

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BOLIVIA

**REFORM PROGRAM FOR THE WATER AND SANITATION AND
WATER RESOURCES SECTORS IN BOLIVIA**

(BO-L1074)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Policy letter http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37056556
2.	Means of verification matrix http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37007941
3.	Results matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37007940
OPTIONAL	
1.	Programmatic II budget http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37007935
2.	Economic analysis http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37007939
3.	Monitoring and evaluation plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37007937
4.	Sector statistics http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37007938
5.	Basic Sanitation Sector Development Plan 2011-2015 (PSDSB) http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37001128

ABBREVIATIONS

AAPS	Autoridad de Fiscalización y Control Social de Agua Potable y Saneamiento Básico [Water and Basic Sanitation Inspection and Societal Oversight Authority]
EMAGUA	Entidad Ejecutora del Medio Ambiente y Agua [Environment and Water Executing Agency]
EPSA	Entidad Prestadora de los Servicios de Agua Potable y Saneamiento [Water and Sanitation Service Provider]
FPS	Fondo Nacional de Inversión Productiva y Social [National Productive and Social Investment Fund]
FSO	Fund for Special Operations
GDP	Gross domestic product
MICSA	Mecanismo de Inversión para Coberturas en el Sector de Agua y Saneamiento [Investment Mechanism for Water and Sanitation Sector Coverage]
MMAyA	Ministry of Environment and Water
NFPS	Nonfinancial public sector
OC	Ordinary Capital
PBL	Policy-based loan
PSDSB	Plan Sectorial de Desarrollo de Saneamiento Básico [Basic Sanitation Sector Development Plan]
SEDERI	Servicios Departamentales de Riegos [Departmental Irrigation Services]
SENARI	Servicio Nacional de Riego [National Irrigation Office]
SENASBA	Servicio Nacional para la Sostenibilidad de Servicios en Saneamiento Básico [National Service for the Sustainability of Basic Sanitation Services]
UNASBVI	Unidades de Agua, Saneamiento Básico y Vivienda [Water, Basic Sanitation, and Housing Units]
VAPSB	Viceministerio de Agua Potable y Saneamiento Básico [Office of the Deputy Minister for Water and Basic Sanitation]
VIPFE	Viceministerio de Inversión Pública y Financiamiento Externo [Office of the Deputy Minister for Public Investment and External Financing]
VRHR	Viceministerio de Recursos Hídricos y Riego [Office of the Deputy Minister for Water Resources and Irrigation]

PROJECT SUMMARY

BOLIVIA

REFORM PROGRAM FOR THE WATER AND SANITATION AND WATER RESOURCES SECTORS IN BOLIVIA (BO-L1074)

Financial Terms and Conditions					
Borrower: Plurinational State of Bolivia				OC	FSO
			Amortization period:	30 years	40 years
Executing agency: Ministry of Environment and Water (MMAyA)			Grace period:	72 months	40 years
			Disbursement period:	18 months	18 months
Source	Amount (US\$ million)		Interest rate:	LIBOR-based	0.25%
	First operation:	Second operation:	Inspection and supervision fee:	*	0%
IDB (OC)	62.4	62.4	Credit fee:	*	0%
IDB (FSO)	15.6	15.6	Currency:	United States dollars	
Local	0.0	0.0			
Total	78.0	78.0			
Project at a Glance					
Program objective: The program objective is to increase coverage and improve water and sanitation services in Bolivia through the development of an institutional and policy framework to manage these services and resources. The program comprises actions to (i) strengthen sector planning; (ii) strengthen the organizational and institutional development of sector entities; (iii) support effective implementation of the financial policy; and (iv) develop monitoring and evaluation instruments.					
Contractual clauses: The sole disbursement of funds for the first operation of this programmatic policy-based loan (PBL) is subject to fulfillment of the policy reform measures or institutional changes, as specified in this document, as well as achievement of the agreed upon targets specified in the policy matrix (paragraph 2.1).					
Exceptions to Bank policies: None.					
Project consistent with country strategy:					
Yes [X] No []					
Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []					
Procurement: N/A					

* 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 corresponding policies. 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. Frame of reference

- 1.1 This loan operation is the first of two consecutive single-tranche operations that are technically linked and independently financed under the programmatic policy-based loan (PBL) modality in accordance with documents CA-450-1 and CS-3633. The proposed policy measures for the first operation will help develop investment planning instruments, establish programmatic guidelines for project preparation and execution, strengthen inspection and regulation mechanisms, develop a cost recovery framework for the provision of the services, strengthen the organizational development of sector agencies, strengthen community development mechanisms and sector technical capacities, develop monitoring and evaluation instruments, and strengthen information systems.

B. Macroeconomic analysis

- 1.2 Bolivia's macroeconomic performance from 2005 to 2011 has been strong, supported by a favorable external environment resulting from the sustained increase in volumes and international prices for its principal export products, especially hydrocarbons.¹ As a result, the country has achieved average growth of around 4.6%, along with significant consecutive external and fiscal surpluses, controlled inflation, and monetary and financial market stability. Per capita GDP rose substantially in this same period, from US\$1,016 in 2005 to US\$2,314 at the end of 2011 (see Table 1).

Table 1. Principal macroeconomic indicators

Indicator	2005	2006	2007	2008	2009	2010	2011p	2012p
Real GDP growth (%)	4.4	4.8	4.6	6.1	3.4	4.2	4.5	5.2
Nominal GDP (US\$ million)	9,574	11,519	13,292	16,602	17,464	19,810	24,604	27,012
Per capita nominal GDP (US\$)	1,016	1,197	1,352	1,656	1,708	1,900	2,314	2,493
Inflation (%)	4.9	4.9	11.7	11.8	0.3	7.2	7.9	5
General government income (% of GDP)	30.9	34.3	34.4	38.9	36.1	33.2	35.4	36.4
General government expenditures (% of GDP)	33.2	29.8	31.8	34.6	35.5	31.5	34.6	35.6
General government overall balance (% of GDP)	-2.2	4.5	2.6	4.3	0.6	1.6	0.8	0.8
Current account balance (% of GDP)	6.52	11.25	11.97	12.14	4.66	4.77	3.8	4.35
Exports (US\$ million)	2,791	3,875	4,458	6,448	4,918	6,952	9,039	10,846
Imports (US\$ million)	2,334	2,814	3,455	4,980	4,435	5,393	7,800	8,446.6
Net international reserves (US\$ million)	1,714	3,178	5,319	7,722	8,580	9,730	12,019	12,747

Source: International Monetary Fund. 2011-2012: projections.

