,433.5	13.80%	1.10
Networks and treatment plant	43,967.2	31,706.5 <sup>(3)</sup>	8,154.5	4,106.1	12.70%	1.10
Stormwater drainage and road works	19,577.2	16,407.3	776.5	1,113.3	16.70%	1.06

(1) Includes investment costs of Area A networks only.

(2) Includes WTP of environmental improvement of the River Plate.

(3) Includes investment costs of Area A networks and total treatment plant cost.

- 2.13 **Sensitivity analysis.** The sensitivity analysis included variation of WTP values obtained, changes in real estate values for sanitation projects, and cost increases. The sanitation project (networks and treatment plant) allows for cost increases of up to 13%, and reduction in expected benefits of up to 10%. The drainage and road works project allows for cost increases of up to only 6%, and reduction in benefits of up to only 6%.
- 2.14 **Ability to pay.** The information in the WTP survey was used to identify five levels of households, based on the apparent social level of the dwelling and the family's economic income (NSE), as self-reported in the survey by the interviewee. The amount of the average monthly bill for service (US\$18.08 or 380 Uruguayan pesos) was found to be less than 5% of family income for the program's beneficiary population. For the lowest-level households (levels 5 and 4), accounting for 25% of the sample, the average bill represents 5% of family income. At the other end of the scale, levels 1 and 2 (20% of the sample), the average bill represents 1.2% of family income. For the sample as a whole, the average water and sanitation bill represents 2.5% of the average income of a Ciudad de la Costa family.
- 2.15 **Social equity and poverty reduction.** From the poverty incidence standpoint, and utilizing information from the 2005 Household Survey conducted by the National Statistics Institute (INE), data reported in Ciudad de la Costa indicate that the proportion of the population deemed poor is 27.4%,<sup>5</sup> and extremely poor, only 1.3%. Consequently, this project does not qualify as a poverty-targeted investment (PTI). However, it does qualify as social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

<sup>5</sup> This poverty incidence figure is similar to that of Montevideo (29.3%), and well below that of cities outside the capital (54.5%). This indicator was obtained utilizing the poverty and indigence lines set by the INE. In April 2007 these were Ur\$2,900 (US\$120.40) and Ur\$1,026 (US\$42.59), respectively, corresponding to the value of a basket of basic consumer goods for urban areas in Uruguay excluding Montevideo.



### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

##### 1. Execution mechanism

- 3.1 Administración de las Obras Sanitarias del Estado [National Water Supply and Sanitation Administration] (OSE), as borrower and executing agency, and the Municipality of Canelones (IMC), as coexecuting agency, will establish a corporation to facilitate program coordination and management. The sole purpose of this vehicle is to serve as the program's subexecuting agency, assuming responsibility for the administration of contracting and activities on behalf of the executing and coexecuting agencies. All shares of the corporation will be held by the OSE and IMC. It will be structured as a private corporation with a public purpose. **As a condition precedent to the first disbursement of the loan proceeds, evidence will be provided that a corporation capable of serving as the program subexecuting agency under the agreement with the Bank is organized and operating, created by the OSE and the IMC.**
- 3.2 The OSE, the IMC, and the corporation will enter into a coexecution, subexecution, and resource transfer agreement that, inter alia: (i) assigns duties and responsibilities for the components or activities to be executed by the OSE and IMC; (ii) assigns responsibilities to the agreement's signatories for reporting, payment, and communications; and (iii) assigns terms of reference to the subexecuting agency for the activities to be conducted, contracting, and payment for works and services on behalf and by order of the executing agency and coexecuting agency. The OSE, as borrower and executing agency, will be the sole interlocutor with the Bank, and will be responsible for program execution.
- 3.3 **As a condition precedent to the first disbursement of the loan proceeds, a coexecution, subexecution, and resource transfer agreement will be entered into between the executing agency, coexecuting agency, and subexecuting agency, with these annexes: (i) evidence that a trust agreement has been signed, in which the IMC structures its financing arrangements applicable to the program; and (ii) evidence that documents have been signed, in which the Ministry of Housing, Land Use Planning, and Environment (MVOTMA) extends financing to the IMC with resources from the Fondo Nacional de Vivienda y Urbanización [National Housing and Urban Development Fund] (FNVyU), with the authorization of the Ministry of Economy and Finance (MEF) under Decree 428/008 of 8 September 2008.**
- 3.4 The institutional capacity of the executing agency, the OSE, will be incorporated into the organizational and functional design of the subexecuting agency—the corporation—preserving its experience demonstrated in the execution of similar projects, in accordance with Bank rules and procedures, through direct involvement in its functions by assigning human resources to the corporate vehicle, and through use of the executing agency's information systems.

