

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **URUGUAY**

### **SMALL RURAL COMMUNITY WATER SUPPLY PROGRAM**

**(UR-X1007)**

### **GRANT PROPOSAL**

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## ABBREVIATIONS

ANEP	National Public Education Administration
AWP	Annual Work Plan
CODICEN	Central Steering Council [of the Education Ministry]
DINASA	National Water and Sanitation Directorate
DS	Sanitation Division
EMSP	Environmental and Social Management Plan
ESMR	Environmental and Social Management Report
IDB	Inter-American Development Bank
IMM	Municipal Government (Intendencia) of Montevideo
INE	National Statistics Institute
MGAP	Ministry of Livestock, Agriculture and Fisheries
O&M	Operation and maintenance
OFCAS	Office of the Cooperation Fund for Water and Sanitation in Madrid
OSE	State Sanitary Works Administration
OTC	Office of Technical Cooperation
PCU	Program Coordination Unit
SFW	Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean
URSEA	Energy and Water Services Regulatory Unit



## PROJECT SUMMARY

### URUGUAY SMALL RURAL COMMUNITY WATER SUPPLY PROGRAM (UR-X1007)

Financial Terms and Conditions				
<b>Beneficiary:</b> Obras Sanitarias del Estado [State Sanitary Works Administration] (OSE)  <b>Executing agency:</b> OSE			<b>Source of financing</b>	SFW
			<b>Amortization period:</b>	N/A
			<b>Grace period:</b>	N/A
			<b>Disbursement period:</b>	4 years
<b>Source (US\$ millions)</b>	<b>IDB</b>	<b>%</b>	<b>Inspection and supervision fee:</b> N/A	
IDB Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW)**	6.85	50	<b>Interest rate:</b> N/A	
<b>Local</b>	6.85	50	<b>Credit fee:</b> N/A	
<b>Total</b>	<b>13.70</b>	<b>100</b>	<b>Currency:</b> US dollars	
Project at a glance				
<b>Project objective/description:</b> The objective of the program is to help increase access to drinking water in the country's scattered rural communities so that families without these services may get them in the short term, thereby improving their quality of life. The project will help meet the millennium goals with respect to rural water supply and sanitation in Uruguay. The program is consistent with the sector goals of the IDB's Water and Sanitation Initiative and will help achieve the objectives set under the "3,000 rural communities" component of that initiative. It is also consistent with Spain's strategy, which is to support national efforts to promote poverty reduction, sustainable development, equity, and social cohesion, through action in five priority sectors: (i) democratic governance, citizen participation, and institutional support; (ii) meeting social needs; (iii) promoting the economic and entrepreneurial fabric; (iv) protecting the environment; and (v) gender and development issues.				
<b>Special contractual conditions precedent to the first disbursement agreed by the Bank and the Government of Spain:</b> (i) signature of the coordination agreement between the OSE and the Central Steering Council (CODICEN) (paragraph 4.1); (ii) establishment of the program coordination unit (PCU) for both the executing and the subexecuting agencies and appointment of the coordinator and the minimum work team needed for execution (paragraph 4.2); and (iii) entry into force of the Operating Regulations of the OSE and CODICEN and the Environmental and Social Management Plan, with the Bank's no objection (paragraph 4.5)				
<b>Exceptions to Bank policies:</b> None.				
<b>Procurement:</b> The procurement of goods and services and the contracting of consulting services will be governed by IDB policies contained in documents GN-2349-7 and GN-2350-7				
<b>Project qualifies as:</b> <div style="display: flex; justify-content: space-around; margin-top: 5px;"> <span>SEQ [ X ]</span> <span>PTI [ X ]</span> <span>Sector [ ]</span> <span>Geographic [X]</span> <span>Headcount [ ]</span> </div>				

\* The financing will consist of a grant from the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW)



## **I. BACKGROUND TO THE PROGRAM**

### **A. The water and sanitation sector in Uruguay**

- 1.1 The Republic of Uruguay is divided territorially into 19 departments. It has a total population of approximately 3.7 million, 93.3% of whom reside in urban areas, of which the capital city of Montevideo is the largest (1.27 million).
- 1.2 Estimates by the State Sanitary Works Administration (OSE) show that water supply coverage nationwide is 98%, and sanitation coverage 78%. The rural population represents 6.6% of the total, and has water supply coverage of 84% and sanitation coverage of 43%.
- 1.3 According to the 2004 census by the National Statistics Institute of Uruguay and the pilot survey conducted by OSE, 14% of the rural population lives in small, widely scattered settlements in conditions of extreme poverty. Although the country has a high rate of water supply coverage, in order to achieve the objective of 100% coverage it is focusing on water supply for these small, scattered communities and their schools.
- 1.4 The United Nations Millennium Development Objectives, adopted in September 2000, call for reducing by one half the percentage of people without reliable access to adequate water and sanitation services by the year 2015. For that year Uruguay has set the objective of 100% water supply coverage across the country.