- 1.3 Bolivia's strong macroeconomic position in 2009 allowed it to weather the direct impacts of the external crisis. The accumulation of significant international reserves and a prudent fiscal policy during the expansion phase of the cycle allowed the

¹ The natural gas price index calculated by the International Monetary Fund was 90% higher in the 2004-2010 period than in the 1997-2003 period.

country to mitigate the adverse impact of the international financial crisis. Together with the relatively low integration of the Bolivian financial system in the international capital markets, this lessened the financial contagion of the crisis. Thus, Bolivia emerged from the crisis without falling into recession and with fiscal and external surpluses. In 2009, the economy recorded the highest growth in the region. In 2010 and 2011, Bolivia's GDP and traditional exports continued to grow. In 2010, driven by increased global demand for commodities, total exports expanded by 30% and the trade surplus grew by 92%, with natural gas and nonferrous metals (primarily zinc, silver, and tin) leading foreign sales.²

- 1.4 Bolivia began 2012 with fiscal reserves and high levels of liquidity thanks to prudent management of the economic policy during the export boom years and the external and fiscal surpluses accrued over six consecutive years from 2006 to 2011. The year-end 2011 accumulation of public sector deposits amounting to 22% of GDP, and the record volume of international reserves equivalent to 16 months of imports, provide a cushion against external shocks. Bolivia's fiscal position improved considerably in the 2006-2011 period owing to increased fiscal revenues from external sales of hydrocarbons and cyclical improvements in tax receipts. Available fiscal revenues in this period following nationalization of the natural gas industry allowed the nonfinancial public sector (NFPS) to attain an average overall surplus equal to 2.8% of GDP and an average primary balance of 4.3% of GDP. However, the general government non-petroleum fiscal deficit (i.e., excluding income from this sector) averaged 7.9% of GDP for this same period.
- 1.5 Despite the fiscal revenue yields, fiscal management during the boom years was fairly conservative, with real growth in expenditures well below the revenue growth. This fiscal policy has allowed the authorities to gradually shrink the public sector debt in the past five years, helping to guard against major risks to the short- and medium-term fiscal prospects. The situation was further aided by sizeable debt forgiveness in the 2006-2007 period as part of the Heavily Indebted Poor Countries initiative under which the Bank forgave US\$1.171 billion, largely shaping the current debt profile. At the close of 2011, the total public debt of the nation's general treasury amounted to 34% of the GDP. Based on the debt sustainability analysis conducted by the Bank, Bolivia faces no major sustainability risks in the medium term, and this finding holds even under scenarios with more negative impacts.
- 1.6 Implementation of the Public Investments Plan (*Bolivia, para vivir bien*) will have a decisive effect on the medium-term fiscal prospects. This plan is a compendium of plans and programs that the Government of the Plurinational State of Bolivia will execute through 2029, requiring US\$34.7 billion in public investment. Despite the planned substantial increase in public spending, the 2012 NFPS fiscal balance is expected to amount to 0.8% of GDP and the general government deficit³ to 1.5% of

² The hydrocarbon and mining sectors accounted for 43% and 34%, respectively, of total Bolivian exports in 2010.

³ Similar to the 2011 value.

GDP.⁴ This operation will be equivalent to approximately 20% of the general government deficit. Bolivia's macroeconomic framework is commensurate and consistent with programmatic loan objectives.

C. Background, problems addressed, and rationale⁵

1. The water and sanitation sector

- 1.7 **Regulatory and institutional framework.** The 2009 Constitution declares that access to clean water and sanitation is a human right not subject to privatization or concession, and it is the responsibility of the State at all levels of government to provide these services through public, mixed, community, or cooperative entities. Given this regulatory framework, Bolivia restructured the institutional system to fulfill the duties mandated by the Constitution. The Ministry of Environment and Water (MMAyA) is the lead agency of the sector, acting through the Office of the Deputy Minister for Water and Basic Sanitation (VAPSB), with responsibility for setting policy, planning investments, and arranging international financing. Regulatory duties are under the purview of the Water and Basic Sanitation Inspection and Societal Oversight Authority (AAPS), whose functions include protecting consumers and approving rates charged by operators to provide service. The National Service for the Sustainability of Basic Sanitation Services (SENASBA) is responsible for formulating community development strategies, technical assistance, and environmental health education to guarantee the sustainability of water and sanitation services. The Environment and Water Executing Agency (EMAGUA) and the National Productive and Social Investment Fund (FPS) execute the programs and projects formulated by the MMAyA. The municipal autonomous governments are responsible for providing the services through public, cooperative, community, or mixed not-for-profit entities, and also for approving the service rates. The central government and the departmental autonomous governments have the obligation to help the municipal autonomous governments fulfill their duties.
- 1.8 **Service quality and coverage.** Water and sanitation sector coverage is low, essentially due to the situation in periurban districts of metropolitan areas, and in rural areas. According to the 2011-2015 Basic Sanitation Sector Development Plan (PSDSB),⁶ national water coverage in 2007 was 75%, while sewer coverage was 48%. There is a huge rural/urban disparity, with urban water coverage over 87% compared with a mere 51% in rural areas, and sanitation coverage is 54% versus 37% in urban and rural areas, respectively. Wastewater treatment coverage is low, with only 30% of collected wastewater being treated in any way. The information

⁴ Based on International Monetary Fund projections.

⁵ The [electronic link](#) provides information about all the statistics in this section and covers sector issues. It also specifies the sources of information.

⁶ Chapter 2 of the PSDSB issued on 25 April 2011 contains the sector diagnostic.

reported by the 27 companies supervised by the AAPS⁷ reveals enormous disparities in efficiency levels between operators. For example, in 2011, revenue collection rates ranged from 19% to 98% while the operating expense ratio (operating expense/operating income) ranged from 21% to 124%, and non-revenue water from 14% to 45%. Available data for the past three years show a distinct upward trend in the operating expense ratio, explained in part by the elimination of inflation-adjusted rates without new rates being set, which could result in a steady deterioration in service over the next few years.

- 1.9 **Sector planning.** Based on the new institutional framework, and aiming to improve sector planning, the government: (i) conducted a diagnostic assessment that identified the following key challenges: (a) increase coverage with comprehensive and sustainable services; (b) improve service sustainability, (c) create an efficient sector financing instrument; (d) strengthen and decentralize sector institutions; and (e) incorporate into service management the study of climate change adaptation and mitigation actions; (ii) split the water and sanitation sector into three segments: (a) rural, for populations of less than 2,000 inhabitants; (b) small towns, for populations of 2,000 to 10,000; and (c) periurban, for populations of more than 10,000; (iii) prepared the National Sanitation Plan 2008-2015; (iv) developed government programs called “Programmatic Approaches” to meet the needs of the periurban and rural segments; and (v) began formulating master plans for the main urban centers. At present, the government is working with the 2011-2015 PSDSB,⁸ in effect since 25 April 2011. However, the low quality of projects submitted (965 returned for reformulation out of 1,480 received by the MMAYa in the past three years) and the large volume of very small low-impact projects—data from the Office of the Deputy Minister for Public Investment and External Financing (VIPFE)⁹ indicate that out of 308 municipios granted sector projects in 2011, 105 were allocated less than US\$10,000—clearly show the need to develop departmental sector plans, in line with the PSDSB 2011-2015, identifying key projects and quantifying actions needed to fulfill the constitutional mandate of access to water and sanitation services.
- 1.10 **Organizational development.** The diagnostic assessment, conducted as part of program preparation, of all sector institutions (VAPSB, EMAGUA, SENASBA, AAPS) indicates that although these agencies have a clear assignment and separation of functions, several factors hinder their organizational development. The chief obstacles are: (i) outdated organizational structures; (ii) insufficient staff; (iii) inadequate budget allocation; and (iv) outdated information systems and equipment. For example, the VAPSB received 1,480 projects in the past three years, of which more than 60% were returned for reformulation to the entities that submitted them. This is evidence of the need to strengthen project preparation

⁷ Biannual report by the AAPS Regulatory Monitoring Department on indicators for the provision of service by water and sanitation service providers (EPSAs).