- 3.5 The OSE will interact with the corporation on all program administrative and procurement management tasks, with the support of IMC personnel, as applicable. Awarding contracts for works will be the direct responsibility of the OSE and the coexecuting agency, with advisory support from the Procurement Advisory Commission (mixed OSE-IMC), already up and running. The OSE will also be responsible for the program's financial management and accounting, operating the systems required for preparing reports, disbursement requests, and other required documents. The OSE's Works Management Office will have direct involvement and responsibilities for planning and scheduling tasks. The OSE and IMC will assign certain human resources of the corporation for the supervision and inspection of works and services from the technical, environmental, and measurement standpoints. The corporation will contract 15 professional staff and ten technical or administrative staff, some for only brief periods or for part-time work.
- 3.6 The functions and all procedures for management and execution of the program through the subexecuting agency in interaction with the executing agency and coexecuting agency will be established and described in the Operations Manual, which will be attached as an annex to the coexecution, subexecuting, and resource transfer agreement. **The Operations Manual previously agreed upon with the Bank will have entered into force, as a condition precedent to the first disbursement of the loan proceeds.**

## **2. Operation and maintenance**

- 3.7 The operation and maintenance of sanitation works is the responsibility of the OSE, which now performs this function throughout the country, except for Montevideo. The OSE is highly experienced in this area, and is building institutional capacity with World Bank financing (see paragraph 1.8) to address management, administration, physical plant, operations, maintenance, and other areas. The program's institutional strengthening component will provide financing for the preparation of a procedural manual for sanitation system operation and maintenance, as well as training on environmental aspects of the operation and maintenance of wastewater treatment plants.
- 3.8 The maintenance of public roads and stormwater drainage is a municipal responsibility, and is to be performed by the IMC. To ensure effective maintenance of the stormwater drainage and road works financed under the program, a special maintenance unit will be formed within the IMC, identified as a cost center in the IMC's accounting system. The program's institutional strengthening component will provide financing for the corresponding upgrade to the IMC's accounting system. It will also provide financing for preparation of the maintenance plan for the stormwater drainage and road infrastructure works built under the program, and for the procurement of maintenance equipment. Maintenance activities will be financed with trust fund resources (see paragraph 2.3). A certifier will be contracted with trust fund resources for annual review of maintenance plan implementation. **As execution conditions, within 18 months after the loan contract enters into effect: (i) the stormwater drainage and road infrastructure maintenance unit**

**will be established, with cost center accounting; (ii) the maintenance plan approved by the Bank will be implemented; and (iii) a certifier will be contracted for annual review of maintenance plan implementation.**

### **3. Procurement**

- 3.9 Civil works, goods, and consulting services financed in whole or in part with the loan proceeds will be procured in accordance with the Bank policies set out in documents GN-2349-7 and GN-2350-7. The Bank has assessed the executing agency's capacity to conduct procurement activities, and determined that the total project risk associated with procurement management is low. International competitive bidding will be used when the total estimated cost of the contract is at or above the following thresholds: works: US\$3 million; goods: US\$250,000; consulting services: US\$200,000.
- 3.10 Project procurements will be subject to ex ante review by the Bank when the total estimated cost of the contract is at or above the following equivalent thresholds: works: US\$3 million; goods: US\$15,000; nonconsulting services: US\$20,000 and all direct contracting; consulting service contracts with firms: US\$20,000 and all single-source selection; contracts with individual consultants: US\$5,000. All other contracts will be subject to ex post review by the Bank. In addition to the ex ante reviews, the Bank will periodically conduct ex post reviews of completed procurements. The frequency of ex post reviews and the thresholds for ex ante review of contracts are consistent with the institutional capacity assessment. These thresholds and the frequency of ex post reviews may be adjusted as part of update and review of the Procurement Plan, based on the executing agency's performance.

### **B. Execution period**

- 3.11 The program execution period will be four years, in accordance with the disbursement timetable presented in the table below, which may be revised during program execution by agreement of the parties.

<b>Disbursement Timetable (US\$000)</b>					
<b>Source</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Total</b>
IDB	6,820	15,360	15,250	5,570	<b>43,000</b>
Local	7,587	12,461	12,921	6,531	<b>39,500</b>
<b>Total</b>	<b>14,408</b>	<b>27,820</b>	<b>28,171</b>	<b>12,101</b>	<b>82,500</b>
<b>%/year</b>	17%	34%	34%	15%	100%

- 3.12 **Revolving fund.** The Bank will establish a revolving fund of up to 10% of the loan amount, once the conditions precedent to the first disbursement have been met. This percentage is consistent with the disbursement requirements of the principal program works (specifically, Work 1 and Work 2). These resources will be managed via a bank account in the program's name.