### **B. Institutional structure**

- 1.5 The State Sanitary Works Administration (OSE) is the government-owned enterprise responsible for providing water service throughout the country, as well as for sanitation service through public systems in all departments of the country with the exception of the capital city, Montevideo, where this service is the responsibility of the municipal government.
- 1.6 The Central Steering Council (CODICEN) is the senior policy-setting body within the National Public Education Administration (ANEP). CODICEN has an Infrastructure Division which is responsible for designing and supervising works and overseeing the physical and financial execution of maintenance and repair works, integral recycling, expansions, new works, and the replacement of education buildings. This department also coordinates with the Decentralized Councils and the Teacher Training and Professional Development Division to determine the priority of works to be carried out each year.
- 1.7 The Ministry of Livestock, Agriculture, and Fisheries (MGAP), through its General Directorate for Rural Development, works with the most disadvantaged rural population groups, facilitating their access to financing and their entry into the productive chains. In this context, the MGAP activities complement those of OSE under an agreement to develop areas of coordination and joint activities to provide drinking water to the most vulnerable rural population.
- 1.8 **Sectoral functions.** The water and sanitation sector in Uruguay comprises a policymaking body (National Water and Sanitation Directorate, DINASA); a



regulatory body (Energy and Water Services Regulatory Unit, URSEA); two public service providers, the OSE and the Sanitation Division (DS) of the Municipal Government (*Intendencia*) of Montevideo (IMM). Service delivery is the responsibility of the OSE, with the exception of sanitation service in Montevideo, which falls to the IMM. Policy formulation is now done for the most part through OSE and IMM, but with passage of the National Water Act, DINASA is now being groomed to assume its proper role in policy formulation.

### **C. Service delivery**

- 1.9 In October 2004, by a national referendum approved by 64% of the population, Article 47 of the National Constitution was introduced, declaring that water and sanitation services are fundamental human rights for all citizens, and that those services must be provided exclusively by the State, thus placing social considerations on a par with economic ones.
- 1.10 The OSE is a national enterprise that contributes, through sustainable and participatory management, to protecting life, health, economic and social development, and environmental sustainability, through the provision of high-quality water to all inhabitants of the country, and consequently responsibility for meeting this objective applies to rural areas as well.
- 1.11 The problem of water supply in small rural communities has been addressed in a haphazard fashion by various State agencies. Many experiments have been pursued to resolve the rural water supply problem, but in the absence of permanent institutional support, those experiments have in due course failed.
- 1.12 Through the OSE, the Uruguayan government is now taking a comprehensive approach to service delivery in rural areas. The OSE is heading up the effort, which involves not only local residents but all institutions that are involved in one way or another in the rural sector.
- 1.13 The OSE began this effort with some pilot experiments which showed that, if water systems are to be sustainable, the program must be centered on the rural schools, which exist in nearly all communities and in most cases constitute the State's only institutional presence. The rural school also plays a very important role in social integration and in coordinating participatory initiatives. The pilot experiments showed that the best approach to assuring water supply was to begin with a public standpipe, followed by individual home connections in a subsequent stage. They showed as well that involvement of local residents was essential for making the services sustainable.

### **D. The sector policy and strategy of Spain and of the Bank**

- 1.14 The principle thrusts of the sector policy are to raise coverage levels to 100%, especially in rural areas; to modernize and strengthen the operational and financial aspects of service delivery; and to strengthen the institutional framework for policymaking.



- 1.15 In poor and extremely poor rural areas, the government finances 100% of investments. System operation and maintenance (O&M) is the responsibility of the OSE, with direct community oversight. The OSE is authorized to levy a collective charge to cover O&M costs. If the proceeds from that charge are not sufficient, the OSE covers O&M costs from its operating revenues.
- 1.16 **The IDB country strategy with Uruguay.** This program is consistent with the IDB country strategy with Uruguay, inasmuch as it seeks to improve the quality of life in the communities that will benefit from program-financed investment. In particular, it addresses poverty reduction, by expanding water service coverage and improving water service.
- 1.17 The program is consistent with the sector goals of the IDB's Water and Sanitation Initiative (GN-2446-1) and will help achieve the objectives set under the "3,000 rural communities" component of that initiative.
- 1.18 **Strategy of the Spanish government in Uruguay.** This program is consistent with Spain's strategy for Uruguay. The objective of the Spanish cooperation agency in Uruguay is to support national efforts and those of other international cooperation agencies to promote poverty reduction, sustainable development, equity, and social cohesion. This strategy seeks to introduce a policy to support national poverty reduction strategies in five priority sectors: (i) democratic governance, citizen participation, and institutional support; (ii) meeting social needs; (iii) promoting the economic and entrepreneurial fabric; (iv) protecting the environment; and (v) gender and development issues. This project will contribute to all priority sectors, particularly the ones relating to social needs, which includes water supply among its lines of activity. In addition, the IDB and the Spanish government, through the Office of the Cooperation Fund for Water and Sanitation (OFCAS) have agreed on the terms and conditions for creating the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW). The Fund is intended to help finance projects, programs and activities that will accelerate the economic and social development, individually and collectively, of IDB member countries in Latin America and the Caribbean, in all matters relating to water and sanitation, in order to help these countries achieve the relevant Millennium Development Goals. The specific objectives of the fund are to expand access to water by ensuring sustainable use of natural resources, extending basic sanitation services, promoting a comprehensive approach to water resource management, and strengthening water sector governance through transparent and participatory management.

**E. Program design**

- 1.19 This program will support the government, through the OSE, in its efforts to assure water supply to small, scattered rural communities and their schools, thereby helping to achieve the 100% nationwide water supply target.
- 1.20 The program will target the 14% of the rural population that lacks secure access to safe drinking water (paragraph 1.3) and is thus exposed to risks to its health and



well-being. A secure source of water is considered essential for reducing health risks and improving living conditions among this, the country's poorest population group. By reducing health risks, the program will have positive social and economic impact, including a reduction in waterborne diseases, lower health costs, and better productivity and school performance.