⁸ See [electronic link](#)

⁹ VIPFE Investment Data System.

capacities for the water and sanitation service providers (EPSAs), and project review capacities for departmental and municipal governments. The EPSAs are having trouble recruiting skilled workers, training staff, and generating sufficient operating revenues (operating costs consume 75% of current revenues, not including depreciation) to adequately maintain infrastructure and ensure that investment resources are not used for renovation or improvement projects but rather to expand coverage (out of US\$648 million allocated to projects received by the MMAyA,¹⁰ US\$254 million were spent on renovating or improving existing infrastructure). As with sector institutions, many companies need to update their organizational structures, information systems, organization, and methods. As of December 2011, more than 900 EPSAs were registered with the AAPS (regularized), while an estimated 190 EPSAs in municipal capitals were not yet regularized. Although there are over 1,000 EPSAs (regularized or not) nationwide, the AAPS only monitors and receives regular reports from 27 companies. Thus, despite great efforts by the government, it is important for sector entities and service providers: (i) to be strengthened in the areas described above; (ii) to be equipped with management tools to fulfill the mandates stipulated by law; and (iii) for service providers to develop institutional strengthening plans and build their technical skills and community development programs.

- 1.11 **Sector financing.** According to the PSDSB, sector investments for the period 2001-2007 averaged US\$55 million per year and were highly concentrated in the urban areas of the country's largest cities (65%) and in the water sector (75%), neglecting the more disadvantaged areas: rural, periurban, and the sanitation sector. The PSDSB reports that for urban areas alone, more than US\$700 million will be required in investments through 2015 in order to achieve the Millennium Development Goals. Furthermore, owing to the failure to implement a suitable rate structure, the operating income the EPSAs earn from service revenues only allows them to recover operating and administrative costs in the best of cases, leaving very little for maintenance and investment (on average, less than 10% of revenues). Faced with this reality, the government included the Investment Mechanism for Water and Sanitation Sector Coverage (MICA) in its financial policy, establishing criteria to allocate resources, and modalities, incentives, mechanisms, and sector financing facilities to guarantee a reduction in the inequalities that currently exist in the water and sanitation sector. To ensure transparency and fairness in financial conditions of access to sector resources, a Basic Sanitation Investment Area Identifier was developed, using criteria based on access gaps and poverty. According to VIPFE reports,¹¹ from 2008 to 2011, US\$620 million were allocated to the sector (42% from multilateral and bilateral sources), of which US\$425 million were executed, i.e., US\$106 million per year, a more than twofold increase over execution in the 2001-2007 period. Implementation of the MICA has helped to ensure that resources are beginning to be allocated to the more

¹⁰ MMAyA Sector Information System for Project Management.

¹¹ VIPFE Investment Data System.

disadvantaged sectors, but it has also pointed up the lack of cofinancing from subnational entities and the need to consider the size of the population served as one of the allocation criteria. In order to achieve long-term sustainability of investments, the government is developing a rate structure and subsidies plan to ensure financial sustainability for the companies.

- 1.12 **Monitoring and evaluation.** One of the chief institutional weaknesses of the sector is the lack of instruments to monitor sector performance or an information system capable of generating relevant and consistent data in a reliable and timely fashion. As mentioned previously, only 27 EPSAs (out of 900 regularized) systematically report performance indicators, hence the unreliability of much of the data. In order to monitor PSDSB progress, the government decided to develop a tool that would make it possible to: (i) evaluate policy implementation and the medium- and long-term outcomes; (ii) plan the actions of sector agencies synchronously around targets so as to eliminate duplication of efforts and generate synergies; (iii) align international donors and cooperation agencies around the sector objectives and policies and serve as a valid instrument for evaluating external cooperation; and (iv) function as an operational instrument to achieve the PSDSB objectives. To improve EPSA monitoring, the government is looking into developing a regulatory information system adapted to the new sector structure that, through existing technology, allows data to be uploaded at the source.

2. The water resources sector

- 1.13 **Institutional structure of the water resources and irrigation sector.** The Constitution establishes that the State has exclusive jurisdiction over the water resources and general services regime.¹² The Framework Law on Autonomies and Decentralization 031 of 19 July 2010, gives the central government the authority to establish by law the water resources and services regime, which consists of: (i) regulating the integrated management of basins, investment, water resources, and use; (ii) determining sector policies and the institutional framework; (iii) setting conditions and restrictions for use and services at all levels; (iv) granting and regulating rights; (v) regulating water use and treatment; (vi) regulating service administration, technical assistance and strengthening, and financial and administrative matters relating to water resources; and (vii) establishing an institutional framework recognizing participation by the relevant social organizations. The Office of the Deputy Minister for Water Resources and Irrigation (VRHR) is the MMAyA department in charge of sector policy. The municipal and departmental autonomous governments are responsible for preparing, financing, and executing water resources and irrigation projects, in addition to developing plans and programs. The central government and the municipal autonomous governments have the obligation to help the municipal autonomous governments fulfill their duties. The National Irrigation Office

¹² One level of government has legislative, regulatory, and executive authority in a particular area, and may transfer and delegate the latter two.

(SENARI) is the institution responsible for regulating, planning, and promoting government activities to develop irrigation and agricultural production and forestry. It is also responsible for promoting technical assistance, and recording and granting rights for the use of water for irrigation. The Departmental Irrigation Services (SEDERIs) are decentralized agencies of the SENARI that perform these functions at the departmental level.