**C. Financial statements, internal controls, and external audits**

- 3.13 Each year during the execution period, the executing agency will deliver the program's audited financial statements. External audits will be performed by an independent audit firm acceptable to the Bank, in accordance with requirements (documents AF-100 and AF-300) and terms of reference (document AF-400) approved in advance by the Bank. The firm will be selected and engaged in accordance with the procedures set out in the guidelines for selection of external auditors (document AF-200). The program's annual financial statements will be delivered within 120 days after the end of the fiscal year, and the closing financial statements within 120 days after the last disbursement. The audit costs will be part of the cost of the program, and financed out of the loan proceeds. **The Bank will require the executing agency to provide evidence that the subexecuting agency has delivered its audited annual financial statements.**

**D. Monitoring and evaluation of results**

- 3.14 The monitoring and evaluation system will include: (i) the annual work plans (AOPs); (ii) monitoring and annual verification that the targets set in the Results Framework have been met; and (iii) half-yearly reports that address progress made on the AWP, the outcomes of activities including environmental monitoring, and an action plan for the next six months in those areas requiring corrective measures to improve program performance. It was also agreed to conduct a midterm evaluation and a final evaluation, and for the Bank to prepare a project completion report (PCR). The independent midterm and final evaluations may be contracted with program resources. **The midterm review, midterm report, and the final review and report will be contractual conditions. The Bank will monitor the executing agency's financial condition during program execution.**

**INTEGRATED SANITATION PROGRAM FOR CIUDAD DE LA COSTA: CCLIP (UR-X1006) AND  
INTEGRATED SANITATION PROGRAM FOR CIUDAD DE LA COSTA: FIRST OPERATION (UR-L1017)**

Results Framework Integrated Sanitation Program for Ciudad de la Costa – Area A Matrix of Indicators								
Objectives	The objective of the CCLIP and program is to contribute to better quality of life for the people of the city of Ciudad de la Costa through the installation of sanitary sewer, wastewater treatment and disposal, and stormwater drainage networks, and paving of roads. The sanitation system and treatment plant will reduce the pollutant load in the Arroyo Pando river, so that the beaches remain safe for swimming.							
	The purpose of the first program (Integrated Sanitation Program for Ciudad de la Costa – Area A) is to provide sanitary sewer service for approximately 11,000 people, and to expand wastewater treatment and disposal capacity, enhancing water quality in the Arroyo Pando river and groundwater. Stormwater drainage in the Area’s two subwatersheds and paving of streets will help improve the quality of urban life.							
Component 1: Sanitation infrastructure								
	Base	Year 1	Year 2	Year 3	Year 4	Target	Comments/ Means of verification	
Outputs								
Wastewater treatment plant (% of work progress)	-	20%	40%	40%	-	100%	Progress certificate	
Pumping station (% of work progress)	-	20%	40%	40%	-	100%	Progress certificate	
Ground and underwater discharge outlets: km	-	1.2	1.9	1.9	0.7	5.7	Progress certificate	
Pump line: km	-	0.9	1.5	1.5	0.5	4.4	Progress certificate	
Sanitation networks: km	-	13.5	21.4	21.4	7.9	64.2	Progress certificate	
Intermediate outcomes								
Number of in-household connections	0	-	-	-	2,483	4,000	Invoices issued by OSE	
Wastewater treated at secondary level (average in m³/sec)	0	-	-	-	0.3	0.875	Plant operation records	
Outcomes								
Improved water quality in Arroyo Pando¹	Fecal coliforms:	<5.000 FCU/100 ml	-	-	-	<2,000 FCU/100 ml	<2,000 FCU/100 ml	Monitoring of water quality by OSE central laboratory
	BOD₅,20:	>10 mg/O₂/L	-	-	-	Max 10 mg/O₂/L	Max 10 mg/O₂/L	
	Ammoniac nitrogen:	>10 MG N/L	-	-	-	Max 10 mg N/L	Max 10 mg N/L	
	Total phosphorous	>0.025 mg P/L	-	-	-	<0.025 mg P/L	<0.025 mg P/L	