- 1.21 Based on lessons learned from the pilot experiments (paragraph 1.13), the program will focus on rural schools, so as to maximize the benefits of installed water supply capacity and introduce education in hygiene and water care and use. It will stress the installation of neighborhood stand pipes, placed to ensure that no dwelling is more than 200 m from a water source.
- 1.22 Within the schools, the program will rehabilitate water and sanitation infrastructure and ensure proper management of wastewater so as to eliminate any health risk and give students access to water that is safe for drinking and for preparing food, while offering appropriate sanitation services and fostering sound hygiene habits.
- 1.23 The program is consistent with the objectives of the Bank's Public Utilities Policy (OP-708) and its operating guidelines, and will help promote long-term service sustainability, achieve economic efficiency, safeguard quality, and promote access.

## **II. OBJECTIVE, EXPECTED OUTCOMES, COMPONENTS AND COST**

### **A. Objective**

- 2.1 The objective of the program is to help increase access to water service in the country's scattered rural communities so that families without such service may get them in the short term, thereby improving their quality of life. The project will help meet the millennium goals with respect to rural water supply and sanitation in Uruguay.
- 2.2 The purpose of the program is to serve the 14% of the rural population who are most dispersed and exposed to health risks associated with lack of safe drinking water.

### **B. Program components**

- 2.3 The program has three components that involve making sustainable investments, giving beneficiaries ownership over the projects, and making efficient use of invested resources.
- 2.4 **Component I.** Investments in water supply. This component will build water supply systems in rural communities that meet the eligibility and priority criteria established for the program. It will finance preinvestment studies, designs, infrastructure works, and works supervision.
- 2.5 **Component II.** Investments in school sanitation systems. This component will rehabilitate water and sanitation infrastructure in schools and rehabilitate or construct individualized sanitation solutions for schools where current facilities



present a health risk. It will finance infrastructure works, pre-investment studies, designs, and works supervision.

- 2.6 **Component III.** Community development and institution building. This component will help improve OSE's management and that of other agencies involved in the program area, such as MGAP and the municipal government. It includes support, technical assistance and training. It will also develop an institutional scheme within the OSE for providing social support to beneficiary communities, including health education, use and care of installed infrastructure, payment of water rates, efficient use of water, and protection of water resources. This component will defray the costs of hiring people to run the education workshops, consulting services, studies for developing the institutional scheme, training activities, and materials and equipment.

**C. Cost and financing**

- 2.7 The total cost of the program will be US\$13,700,000, of which 50% will be financed by the IDB from the Spanish Fund for Water (SFW) and the other 50% will represent the local counterpart, which includes contributions from the OSE. The local counterpart calls in turn for contributions from CODICEN. Presented in the following table are the program costs and financing by source:

**Table II-1 (US\$000s)**

CAT.	DESCRIPTION	IDB SWF	LOCAL	TOTAL	%
<b>1</b>	<b>Program administration</b>	<b>-</b>	<b>700</b>	<b>700</b>	<b>5.11</b>
1.1	Investment administration		350	350	2.55
1.2	Monitoring and evaluation		150	150	1.09
1.3	Operational and financial audit		200	200	1.46
<b>2</b>	<b>Components</b>	<b>6,850</b>	<b>6,150</b>	<b>13,000</b>	<b>94.89</b>
2.1	Water supply	5,200	5,100	10,300	75.18
2.2	School sanitation facilities	750	750	1,500	10.95
2.3	Community development and institution building	900	300	1,200	8.76
<b>3</b>	<b>Financing costs</b>	<b>-</b>	<b>-</b>	<b>-</b>	
3.1	Interest	-	-	-	
3.2	Credit fee	-	-	-	
3.3	Inspection and supervision fee	-	-	-	
	<b>TOTAL</b>	<b>6,850</b>	<b>6,850</b>	<b>13,700</b>	<b>100.00</b>
	Percentage	50	50	100	

- 2.8 The Bank may recognize as part of the local counterpart financing expenses to a maximum of US\$500,000 that OSE has already incurred in respect of rural water systems built prior to approval of the present operation, provided that the outlays were incurred after 15 April 2010, the date on which the project profile was



approved, that they meet the program eligibility criteria, and that procurement procedures similar to Bank procedures were used.

#### **D. Results matrix and key indicators**

- 2.9 Annex II presents the Results Matrix, describing the principal outputs and outcomes of each program component. As part of the Water and Sanitation Initiative, the program will deliver water services to 355 rural communities, benefiting some 24,000 people (approximately 8,000 families). The program will also improve sanitation facilities in a similar number of schools, benefiting some 3,200 students. As well, at least 4,000 people will be trained in water use and care and in proper hygiene practices.

### **III. FINANCING STRUCTURE AND MAIN RISKS**

#### **A. Financial instruments**

- 3.1 The SFW financing will be nonreimbursable. The execution period, grace period, and disbursement period will be up to four years. The local counterpart contribution will be financed by the OSE and CODICEN, and will be guaranteed by the Republic of Uruguay. The program will be governed by Operating Regulations (paragraph 4.5). The disbursement schedule appears in table III-1.