- 1.14 **Status of the water resources sector.** Although the country has abundant water resources, they are not available evenly in space and time, and some areas suffer from a water shortage. In the irrigation subsector, there are some 226,500 hectares of irrigated cropland in Bolivia (11% of the area under cultivation per year). For the most part, the irrigation systems work intermittently depending on rainfall fluctuations. The challenge facing the National Watershed Plan is to foster and implement a comprehensive vision to manage the water supply and advance a process to plan the use of watershed resources as an act of public and social administration.
- 1.15 **Challenges facing the water resources and irrigation sector.** According to the National Irrigation Plan known as *Para Vivir Bien*,¹³ the expansion of irrigation in Bolivia has been a slow process, with public investment of US\$6 million per year for the decade ended in 2007. This has resulted in increasing the area under irrigation by little more than 2,000 hectares per year. To maintain the production levels of foodstuff for domestic consumption as well as for export while counteracting low intensity climate effects, the country needs to increase the area under irrigation by 40,000 hectares in the short term. The goal is to add 275,000 hectares of land under irrigation by 2030, which will directly benefit 200,000 campesino, indigenous, aboriginal, colonist, and farming families, with investments of around US\$1.2 billion. Another challenge to be tackled while supporting the expansion of irrigated land is to provide technical education and training for human resources so as to make the most efficient use of water for irrigation. The country must also develop operating and management training programs for irrigation system users to ensure operating, administrative, and financial sustainability. Aside from improvements targeting the productive sector, the water resources sector must also focus on the serious harm to the economy and to Bolivian society caused by climate change. The Economic Commission for Latin America and the Caribbean calculated the cost of damages for the period 2007-2008, which affected 618,000 inhabitants, at US\$757,000 (65% to nonfarm sectors), representing 1% of GDP. Thus, Bolivia needs to develop a risk management and climate change adaptation policy so risk management criteria can be incorporated in water resources projects.
- 1.16 **Sector planning.** To achieve the irrigation sector goals, the decentralization process established in the Framework Law on Autonomies and Decentralization 031 of 2010 is finally taking shape. As a first measure, the Departmental Irrigation

¹³ The National Irrigation Plan includes the water resources and irrigation sector diagnostic assessment.

Services (SEDERIs) were created to identify, evaluate, and support the effective implementation of investment projects. They will also work on management systems to ensure proper administration and operation by communities of existing systems as well as the many new ones to be commissioned in coming years under the National Irrigation Plan, as directed by the SENARI.

- 1.17 **Organizational development.** The process to strengthen the water resources and irrigation sector is underway. In addition to getting the SEDERIs up and running, the sector will develop its own capacity to study and address climate change through the creation of the Risk Management Unit and the Dam Monitoring Unit. The first operation seeks to develop and monitor the risk management and climate change adaptation policy, and include it in all sector projects. The second operation will develop a program to operate, manage, and maintain dams to establish as much flood control as possible and provide a steady water supply for irrigation and human consumption. Creation of this institutional environment and associated functions will be supported by a review and adjustment of the VRHR structure.
- 1.18 **Monitoring and evaluation.** In order to recognize and grant registrations and permits to use water resources for irrigation, a system will have to be developed to keep accurate and proper records in conformity with Law 2878 and its regulations. This system will be based on the Geographic Information System for Water Resources developed by the nongovernmental organization *Agua Sustentable* with support from the International Development Research Centre. It will be complemented and adjusted to meet the needs of SENARI and the SEDERIs, as well as the requirements for the technological development of the platform.

D. Bank and country strategy and design of the operation

- 1.19 **Country strategy.** The water and sanitation and water resources sectors are among the government's strategic priorities. The country strategy mapped out in the Basic Sanitation Sector Development Plan (PSDSB) calls for: (i) increasing investments, with priority given to the periurban areas of the country's largest metropolitan areas, as well as to small towns and rural areas; (ii) consolidating participation by local governments and municipios in investments, technical assistance, and community development; (iii) prioritizing investments by means of the Basic Sanitation Investment Area Identifier; (iv) taking actions to improve service quality and sustainability; (v) strengthening the MMAyA's capacities to lead sector reform within a framework of comprehensive water management and to organize support and monitoring for investment programs; (vi) reforming and strengthening the regulatory system; (vii) deepening decentralization and constitutional autonomies; and (viii) implementing the national program for efficient water use.
- 1.20 **Consistency with the Bank's country strategy.** The program is consistent with the Bank's country strategy for 2011-2015 since it will contribute to the strategic objectives of "greater coverage of water and sewer services in urban areas" and "greater coverage of basic water and sanitation services in rural areas." The program is also consistent with the Ninth General Capital Increase lending program

priorities of “lending to small and vulnerable countries” and “climate change, sustainable energy, and environmental sustainability initiatives” inasmuch as it includes institution-strengthening for the preservation and effective management of water as a natural resource. It is also consistent with the regional development goal of “infrastructure for competitiveness and social welfare.”

- 1.21 **The Bank’s sector support.** The Bank is presently executing seven infrastructure projects in both sectors, with satisfactory performance, for a total of US\$250 million. These projects focus the Bank’s activity in priority areas for the country, such as: periurban areas, small towns, and rural areas, and irrigation systems.¹⁴ Thus, this reform program complements the investment projects through the adoption of policy measures in four areas (sector planning, organizational development, financial policy, and monitoring and evaluation). These measures will advance the development of these sectors, promote investment sustainability, and improve the existing regulatory framework.
- 1.22 **Program design.** The program contributes to fulfillment of the national strategy embodied in the PSDSB, a strategy that resulted from a structured process of sector analysis, dialogue, consultation, and consensus around the diagnostic assessment and actions, involving service providers, donors, and the various stakeholders and beneficiaries. The work was carried out under the leadership of the MMAyA, enabling the government to identify the following key challenges: (i) strengthen sector planning by creating instruments to support local planning and service providers and establishing intervention plans commensurate with the different population segments (periurban, rural, and small towns); (ii) strengthen organizational and institutional development to effectively achieve decentralization and roll out the national community development policy, building capacities at each step of the project cycle and for each population segment; (iii) support effective implementation of the financial policy by means of instruments to assist in project cofinancing, establishing and assigning ranking criteria, and promoting long-term service sustainability; and (iv) develop monitoring and evaluation instruments and strengthen the information systems.

E. Objective, components, and cost

- 1.23 The program objective is to increase coverage and improve water and sanitation services in Bolivia through the development of an institutional and policy framework to manage these services and resources. The program comprises actions to: (i) strengthen sector planning; (ii) strengthen the organizational and institutional development of sector entities; (iii) support effective implementation of the financial policy; and (iv) develop monitoring and evaluation instruments. The program has five components:

¹⁴ Water and Sanitation Division: (i) 1926/BL-BO (BO0223); (ii) 1927/BL-BO (BO-L1013); (iii) 2199/BL-BO (BO-L1034); (iv) (BO-X1004); (v) 2440/BL-BO (BO-L1028); and (vi) 2597/BL-BO (BO-L1065). Environment, Rural Development Disaster Risk Management Division: 2057/BL-BO (BO-L1021).