Component 2: Stormwater drainage infrastructure and paving of roads							
	Base	Year 1	Year 2	Year 3	Year 4	Target	Comments/ Means of verification
<b>Outputs</b>							
Sewer collectors: km	0	0.38	0.63	0.63	0.27	1.90	Progress certificate
Ditches and drains: km	0	16.90	28.17	28.17	11.83	84.50	Progress certificate
Runoff retention works: 1000s of cubic meters of earth	0	19.77	32.95	32.95	13.84	98.84	Progress certificate
Paving of neighborhood streets: km	0	7.34	12.23	12.23	5.14	36.70	Progress certificate
Paving of side roads: km	0	3.20	5.33	5.33	2.24	16.00	Progress certificate
Paving of main roads: km	0	0.56	0.93	0.93	0.39	2.80	Progress certificate
<b>Outcomes</b>							
People benefited by drainage works and paving of roads	0	2,200	3,600	3,600	1,600	11,000	Onsite verification
<b>Component 3: Institution-strengthening</b>							
	Base	Year 1	Year 2	Year 3	Year 4	Target	Comments/ Means of verification
<b>Outputs<sup>2</sup></b>							
Training on SAP/OSE module	-	C	E, I			I	Progress report
OSE sewer network O&M manual	-		C	E	I	I	Sewer network O&M manual
OSE environmental training module for plant operators	-		C	I		I	Progress report
IMC maintenance unit, cost center	-		C, I			I	Progress report
IMC drainage and road works maintenance plan	-		C, I			I	Maintenance plan
IMC drainage and road works maintenance equipment			C, E	I			Certificate of purchase/receipt
Contracting of certifier for review of maintenance implementation	-		C	E, I		I	Progress report

<sup>1</sup> Maximum limits in accordance with the standards set in Decree 253/79. Includes the impact of closing the Pinar Plant in year 4.

<sup>2</sup> C = contracted; E = executed; I = implemented

**IDB Water and Sanitation Initiative indicators (to be completed during execution)**

**First Operation, Ciudad de la Costa (Area A)**

Indicators	Base	Year 1	Year 2	Year 3	Year 4	Means of verification
1. Water service coverage (%)	n/a					OSE information and records
2. Sewer system coverage (%)	20%				30%	
3. Working ratio	n/a					
4. Percentage of wastewater treated	n/a					
5. Unaccounted-for water (%)	n/a					
6. Labor productivity (employees/1,000 connections)	n/a					
7. Micrometering coverage (%)	n/a					
8. Continuity of supply (hours/day)	n/a					
9. Water quality (% samples meeting standards)	n/a					
10. Ability to pay (% of family income for the lowest decile)	n/a					

**Procurement Plan**  
**Integrated Sanitation Program for Ciudad de la Costa – Area A (UR-L1017)**  
**Period covered: October 2008 to March 2010**

No.	Description of contract	Estimated cost of procurement (US\$)	Procurement method	Bank review (ex ante or ex post)	Source of financing and percentage		Prequalification (Yes/No)	Contracting dates		Status (pending, in process, awarded, cancelled)	Comments
					IDB	Local/other		Estimated start	Estimated end		
A. WORKS											
1.1	WORKS 1	15,712,916	ICB	Ex ante	100%	-	Yes	First half 2009	First half 2009	In process	The three works were prequalified jointly, and the short list prepared in May 2008. ICB solicitation 1399 set for 17 November 2008.
1.2	WORKS 2	34,962,059	ICB	Ex ante	56%	44%	Yes	First half 2009	Second half 2009	In process	The three works were prequalified jointly, and the short list prepared in May 2008. ICB solicitation 1399 set for 17 November 2008.
1.3	WORKS 3	19,704,245	ICB	Ex ante	20%	80.0%	Yes	First half 2009	Second half 2009	In process	The three works were prequalified jointly, and the short list prepared in May 2008. ICB solicitation 1399 set for 17 November 2008.
B. GOODS											
2.1	Computer equipment for SAP and for OSE program execution unit	20,000	NCB	Ex ante	100%		No	First half 2009	First half 2009	Pending	Equipment necessary to install the SAP module. Computer equipment for program execution unit.
2.2	Office equipment for establishment of corporation	25,000	PC	Ex ante	50%	50%	No	First half 2009	First half 2009	Pending	Equipment for the corporation's headquarters. Given the diversity of equipment and suppliers, price comparisons will be made with the different suppliers
2.3	Computer system for accounting records and administration, OSE program execution unit	10,000	DC	Ex post	100%		No	First half 2009	First half 2009	Pending	Accounting system for records of operations, to be used as the basis for the reports required by the Bank.
C. CONSULTING FIRMS											
3.1	SAP, project management module	90,000	DC	Ex post	100%	0%	No	First half 2009	First half 2009	Pending	Direct contracting since SAP is the only supplier, and the training is provided by the supplier's consultant
3.2	Public information	70,000	QCBS	Ex ante	56%	44%	No	First half 2009	First half 2009	Pending	Communication with beneficiaries at the different stages of infrastructure execution, implementation, operation, and maintenance.
3.3	Program audits	70,000	QCBS	Ex ante	56%	44%	No	First half 2009	First half 2009	Pending	Includes audits of the program and corporation.
D. INDIVIDUAL CONSULTANTS											
4.1	Preparation of program procedural manual	15,000	DC	Ex ante	50%	50%	No	First half 2009	First half 2009	Pending	Direct contracting, since the amount is under US\$30,000.
4.2	Institutional capacity assessment	15,000	CQ	Ex ante	50%	50%	No	Second half 2009	Second half 2009	Pending	Evaluation of ICAS methodology at end of program year 1.
4.3	Sanitation infrastructure O&M manual	88,000	CQ	Ex ante	100%		No	First half 2009	First half 2009	Pending	Includes analysis and design of sanitation infrastructure O&M procedures (networks, pumps, plants, final disposal) and instruments for monitoring of operation, corrective measures, etc.
4.4	Design of environmental training module for plant operators	32,000	CQ	Ex ante	100%		No	First half 2009	First half 2009	Pending	Design of environmental training module for plant operators, to be included in the training course for wastewater treatment plant operators.