<b>Year</b>	<b>Local Contribution</b>	<b>SFW</b>	<b>TOTAL</b>	<b>%</b>
<b>1</b>	1.3	1.3	<b>2.6</b>	19.0
<b>2</b>	1.8	1.8	<b>3.6</b>	26.3
<b>3</b>	2.15	2.15	<b>4.3</b>	31.4
<b>4</b>	1.6	1.6	<b>3.2</b>	23.4
<b>TOTAL</b>	<b>6.85</b>	<b>6.85</b>	<b>13.7</b>	<b>100</b>
<b>%</b>	50	50	<b>100</b>	

#### **B. Environmental and social risks and mitigation measures**

- 3.2 The program projects will have a positive social and environmental impact, and will improve the quality of life for the beneficiaries, in particular by reducing waterborne diseases and child mortality rates. The program will reduce the time that women, in particular, must spend carrying water, allowing them to devote more of their day to productive activities or to education, as has happened in some communities. The program is designed to ensure that communities are fully informed about the implications of the projects and that they are involved in decisions on project design and execution. To this end, the preinvestment phase will include consultation and discussion with the community, conducted by the OSE with the support of the MGAP, which has engaged in similar activities under the Uruguay Rural Project.
- 3.3 Given their nature, however, the works may cause moderate, localized, and short-term environmental and social impacts, for which effective mitigation measures will be taken, primarily during the construction phase. As part of program preparation, pursuant to the Bank's Environment and Safeguards Compliance Policy (OP-703), an environmental and social assessment of the program was



conducted, and an environmental and social management plan (ESMP) formulated (see [link](#)). In accordance with OP-703, the project team classified the proposed operation as Category B, which includes operations that are likely to cause mostly local and short-term negative environmental and social impacts, and for which effective mitigation measures are readily available.

- 3.4 The environmental impacts generated by a given project depend in part on the specific features of that project, as well as on the features and vulnerability of the social and environmental setting in which the project will be implemented. The environmental assessment identified the most material environmental impacts that the projects would cause, and the mitigation measures that should be taken. It was the adverse impacts that were primarily taken into account, since the positive impacts on health, the environment, and the quality of life justify the program's viability and sustainability and require no further analysis. The mitigation measures for the direct environmental impacts caused by the projects to be financed by the program will be included in the bidding documents and terms of the competitive bidding process for the works, and will be the direct responsibility of the contractor under the supervision of the program coordination unit (PCU). Indirect environmental impacts will be mitigated through the implementation of the environmental and social strategy described in the ESMP, which will indicate the measures to be taken and the party responsible.

### C. Key issues and risks

- 3.5 **Institutional issues.** The OSE and CODICEN have experience in implementing programs with the IDB and other multilateral institutions. The OSE handles sizable budgets and has experience in executing works contracted with the private sector. According to a recent institutional analysis of the OSE and CODICEN as part of loans 2095/OC-UR and 1361/OC-UR, both have a solid capacity to execute their budgets, and the capacity to conduct the procurement process, administer the financial resources, and apply the necessary internal and external controls. The October 2008 OSE institutional analysis performed during preparation of operation 2095/OC-UR has been updated, and it has been confirmed that all observations made at that time have been addressed (see [link](#)).
- 3.6 **Engineering issues.** The solutions to be implemented in connection with the program involve simple water supply systems, most of which are pump-operated<sup>1</sup>, with chlorination systems to disinfect the water, and using standpipes without household connection. The OSE has standard designs<sup>2</sup> developed in light of past experience with small-scale interventions of this kind (each system supplies between 10 and 15 homes and the community school). The scale and costs and OSE's engineering practices were analyzed on the basis of a sample of 27 projects

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<sup>1</sup> In most cases the existing infrastructure in the schools will be used. In a few cases there is access to an existing network.

<sup>2</sup> OSE has designed five standard solutions, as specified in the technical analysis.



that were built by OSE in 2009 and that are representative of the standard solutions used. The technical analysis presents an additional sample of 110 projects at various stages of design and includes information on costs, population, dwellings, type of system proposed, and location. The school sanitation systems would use different options for the treatment and disposal of wastewater, for which CODICEN has standard designs. CODICEN interventions are always conducted after the OSE has completed its own work, so as to ensure the best location of the individual solution vis-à-vis the water source. In addition, interventions within the schools will include upgrades to water and sanitation facilities so that students can make effective use of water and sanitation services (see [link](#)).

- 3.7 **Economic viability.** The program will be developed as a global water and sanitation multiple works program for rural communities. Based on average per capita income data provided by the National Statistics Institute (INE) and a cost analysis of similar projects executed by OSE in 2008 and 2009, updated to the first quarter 2010, a maximum cost (investment plus O&M) of US\$670 per person for drinking water projects and US\$329 per person for sanitation projects was established as a benchmark for evaluating projects under the program. Projects where the per-person cost is less than or equal to this amount are socially and economically viable. This parameter will be updated upon completion of the technical studies of a sample of projects to be financed by the program, in order to ensure that viable projects will not go without financing. The details of this analysis are presented in the [link](#). An execution condition will be a commitment to cover O&M costs.
- 3.8 In those special circumstances where the water supply system is used only by the school, the cost per student is high, primarily because the number of students is low (between 6 and 20) and the water source in these areas is usually groundwater. For these cases only, and recognizing that providing these children with a safe water source will generate positive externalities that cannot be fully quantified, a project may be deemed eligible provided its costs are lower than those of the alternatives analyzed.
- 3.9 **Rural water rates.** The government-approved rates set for the OSE in 2010 provide that water service supplied through standpipes with a general meter for residential use in a rural area with participatory community management will be billed taking into account the difference between the general meter reading and the total number of dwellings. When the difference is up to 15 m<sup>3</sup> per dwelling the variable and fixed rate will be UR\$26.45. Amounts in excess of 15 m<sup>3</sup> per dwelling will be billed in accordance with the prices of the corresponding blocks of the Montevideo and Interior residential rate, which is higher.
- 3.10 **Ability to pay.** The effects on family income of paying for the service at the current OSE rates were analyzed. Taking an average payment of 26.45 pesos per month and using the data on income distribution in the program areas, it was found that payment for water service does not exceed 3% of the average monthly family income.