- 1.24 **Component I. Macroeconomic stability.** The objective of this component is to ensure a macroeconomic framework that is consistent with the program objectives. This will be achieved by fulfilling the actions specified in the policy letter and ensuring that the borrower's macroeconomic framework is consistent with the program objectives.
- 1.25 **Component II. Sector planning.** The objective of this component is to help develop sector planning, oversight, and control instruments. The scope of the component includes activities to: (i) improve water and sanitation investment planning at the national, departmental, and municipal levels, and set policy guidelines to ensure sustainability, through approval of the PSDSB and guidelines for the preparation of departmental plans and urban master plans; (ii) formulate development programs considering the targeted population segments so as to reduce coverage shortfalls and improve service delivery, through preparation of a Periurban and Rural Sector Program Approach document; and (iii) carefully plan service inspection and regulation actions to achieve effective and efficient controls, through the identification of parameters specifying the scope of the inspection and regulatory function. The expected outcomes of the programmatic cycle (two loan operations) include: (i) sector investments planned, budgeted, and executed in accordance with the guidelines set out in the PSDSB and the departmental plans; (ii) prioritized infrastructure projects designed and built according to master plan specifications; (iii) investment programs to increase coverage and improve the delivery of services, designed and executed as specified in the programmatic approaches; and (iv) water and sanitation service inspection and regulation activities performed differentially for each population segment.
- 1.26 **Component III. Organizational development.** The objective of this component is to help develop strengthening plans and community development instruments, and to build capacities, especially at the subnational level. The scope of the component includes activities to: (i) improve the management expertise of sector entities responsible for formulating policies, strengthening capacities, executing projects, providing services, and performing inspection and regulatory activities, so the entities are well prepared to meet sector needs, through the preparation and implementation of institutional development and strengthening plans; (ii) design community development programs at each step of the project cycle to improve connectivity and payment of services, by developing policies and guidelines for their implementation; (iii) strengthen sector capacities to enhance efficiency in service delivery, through the preparation of a training strategy for providers, and the creation of a national school; and (iv) launch an educational program to promote wise use of water and stewardship of water sources, through the development of an environmental health education program. The expected outcomes of the programmatic cycle (two loan operations) include: (i) an effective organizational structure and good information and organization systems and methods are established for sector entities; (ii) trained Water, Basic Sanitation, and Housing Units (UNASBVI) receive and evaluate water and sanitation projects; (iii) strengthened Water and Sanitation Service Providers (EPSAs) are providing

efficient services; (iv) trained communities are involved in project development and execution; (v) SENASBA trains EPSA workers in matters relating to service efficiency; and (vi) primary and secondary school students receive health and environmental education.

- 1.27 **Component IV. Financial policy.** The objective is to help improve the system for allocating public investment funds to the sector, linking subnational governments to sector financing based on their capacity, and promoting the financial sustainability of the EPSAs. The scope of the component includes activities to: (i) improve the public investment allocation system to generate efficient investments and sustainable services by developing criteria and mechanisms to prioritize and allocate resources; (ii) increase sector investments to reduce coverage shortfalls by establishing criteria to create cofinancing arrangements; and (iii) promote the financial sustainability of EPSAs so they are able to cover their operating and maintenance costs, through the development of a cost recovery policy and a gradual implementation plan. The expected outcomes of the programmatic cycle (two loan operations) include: (i) public investment resources are allocated efficiently; (ii) local governments cofinance water and sanitation investments; and (iii) the EPSAs generate sufficient financial resources to cover their operating and maintenance costs.
- 1.28 **Component V. Monitoring and evaluation.** The objective of this component is to ensure that the lead agencies are able to monitor sector performance and adopt corrective measures in a timely manner. The scope of the component includes activities to: (i) create a performance evaluation framework to monitor achievement of targets; and (ii) develop sector information systems to generate timely and reliable data by developing guidelines for the implementation of such an information system. The expected outcomes of the programmatic cycle (two loan operations) include: (i) sector performance and investment effectiveness are measured and updated against the performance evaluation framework; (ii) the sector has reliable and timely data; and (iii) the AAPS monitors the performance of the EPSAs based on the data they remit.

F. Key results indicators

- 1.29 The expected outcomes of the program are presented in the results matrix ([electronic link](#)), and the indicators are as follows: Impact: (i) water coverage; and (ii) sanitation coverage. Outcomes: (i) households with water service; (ii) households with sanitation service; (iii) collections efficiency (total revenues/total billed); (iv) operating efficiency (operating costs/operating income); (v) non-revenue water rate; and (vi) flooded productive area. Implementation of the reforms is expected to expand water coverage from 79.2% (2011) to 88% (2015), and sanitation coverage from 56.8% (2011) to 73.5% (2015).
- 1.30 Data for the impact indicators were obtained from population projections drawn from the 2001 census, and from progress towards fulfillment of the PSDSB. Collections efficiency and operating efficiency data were calculated on the basis of

information regularly provided by the 27 regulated EPSAs to the AAPS. The water loss indicator was based on information reported by the seven EPSAs with the greatest losses.

G. Economic analysis of the reform

- 1.31 A cost-benefit analysis was prepared for some expected program outcomes: (i) increased coverage of water and sewer services; and (ii) improved water service as measured by the decrease in non-revenue water for the regulated companies with the highest loss rates. The figures used in the analysis include the cost of the reform (cost to implement and operate the new institutions and procedures, or to strengthen the agencies, in order to increase coverage or improve service) and the incremental operating and maintenance investment costs.
- 1.32 The analysis findings show that the program is viable for both objectives. For the expanded coverage objective, the program is viable, generating benefits of US\$230 million in present value, for an investment of US\$155 million with a net present value of US\$17 million and an internal rate of return of 14.8%. For the improved water and sanitation services objective, the program is viable, generating benefits of US\$16 million with a net present value of US\$5 million and an internal rate of return of 18.5%. The analysis, methodology, and calculations are available in the [electronic link](#).

II. FINANCING STRUCTURE AND RISKS

A. Cost and financing

- 2.1 This operation has been designed as a programmatic policy-based loan (PBL) for up to US\$78 million, expected to disburse in the fourth quarter of 2012, with 80% of the loan amount charged to the Ordinary Capital (OC) and 20% charged to the Fund for Special Operations (FSO). Because this operation is a programmatic PBL, there will be a single disbursement, to be made once the loan contract has been signed and the policy conditions have been fulfilled, taking into account the means of verification (see [electronic link](#)).

B. Social and environmental impact

- 2.2 The evaluation of the operation's possible environmental effects was performed pursuant to section B.13 of the Bank's Environment Policy. This being a programmatic PBL, no direct adverse effects on the environment or natural resources are expected since no physical investments will be financed. The measures envisaged as conditions of the loan are aimed at improving the management of water and sanitation services, seeking to avoid the negative impacts caused in the past in the absence of a comprehensive vision. Also, given the type of activities to be supported, the program will have no direct or indirect adverse impacts on indigenous peoples.