ICB: International competitive bidding; LIB: Limited international bidding; NCB: National competitive bidding; PC: Price comparison; DC: Direct contracting

FA: Force account; PSA: Procurement through specialized agencies; PA: Procurement agents; IA: Inspection agents

PBP: Performance-based procurement; QCBS: Quality and cost-based selection; QBS: Quality-based selection

FBS: Selection under a fixed budget; LCS: Least-cost selection; CQS: Selection based on consultants' qualifications

CQ: Comparison of qualifications (individual consultants); SSS: Single-source selection



DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/08

Uruguay. Conditional Credit Line (CCLIP) UR-X1006  
Ciudad de la Costa Integrated Sanitation Program

The Board of Executive Directors

RESOLVES:

1. 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 agreement or agreements as may be necessary with Administración de las Obras Sanitarias del Estado (OSE), to establish a Conditional Credit Line for the Ciudad de la Costa Integrated Sanitation Program, hereinafter referred to as the "Credit Line", of up to the sum of US\$80,000,000, chargeable to the resources of the Single Currency Facility of the Ordinary Capital of the Bank.
2. That the establishment and utilization of the Credit Line shall be carried out in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects established by Resolution DE-58/03 of July 16, 2003 and amended by Resolutions DE-10/07 of January 31, 2007, and DE-164/07 of December 19, 2007; and (b) the specific provisions set forth in documents GN-2246-4 and GN-2246-7.
3. That the approval of individual operations chargeable to the Credit Line, shall be subject to: (a) the condition that the Eastern Republic of Uruguay unconditionally guarantees the obligations contracted by Administración de las Obras Sanitarias (OSE) in the respective individual operations as set forth in the project summaries of the respective individual loan proposals; and (b) with the exception of the first of such operations, to the satisfactory performance of the previous program or programs financed under the Credit Line.
4. That the amounts authorized to finance individual operations chargeable to the Credit Line shall be granted as individual loans subject to the usual financial terms and conditions applicable to financing from the resources of the Single Currency Facility of the Bank's Ordinary Capital, in force at the time that the individual operation is approved, which shall be specified in the executive summary of the corresponding loan proposal.

5. That the Bank may only sign an agreement or agreements with Administración de las Obras Sanitarias (OSE) to grant financing for the first individual operation after the Credit Line agreement or agreements between Administración de las Obras Sanitarias (OSE) and the Bank enter into force.

LEG/SGO/CSC/IDBDOCS#1775594  
UR-X1006

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/08

Uruguay. Individual Loan \_\_\_/OC-UR to Administración de las Obras Sanitarias del Estado (OSE) - Ciudad de la Costa Integrated Sanitation Program  
Utilization of the resources of the Conditional Credit Line  
for Investment Projects (CCLIP) established by  
Resolution DE-\_\_\_/08

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 utilize the resources of the Conditional Credit Line for Investment Projects (CCLIP) approved pursuant to Resolution DE-\_\_\_/08, by entering into such contract or contracts as may be necessary with Administración de las Obras Sanitarias del Estado (OSE), as Borrower, and with the Eastern Republic of Uruguay, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of an integrated sanitation program for Ciudad de la Costa. Such financing will be in the amount of up to US\$43,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

LEG/SGO/CSC/IDBDOCS# 1775560  
UR-L1017