- 3.11 **Social equity, poverty reduction and distributive impact.** This operation qualifies as a social equity and enhancing project (SEQ) as described in the indicative targets mandated by the Bank's Eight Replenishment (document AB-1704). It qualifies as a poverty-targeted investment (PTI), based on geographic criteria: 100% of beneficiaries live in rural areas.
- 3.12 **Financial issues.** The financial capacity of the OSE is sufficient to shoulder the operating deficit that the program would represent. This deficit amounts to 0.37% of EBITDA and 1% of the average annual cash flow for the last three years. The annual operating deficit that the program would generate is approximately US\$187,000. Total revenues from water billings<sup>3</sup> are projected at US\$20,000, and O&M costs are estimated at US\$207,000. The OSE's revenues expressed in December 2009 dollars are US\$263.32 million and its EBITDA is US\$84.57 million. It was agreed with the OSE that the water systems to be financed by the program will produce operating revenues from water rates (paragraph 3.9) sufficient to cover costs of operation, maintenance, administration and replacement of assets over the short term, and that the collection rate will be at least 80% of total billings. These targets are expected to be achieved by the second year of operation of the new water systems, and will be monitored in each of the communities on an annual basis. The OSE is committed to charging for services in all beneficiary communities and to ensure that the systems are properly operated and maintained. If operating revenues in any community are not sufficient to cover O&M costs, the OSE will finance the shortfall from its own funds or take such steps as are necessary to recover O&M costs through billings. When it comes to sanitary works in the schools, O&M costs will be covered by the principal of each school with funds from the CODICEN budget.

#### IV. IMPLEMENTATION AND MANAGEMENT PLAN

##### A. Execution arrangements

- 4.1 **Executing and subexecuting agency.** The executing agency for the program is the OSE, a decentralized service of the Ministry of Housing, Land Planning, and Environment. The OSE will be responsible to the SFW and the Bank for administration of the grant proceeds and will also coordinate all program-related technical and operational activities during program execution and monitoring, including keeping proper accounting records of resources and complying with the Operating Regulations for the sanitation component. **As a condition precedent to the first disbursement, a coordination agreement must have been signed between OSE and CODICEN.** CODICEN will be responsible for implementing and monitoring the activities agreed for the component including keeping proper accounting records of resources and complying with Operating Regulations for the sanitation component.

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<sup>3</sup> The charge for standpipe water service is UR\$25.64 per family.



- 4.2 **Program Coordination Unit.** The OSE will establish a PCU for program execution and appoint a coordinator who will report to the Bank to handle execution. The coordinator will be supported by a senior management team responsible for the project cycle, supervision of construction works, and environmental and social matters. The team of senior professionals will comprise at least a sanitation engineer, an accountant, two social workers, and a procurement specialist. Under the execution arrangements, program funds may be used for 18 months to pay for support staff in the social area; such would then be absorbed by the OSE. CODICEN will set up a subexecuting agency comprising at least three specialists: a coordinator and two sanitary engineers. Eligibility for funds under this component will be subject to the condition that CODICEN must demonstrate it has assigned the staff responsibility for executing the component. **A condition precedent to the first disbursement will be the establishment of the PCU for both the executing and the subexecuting agency, and appointment of the program coordinator and the minimum work team needed to execute the operation.**
- 4.3 **Project cycle.** In rural communities, the project cycle will be divided into four stages: (i) Dissemination of the program, to provide information and communicate the objectives and scope of the program. In this stage, the OSE will hold workshops in different regions of the country to publicize and communicate the main features of the program; (ii) Preinvestment, to select the communities that will benefit from the program and prepare the projects to be financed. The OSE will perform this activity in coordination with the MGAP. In this stage: (a) the eligibility of the communities will be reviewed, (b) the scope of the project will be agreed with the communities through a participatory process, (c) the detailed designs for the projects will be prepared, (d) support activities will be identified for community organizations in sanitation issues. This stage will conclude with the presentation of the final designs to the community; (iii) Investment, to build the water systems, to strengthen the community and to rehabilitate school sanitary facilities. In this stage, the OSE will be responsible for the bidding, procurement, and execution processes and the payment of works certificates. It will also be responsible for supervision or inspection of the construction projects, while monitoring execution of the community strengthening component. In this same stage, CODICEN will be responsible for procurement, execution, and inspection of sanitary works construction within the schools. Community strengthening activities will be carried out by the OSE jointly with the MGAP (paragraph 1.7); and (iv) Operation and maintenance, to guarantee the sustainability of the systems. In this stage, the OSE will operate and maintain the systems through its regional offices.
- 4.4 **Priority-setting and eligibility criteria.** The eligibility criteria are as follows: (i) the rural community must be dispersed; (ii) there must be a rural school within 5 km; (iii) drinking water must be lacking in the schools and in the community; (iv) the per capita efficiency cost must be below US\$670 for drinking water and US\$329 for sanitation; and in specific cases where the water supply system is for school use only, a project may be deemed eligible provided its costs are lower than