C. Special considerations and risks

- 2.3 Achieving the objectives set by the government in the PSDSB depends to a large extent on strengthening the sector institutions responsible for policy-making, oversight and control, and community development; providing adequate financing for investment programs to address coverage deficits in priority sectors; and ensuring that service providers are able to cover their operating and maintenance costs. These risks are mitigated inasmuch as adoption of the proposed reforms promotes the development of planning instruments that will help identify the priority investment areas in each region. Moreover, sector agencies will be strengthened and cost recovery plans will be implemented. In addition to providing cross-subsidies for residential users, the country has established a reduced rate for the very poor. The future rate policy will uphold this policy, thus guaranteeing the viability of the EPSAs. Implementation of the proposed structural changes will take time and will require the timely allocation of resources. This programmatic loan consists of two operations intended to ensure fulfillment of the planned activities and support implementation of corrective measures to achieve the proposed objectives. The commitments agreed upon for the first programmatic loan were exhaustively reviewed with officials at the participating entities, who have reiterated their commitment. Some policy matrix outputs were prepared with support from Bank-financed consultants; a similar arrangement is anticipated for the second programmatic loan. To mitigate the risk of nonfulfillment of commitments related to the programmatic operations, the Bank and the Government of Bolivia will agree upon a sufficient allocation of resources to ensure fulfillment of the commitments. The MMAyA will serve in a coordinator role to ensure effective fulfillment of the commitments established in the policy matrix.

III. PROGRAM IMPLEMENTATION AND MANAGEMENT

- 3.1 **Borrower and executing agency.** The borrower will be the Plurinational State of Bolivia, represented by the Ministry of Planning and Development. The executing agency will be the Ministry of Environment and Water (MMAyA), which will coordinate fulfillment of the policy matrix commitments and delivery as scheduled of the means of verification with the National Service for the Sustainability of Basic Sanitation Services (SENASBA), Environment and Water Executing Agency (EMAGUA), and the Water and Basic Sanitation Inspection and Societal Oversight Authority (AAPS). The MMAyA will be responsible for matters relating to: (i) sector planning, risk management, and climate change adaptation; (ii) organizational development and institutional strengthening of the Office of the Deputy Minister for Water and Basic Sanitation (VAPSB), Office of the Deputy Minister for Water Resources and Irrigation (VRHR), and the Water, Basic Sanitation, and Housing Units (UNASBVI); (iii) establishment of criteria and mechanisms for prioritization, allocation of resources, and cofinancing by subnational governments; and (iv) development of the performance evaluation framework. The AAPS will be responsible for matters relating to definition of the

- scope of inspection and regulation, its own institutional strengthening, and updates of the rate policy. The SENASBA will be responsible for design and implementation of the institutional strengthening policy, community development, professional and technical skills development, and its own institutional strengthening.
- 3.2 **Activity planning and preparation of a second operation** The MMAyA will be the technical body in charge of activities such as: (i) coordinating with the various government entities responsible for adopting measures or for technical execution of activities; (ii) monitoring progress and promoting fulfillment of program activities to ensure execution; (iii) serving as official interlocutor with the Bank regarding technical issues; (iv) preparing the requisite reports by the corresponding due dates and with the expected quality; and (v) anticipating and resolving strategic, technical, and coordination risks and problems relating to program execution.
- 3.3 The budget to fulfill the commitments associated with a second operation (Programmatic II) is approximately US\$1.7 million. A breakdown of costs and sources of financing for the program may be found under the Programmatic II Budget electronic link ([Programmatic II budget](#)). The sources of financing include US\$800,000 in technical cooperation funds from the Bank, US\$700,000 in funds from other cooperation agencies (the German, Swedish, and Swiss cooperation agencies KfW, SIDA, and SDC, respectively, and the European Union), and US\$200,000 in local contributions, which will be budgeted accordingly. The policy matrix describes the commitments for a second operation and the long-term scope of the program.
- 3.4 **Monitoring and evaluation.** The MMAyA will coordinate fulfillment according to schedule of the commitments corresponding to this first operation, in addition to all other commitments and the scope of the reform. It will be responsible for reporting on progress against the policy matrix and the results matrix, and delivering to the Bank the supporting evidence for the means of verification. The results matrix indicators will guide the evaluation of program implementation progress, and will be used for the final evaluation to be conducted upon completion of the last programmatic operation. The borrower and the Bank have agreed to monitor program execution through monitoring meetings on dates to be set by the executing agency and the Bank. The monitoring and the agreed upon trigger mechanisms will help determine when it is time to prepare the second programmatic operation ([electronic link](#)).
- 3.5 The program completion report will be prepared at the end of the second operation, within 90 days after the date of the last disbursement. It will evaluate the impact achieved by the two programmatic operations and the degree of compliance with the proposed objectives. The borrower has agreed with the Bank on the indicators and baseline for the final evaluation ([Results Matrix](#)) and will gather all the information needed for program monitoring and evaluation. It will also compile all information needed to assist the Bank in preparing the program completion report.

IV. POLICY LETTER

- 4.1 The Bank has agreed with the government on the policy letter, which describes the objectives and actions to be carried out during the programmatic series, reaffirming the government's commitment to the reforms and activities agreed upon with the Bank (see electronic link [policy letter](#)).¹⁵ The Bank has also agreed with the government on a policy matrix (Annex II) describing the policy commitments assumed under this program, and the results matrix and means of verification.

¹⁵ A draft policy letter is attached. The borrower will deliver the official letter to the Bank.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	(i) Lending to small and vulnerable countries, and (ii) Lending to support climate change initiatives, renewable energy and environmental sustainability.		
Regional Development Goals	(i) Incidence of waterborne diseases (per 100,000 inhabitants), and (ii) Countries with planning capacity in mitigation and adaptation of climate change.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	(i) Households with new or upgraded water supply, and (ii) Households with new or upgraded sanitary connections.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2631-1	i) Greater coverage of basic water and sanitation services in urban areas and ii) Greater coverage of basic water, and sanitation services in rural areas.	
Country Program Results Matrix	GN-2661-4	The intervention is included in the 2012 Country Program Document.	
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
	8.3		10
3. Evidence-based Assessment & Solution	7.0	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	6.4	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood		Low	
Environmental & social risk classification		B.13	
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: Budget and Treasury. Procurement: Information 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	Yes	Technical Cooperation: (ATN/OC-13227-BO).	
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.			

The program's goal is to help increase coverage and improve water services and sanitation in Bolivia by developing an institutional framework and a policy for managing these services and water resources. The program includes actions to: i) strengthen sector planning, ii) strengthen the organizational and institutional development of sector entities, iii) support the effective implementation of financial policies, and iv) develop monitoring and evaluation instruments.

The program has clearly identified the problems to be faced and the factors that contribute to the presence of such problems. The intervention logic is clear. The expected outputs and outcomes are specific and include SMART indicators for monitoring. These indicators have baselines and targets, but not all present the means of verification. A cost benefit analysis of the program has been carried out, which clearly identifies the expected benefits and costs, including a reasonable analysis of sensitivity.

The monitoring and evaluation plan includes mechanisms for the monitoring of indicators and specifies that, as part of program evaluation, an ex post economic analysis will take place.