those of the alternatives analyzed<sup>4</sup>. Sanitation interventions will be eligible when: (i) sanitary facilities need to be repaired or replaced; (ii) the intervention is undertaken in the school after the OSE has completed an intervention financed with program funds; and (iii) CODICEN has presented the final designs of the works to the Bank. The priority-setting criteria include: (i) sanitary risk identified based on the status of water and sanitation infrastructure and pollution of the water source from wastewater; and (ii) the order in which applications are received.

- 4.5 **Operating regulations.** The program will be governed by the Operating Regulations of the executing agency (OSE) (see [link](#)) and the Operating Regulations of the subexecuting agency (CODICEN) (see [link](#)), which establish eligibility and selection criteria, the organization, responsibilities, and procedures of the PCU and the participating entities, and compliance with the environmental, technical, labor, and social regulations of Uruguay as well as with Operational Policies OP-703, OP-704, OP-102, and OP-765. The Operating Regulations will include: (i) a description of the program, its purpose, objectives, and components; (ii) the structure and organization of the PCU, including its organizational chart, functions, and procedures; (iii) a description of each stage of the project cycle; (iv) terms and conditions of the financing, and the bidding, procurement, and disbursement conditions; (v) monitoring and evaluation; and (vi) the environmental and social management plan (ESMP). The annexes to the Operating Regulations will include the profiles and terms of reference for contracting the consulting services, bidding documents for works, contracting of PCU staff, and other model documents for the project cycle. The scope of the Operating Regulations was agreed upon during the preparation of the loan with the OSE and CODICEN. It was agreed that a clause would be included in the loan contract, whereby the OSE and CODICEN undertake that the Operating Regulations will be in force prior to the first disbursement. **Entry into force of the Operating Regulations for the OSE and CODICEN and the environmental and social management plan, with the Bank's no objection, will be a condition precedent to the first disbursement.**
- 4.6 **Coordination with the Technical Office for Cooperation (OTC).** The Bank will coordinate and consult with the OTC on matters related to project execution, in accordance with the technical framework document and the SWF Operating Regulations (document OP-207) and the working agreements between OFCAS and the Bank with respect to coordination during the project cycle. The Operating Regulations for this program will specify how the Government of Spain will participate in project execution through the OTC.

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<sup>4</sup> The analysis of alternatives for each system will consider as the first option the rehabilitation or upgrade of the school well. If that well does not have sufficient capacity for the school's needs, an alternative source will be sought. Only when hydrogeological studies show that flows are inadequate to meet the project's supply objectives will an alternative location outside the school area be sought for the well.



## **B. Procurement of goods and services**

- 4.7 **Procurement.** Works, goods, and consulting services financed, in whole or in part, with the loan proceeds will be procured in accordance with Bank policy documents GN-2349-7 and

<b>Table IV-1</b>	
<b>Thresholds for International Competitive Bidding</b>	
Works	US\$3,000,000 or more
Goods	US\$250,000 or more
Consulting services	US\$200,000 or more

GN-2350-7. The thresholds recommended for international competitive bidding are based on assessments of the institutional capacity of OSE and CODICEN. Program procurements will be subject to ex ante review, except as otherwise provided in the procurement plan. Ex post reviews will be conducted at least every six months, and the executing agency's capacity will be rated annually, based on the judgment of a procurement specialist at the Country Office. All procurements to be made during a given period must be included in the procurement plan approved by the IDB, and will follow the methods and ranges established therein. The OSE and CODICEN will agree with the Bank on a procurement plan for the first 18 months of execution.

- 4.8 Works will be constructed under contracts with engineering firms specializing in the particular type of project. Works construction will be supervised by the OSE or by CODICEN, as appropriate, and these institutions may hire consultants to support the supervision of works and studies. The costs required for execution and supervision will be included in the program budget.
- 4.9 **Funding advance.** Funds may be advanced to cover estimated payments for between three and six months, considering expenses of the OSE as well as CODICEN. Justification and replacement of funds will be done when 80% of the previous advance has been spent.

## **C. Program monitoring and evaluation**

- 4.10 **Monitoring and evaluation.** The proposed monitoring and evaluation system will be based on the Bank's supervision toolkit, in order to ensure smooth and efficient execution. The proposed system will include: (i) the procurement plan (Annex III); (ii) the annual work plan (AWP); (iii) verification of compliance with the targets established in the Results Matrix (Annex II); and (iv) the semiannual reports of the OSE and CODICEN, which include progress with the AWP, the results obtained from execution of activities, and an action plan for the following three months, which will include any corrective actions needed to improve program performance. Program progress will be evaluated against the indicators in the Results Matrix (Annex II). The OSE and CODICEN will be responsible for monitoring and evaluating the projects financed, for which purpose they may engage independent consultants previously approved by the Bank, and they will compile data for evaluating compliance with program goals.



- 4.11 The Bank and the Government of Spain will be involved in the following stages of the project cycle: (i) program dissemination; (ii) preinvestment: the OSE and CODICEN will submit a project profile to the Bank for information, confirming that the eligibility criteria have been met; (iii) investment: before the competitive bidding process, the OSE and CODICEN will submit the bidding documents to the Bank for its no objection; and (iv) post-investment: the Bank will perform an evaluation 18 months after the effective date of the loan contract, and a second evaluation six months before program completion.
- 4.12 **Operation and maintenance.** The works financed and built with program resources will be operated and maintained by the OSE, for the water systems, and by CODICEN, for the sanitation works.
- 4.13 **Audits and inspections.** The OSE, as program executing agency, will present audited consolidated financial statements (for OSE and CODICEN) each year during project execution; each institution will be responsible for its own financial statements. The OSE will be responsible for the consolidated statement and its submission to the Bank.
- 4.14 **Ex post evaluations.** The OSE and CODICEN will compile the data necessary to evaluate the attainment of the program targets, which may be used to evaluate the efficiency and effectiveness of the program in terms of achieving the stated objectives and building upon the lessons learned.



## **RURAL WATER AND SANITATION PROGRAM**

**UR-X1007**

### **CERTIFICATION**

I hereby certify that this nonreimbursable investment operation was approved for financing under the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW) at the 6 October 2009 and 24 June 2010 meetings of the Executive Committee of Spain's Cooperation Fund for Water and Sanitation (FCAS) through a letter dated on 24 June 2010 and signed by Ms. Carmen Fuente, Director of the FCAS Office of the Spanish Agency for International Development Cooperation (AECID) of the Ministry of Foreign Affairs and Cooperation.

Also, I certify that resources from the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW) are available for up to US\$6,850,000 (six million eight hundred and fifty thousand United States dollars) in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of 12 (twelve) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be regarded as cancelled, and signature of a new certification will be required to renew the reserve. The commitment and disbursement of these resources shall be made only by the Bank in United States dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own country, who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified hereinabove for the implementation of this nonreimbursable investment operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

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Marguerite S. Berger  
Chief  
Grants and Cofinancing Management Unit  
VPC/GCM

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Date



**Development Effectiveness Matrix  
Summary**

Indicator	Score	Maximum Score
<i>I. Strategic Relevance</i>	Low-High	
<b>1. IDB Strategic Development Objectives</b>	<b>7.0</b>	<b>10</b>
Country Diversification	2.0	2
Corporate Initiatives	2.5	2.5
Harmonization and Alignment	0.5	3.5
Beneficiary Target Population	2.0	2
<b>2. Country Strategy Development Objectives</b>	<b>3.4</b>	<b>10</b>
Country Strategy Sector Diagnosis	1.8	6
Country Strategy sector objective & indicator	1.6	4
<i>II. Development Outcomes - Evaluability</i>	Satisfactory	
<b>3. Evidence-based Assessment &amp; Solution</b>	<b>7.4</b>	<b>10</b>
<b>4. Evaluation &amp; Monitoring Plan</b>	<b>5.8</b>	<b>10</b>
<b>5. Cost-Benefit or Cost-Effectiveness</b>	<b>7.0</b>	<b>10</b>
<b>6. Risks &amp; Mitigation Monitoring Matrix</b>	<b>7.5</b>	<b>10</b>
<i>III. IDB's Role - Additionality</i>		
<b>7. Additionality</b>	<b>10.0</b>	<b>10</b>
Technical Assistance provided prior the project	3.0	3
Improvements in management of financial, procurement, monitoring or statistics internal controls	4.0	4
Improvements in environmental, health and labor performance	3.0	3

**I. Strategic Relevance:** This operation is an investment loan and it is being executed in Uruguay, considered a Group C&D country. Its objective is consistent with the Bank's Water and Sanitation initiative. The project will promote social equity and targets the very poor in rural areas. The use of national environmental systems is envisaged.

**II. Evaluability:** The problems the projects seeks to address are clear, with sound empirical evidence. The project documents the lessons learned in other similar projects and how these lessons have informed the design of the present operation. The intervention logic is equally clear. The project has established indicators to monitor and evaluate the anticipated outcomes and outputs. Also, the project has a specific monitoring and evaluation plan, and an economic analysis. The project has been accorded a risk rating of B; the principal social and environmental risks have been identified as have the required mitigation measures, but no indicators have been established that would make it possible to follow up on implementation of those mitigation measures.

**III. Additionality:** Implementation of the project will help improve the executing agency's monitoring systems and strengthen the entity as an institution.



**RESULTS MATRIX**  
**TABLE OF INDICATORS**

<b>Objectives</b>	The objective of the program is to increase access to drinking water in the country's scattered rural communities so that families without such service may get them in the short term, thereby improving their quality of life.		
	<b>Base</b>	<b>Target</b>	<b>Comments/Mean of verification</b>
Drinking water coverage rate in rural areas	<b>84%</b>	<b>100%</b>	INE National Census
Percentage of program beneficiary families devoting less than 15 minutes to water retrieval	<b>0</b>	<b>100</b>	Information from the socioeconomic survey