Finally, the main risks to program implementation are identified, which have been classified as low.

POLICY MATRIX

Policy reform and objective	Reform outcomes	Program commitments		Long-term goals
		First operation	Second operation	
1. SECTOR PLANNING				
1.1 Water and sanitation investment planning. To improve water and sanitation investment planning at the national, departmental, and municipal levels, and to establish policy guidelines to ensure sustainability.	A Water and Sanitation Sector Development Plan that sets coverage targets for the different population segments, identifies investment programs, and quantifies the overall investment required to achieve these targets is monitored.	1.1.1 The Basic Sanitation Sector Development Plan (PSDSB) 2011-2015 is approved by the Ministry of Environment and Water (MMAyA).		National investments are planned, budgeted and executed in accordance with the guidelines established in the plan.
	Departmental Basic Sanitation Sector Development Plans that set coverage targets for the different population segments, identify investment programs, and quantify the overall investment needed to implement the plans are approved.	1.1.2 Guidelines for preparing the Departmental Basic Sanitation Sector Development Plans are approved.	The Departmental Basic Sanitation Sector Development Plans are approved by the MMAyA.	Departmental investments are planned, budgeted, and executed in accordance with the guidelines established in the plans.
	The methodology and scope to develop master plans based on technical, environmental, socioeconomic, financial, and institutional criteria are approved and being implemented.	1.1.3 Guidelines for developing the water and sanitation master plans for small and mid-sized cities are approved.	The water and sanitation master plans are approved by the Water and Sanitation Service Providers (EPSAs).	The infrastructure projects are designed and built in accordance with master plan specifications.
1.2 Establishment of policy and program guidelines to increase coverage – “programmatic approaches.” To produce development programs for each population segment to reduce coverage deficits and improve service delivery.	The programmatic approach, with the methodology and scope to prepare investment programs to expand and improve service delivery to periurban, small town, and rural population segments is in effect.	1.2.1 A sector-wide approach for water and sanitation for rural communities with less than 2,000 inhabitants and periurban communities with more than 10,000 inhabitants has been developed.	The programmatic approach is approved by the MMAyA minister.	The investment programs to increase coverage and improve service delivery are structured and executed in accordance with programmatic approach specifications.

Policy reform and objective	Reform outcomes	Program commitments		Long-term goals
		First operation	Second operation	
1.3 Inspection and regulation planning. To contribute to the proper planning of service inspection and regulation activities to ensure they are effective.	An operating and financial plan specifying inspection and regulation activities is approved.	1.3.1 Guidelines for defining the scope of inspection and regulation functions are approved by the Water and Basic Sanitation Inspection and Societal Oversight Authority (AAPS).	An inspection and regulation operating plan for each population segment is approved by the AAPS.	The inspection and regulation of water and sanitation services is performed by population segment.
1.4 Risk management planning. To contribute to the development and implementation of an institutional culture in the water resources sector based on risk management.	The methodology and scope to prepare investment plans and programs incorporating risk management is approved.	1.4.1 An intervention strategy for managing risks associated with water resource projects is approved by the MMAyA.	The risk management and climate change adaptation strategy is approved by the MMAyA and in implementation.	Risk management is fully integrated into the structure and execution of investment programs in the water resources and irrigation sector.
	The institutional system tasked with overseeing the effective incorporation of the risk management policy in the water resources and irrigation sector is in operation.	1.4.2 A proposal for the creation of a Risk Management Unit in the Office of the Deputy Minister for Water Resources and Irrigation (VRHR) is formulated.	The Risk Management Unit has an operating budget and is in operation.	Investment programs in the water resources and irrigation sector are planned and executed in compliance with the risk management policy under the supervision of the Risk Management Unit.

Policy reform and objective	Reform outcomes	Program commitments		Long-term goals
		First operation	Second operation	
2. ORGANIZATIONAL DEVELOPMENT				
2.1 Adaptation of the sector structure. To strengthen the organization and management capacities of sector entities responsible for policy-making, capacity-building, project execution, inspection, and regulation to ensure they adequately meet sector demands.	Organizational development and/or institutional strengthening plans including: (i) the creation of an organizational structure, professional profiles, and an organizational chart; (ii) manuals for functions and procedures, and organization systems and methods; and (iii) implementation schedule and budget have been implemented.	2.1.1 A proposal to strengthen the organizational structure of the Office of the Deputy Minister for Water and Basic Sanitation (VAPSB) is formulated.	The VAPSB Organizational Development and Institutional Strengthening Plans are approved by the MMAyA Minister.	Sector entities have an organizational structure commensurate with sector development demands and with sufficient skilled manpower, information systems, and organization and method systems to discharge their duties satisfactorily.
		2.1.2 A proposal to strengthen the organizational structure of the Office of the Deputy Minister for Water Resources and Irrigation (VRHR) is formulated.	The VRHR Organizational Development and Institutional Strengthening Plans are approved by the MMAyA Minister.	
		2.1.3 An interagency agreement to implement the second phase of the comprehensive program to strengthen the Environment and Water Executing Agency (EMAGUA) is signed by the MMAyA and the EMAGUA.	The EMAGUA Institutional Strengthening Plan, with an implementation budget.	
		2.1.4 An interagency agreement to implement institutional strengthening of the Water and Basic Sanitation Inspection and Societal Oversight Authority (AAPS) is signed by the MMAyA and the AAPS.	The AAPS Institutional Strengthening Plan, with an implementation budget.	

Policy reform and objective	Reform outcomes	Program commitments		Long-term goals
		First operation	Second operation	
		2.1.5 An interagency agreement for the institutional strengthening of the National Service for the Sustainability of Basic Sanitation Services (SENASBA) is signed by the MMAyA and the SENASBA.	The SENASBA Institutional Strengthening Plan, with an implementation budget.	
	Implementation of a capacity-building plan for the Water, Basic Sanitation, and Housing Units (UNASBVI) including: (i) methodology to assess existing capacities; (ii) identification of restrictions; (iii) training courses; and (iv) implementation schedule and budget.	2.1.6 A proposal to strengthen the UNASBVIs to assume the functions of receiving and evaluating projects is formulated by the MMAyA.	Capacity-building plan for the UNASBVIs so they can receive and evaluate water and sanitation projects, with an implementation budget.	The strengthened UNASBVIs (equipped and trained) receive and evaluate water and sanitation projects in accordance with sector policies.
	Decentralization of the following functions: (i) review and evaluation of departmental irrigation projects; (ii) processes to register and grant irrigation water use rights; and (iii) irrigation training and technical assistance.	2.1.7 At least five Departmental Irrigation Services (SEDERIs) are in operation.	SEDERIs with an operating budget established in all departments.	All projects are reviewed, evaluated, and assisted at the departmental level by the SEDERIs.
	The countrywide dam monitoring and control system is in operation.	2.1.8 A proposal to create a Dam Monitoring Unit under the VRHR is formulated.	Creation of the National Dam Registry. Dam Monitoring Unit created in the VRHR.	Dams throughout the country are supervised by a monitoring and control system.

Policy reform and objective	Reform outcomes	Program commitments		Long-term goals
		First operation	Second operation	
2.2 Management of the entities responsible for providing water and sanitation services. To develop capacity-building programs to improve service management, operation, and administration.	Guidelines to develop institutional strengthening plans for the entities responsible for the operation and maintenance of the urban and periurban water and sanitation infrastructure to meet their planning, technical, environmental, economic and financial capacity-building needs are prepared.	N/A	Plans to prepare institutional strengthening programs for the EPSAs are approved by the SENASBA.	The EPSAs are strengthened through the implementation of capacity-building plans prepared as directed by the guidelines.
2.3 Community Development. To help formulate community development programs at successive project cycle stages, so as to maximize the benefits of the newly constructed infrastructure.	Guidelines to activate community development at each step of the project cycle (before, during, and after execution of the investment projects), differentiated by population segment, are prepared.	2.3.1 Guidelines to institutionalize participatory social management mechanisms in the EPSAs are approved.	The guidelines for EPSAs to institutionalize community development are approved by the SENASBA.	The EPSAs achieve greater sustainability levels for the newly constructed infrastructure, and communities use the services properly.
		N/A	The guidelines for community development programs, differentiated by population segment during pre-investment and investment, are updated and approved by the SENASBA.	Infrastructure investments are designed and constructed taking account of community needs.
2.4 Development of Sector Capacities. To contribute to strengthening sector capacities to enhance service delivery efficiency.	Technical training schools are created and have training programs designed to meet the sector's training demand.	2.4.1 Sector training strategy known as the Plurinational Water School is approved by the SENASBA.	The Plurinational Water School, with an operating budget.	Service provider entity officials are trained in issues that will help improve service delivery.
		2.4.2 The National Irrigation School is created by the SENASBA.	The National Irrigation School, with an operating budget.	Experts and producers who are members of irrigation organizations are trained in techniques to manage irrigation systems and the use of water for agricultural production.

Policy reform and objective	Reform outcomes	Program commitments		Long-term goals
		First operation	Second operation	
2.5 Educational development. To contribute to the implementation of an education program to promote wise use of water, hand washing, and stewardship of water sources.	Environmental health education program systematized and part of primary and secondary school curricula.	2.5.1 The Environmental Health Education Program is approved by the SENASBA.	The Environmental Health Education Program is approved by the Education Ministry.	Primary and secondary school students receive environmental health education.
3. FINANCIAL POLICY				
3.1 Prioritization of investments. To help improve the public investment resource allocation system.	Criteria for the prioritization and allocation of resources to enforce the Investment Mechanism for Water and Sanitation Sector Coverage (MICSA) and the Basic Sanitation Investment Area Identifier are being applied.	3.1.1 A proposal to update the prioritization and resource allocation mechanisms in the Investment Mechanism for Water and Sanitation Sector Coverage (MICSA) framework is formulated by the MMAyA.	The prioritization and resource allocation mechanisms are approved by the MMAyA Minister and are in use.	Public investment resources are allocated efficiently.
3.2 Investment cofinancing To help increase sector investments.	Departmental cofinancing criteria are established that take into account, <i>inter alia</i> : poverty level of the beneficiary population, financial solvency of local governments, and existing coverage deficits.	3.2.1 A proposal to update the subnational government coparticipation structure in the MICSA framework is formulated by the MMAyA.	The MMAyA implements the structure for local government coparticipation in sector financing.	Water and sanitation investments are cofinanced by local governments.
3.3 Cost recovery. To contribute to the financial sustainability of the EPSAs so they are able to cover their operating and maintenance costs, thus ensuring service sustainability.	A rate policy to enable the EPSAs to generate sufficient resources internally to cover their operating and maintenance costs is approved.	3.3.1 Guidelines for updating the rate model and an implementation proposal to ensure the financial sustainability of socially progressive services are approved by the AAPS.	A socially progressive rate policy to ensure the long-term financial sustainability of EPSAs is approved by the AAPS and the MMAyA, and is in implementation.	The EPSAs have sufficient financial resources to guarantee their financial sustainability, combining socially progressive rates with transfers.

Policy reform and objective	Reform outcomes	Program commitments		Long-term goals
		First operation	Second operation	
4. MONITORING AND EVALUATION				
4.1 Performance evaluation. To contribute to the creation of a performance evaluation framework to monitor achievement of targets.	A performance evaluation framework with periodic output and management targets and indicators for the different intervention segments is approved.	4.1.1 A proposal for a performance evaluation framework for water and sanitation is formulated by the MMAyA.	The performance evaluation framework is approved by the MMAyA Minister.	Sector performance is evaluated against the performance evaluation framework.
		4.1.2 The performance evaluation framework for the National Watershed Plan is in operation.	The performance evaluation framework for the National Watershed Plan is updated by the VRHR.	Sector performance is evaluated against the performance evaluation framework.
4.2 Sector information. To contribute to the development of sector information systems to obtain timely and reliable data.	The Irrigation Information System is implemented.	4.2.2 Guidelines for designing the National Irrigation Information System are approved.	Regulations are issued and the National Irrigation Information System is implemented.	The VRHR monitors sector performance against the National Irrigation Information System.
	An integrated regulatory information system to monitor EPSA performance is implemented.	4.2.3 Guidelines for implementing the Integrated Regulatory Information System for Water and Basic Sanitation are approved by the AAPS.	The Integrated Regulatory Information System for Water and Basic Sanitation is approved by the AAPS and in operation.	The AAPS monitors EPSA performance based on the data they provide.
	The water and sanitation sector information system is in operation.	N/A	The information systems of all sector institutions are harmonized.	The sector has reliable and timely data.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/___

Bolivia. Loan ___/BL-BO to the Plurinational State of Bolivia.
Reform program for the water, sanitation, and water resource sectors in Bolivia

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 Plurinational State of Bolivia, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the reform program for the water, sanitation, and water resource sectors in Bolivia. Such financing will be for the amount of up to US\$62,400,000 from the resources of the Single Currency Facility of the Bank's Ordinary Capital, corresponds to a parallel loan within the framework of the multilateral debt relief and concessional finance reform 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/CAN/IDBDOCS#37039303
BO-L1074

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/___

Bolivia. Loan ___/BL-BO to the Plurinational State of Bolivia.
Reform program for the water, sanitation, and water resource sectors in Bolivia

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 Plurinational State of Bolivia, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a reform program for the water, sanitation, and water resource sectors in Bolivia. Such financing will be for the amount of up to US\$15,600,000 from the resources of the Bank's Fund for Special Operations, corresponds to a parallel loan within the framework of the multilateral debt relief and concessional finance reform 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/CAN/IDBDOCS#37039339
BO-L1074