<b>Drinking water supply</b>									
	<b>Base line</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Target</b>	<b>Comments/Mean of verification</b>	<b>Frequency</b>	<b>Responsibility center</b>
<b><u>Outputs</u></b>									
Number of water systems designed	0	100	100	100	55	355	Information compiled by OSE from semiannual progress reports	Semiannual	OSE
Number of water systems built or rehabilitated	0	100	100	100	55	355	Information compiled by OSE from semiannual progress reports	Semiannual	OSE
<b><u>Outcomes</u></b>									
Number of residents with improved access to water (community water supply via standpipes)	0	3600	6800	6800	6800	24000	Information from OSE regional technical offices, included in the semiannual progress report	Semiannual	OSE
Number of systems delivering water in quantity and quality consistent with design specifications (OSE Internal Standard 2006)	0	55	100	100	100	355	Information from OSE regional technical offices, included in the semiannual progress report	Semiannual	OSE



School sanitation facilities									
	Base line	Year 1	Year 2	Year 3	Year 4	Target	Comments/Mean of verification	Frequency	Responsibility center
<b>Outputs</b>									
Number of sanitation works designed	0	100	100	100	55	355	Information from CODICEN architects in departments, included in the semiannual progress report	Semiannual	CODICEN
Number of sanitation works built	0	100	100	100	55	355	Information from CODICEN architects in departments, included in the semiannual progress report	Semiannual	CODICEN
<b>Outcomes</b>									
Number of schools with satisfactory sanitation facilities (septic tank and upgraded hydro-sanitary facilities within the school: toilet, wash basin, kitchen sink)	0	100	100	100	55	355	Information from CODICEN architects in departments, included in the semiannual progress report	Semiannual	CODICEN

  

Community development and institution building									
	Base	Year 1	Year 2	Year 3	Year 4	Target	Comments/Mean of verification	Frequency	Responsibility center
<b>Outputs</b>									
Community training workshops; health education in hygiene, use and care of facilities, payment of water rates, efficient use of water, and protection of water resources	0	200	200	200	110	710	Initial MGAP report and OSE activities report. To be included in the semiannual progress report	Semiannual	MGAP/OSE
Diagnostic study and institutional design within the OSE for providing social support to rural communities		T, E	E, I	I			Study commissioned and approved by OSE. To be included in the semiannual progress report	Semiannual	OSE



	Base	Year 1	Year 2	Year 3	Year 4	Target	Comments/Mean of verification	Frequency	Responsibility center
<b>Outcomes</b>									
Change in hygiene and water use habits in communities served	0	3600	6800	6800	6800	24000	Focus group survey. To be included in the semiannual progress report	Semiannual	MGAP/OSE
Implementation of a social support program in rural areas	N/A			I		I	To be included in the semiannual progress report	Semiannual	OSE
Number of systems with a routine maintenance plan in operation	0	55	100	100	100	355	Information from OSE regional technical offices, included in the semiannual progress report	Semiannual	OSE
Number of systems in operation for at least two years, with water rate revenues that cover O&M costs	0		55	100	100	255	Information from OSE regional technical offices, included in the semiannual progress report	Semiannual	OSE
Number of systems in operation for at least two years, in which at least 80% of families are paying their monthly water bill	0		55	100	100	255	Information from OSE regional technical offices, included in the semiannual progress report	Semiannual	OSE

**T= tendered; E = in execution; I = completed**



**SUMMARY PROCUREMENT PLAN**  
**WATER SUPPLY PROGRAM FOR SMALL RURAL COMMUNITIES**  
**Period included in the Procurement Plan: July 2010-July 2011**

N°	Description	Estimated cost in US\$	Procurement method	Review (ex ante or ex post)	Source of financing and percentage		Prequalification (Yes /no)	Contract dates		Status (pending, in process, awarded, canceled)	Comments
					IDB	Local / other		Estimated startup	Estimated completion		
A. WORKS											
1.1	Construction of deep wells	900.000	PC-NCB	ex ante	0%	100%	No	2nd Half 2010		Pending	Construction of multiple deep wells throughout the country; package tendering is recommended
1.2	Construction of water tanks and networks	1.300.000	PC-NCB	ex ante	80%	20%	No	1st Half 2011		Pending	Construction of multiple water tanks and networks in each program community covered during this period: package tendering is recommended



N°	Description	Estimated cost in US\$	Procurement method	Review (ex ante or ex post)	Source of financing and percentage		Prequalification (Yes /no)	Contract dates		Status (pending, in process, awarded, canceled)	Comments
					IDB	Local / other		Estimated startup	Estimated completion		
1.3	School sanitation infrastructure	400.000	PC - NCB	ex ante	50%	%0%	No	2nd Half 2010		Pending	For geographic reasons, and considering that there are 355 schools, tendering could be conducted in two or three packages
<b>B. BIENES</b>											
2.1	Tools, piping, and special parts	900.000	PC-NCB	ex post		100%	NO	1st Half 2011		Pending	Purchase of materials and tools for cases where construction is done directly by the community
2.2	Office equipment and materials for installation of the executing agency	100.000	DC-PC	ex post	50%	50%	NO	1st Half 2011		Pending	Various purchases of office materials during loan execution
<b>C. CONSULTING SERVICES – Individual consultants</b>											
3.1	Engineering designs	200.000	DC	ex ante	100%	0%	NO	2nd Half 2010		Pending	Direct contracting for



N°	Description	Estimated cost in US\$	Procurement method	Review (ex ante or ex post)	Source of financing and percentage		Prequalification (Yes /no)	Contract dates		Status (pending, in process, awarded, canceled)	Comments
					IDB	Local / other		Estimated startup	Estimated completion		
											the individual designs required
3.2	Community development and institution building	300.000	DC	ex ante	75%	25%	NO	2nd Half 2010		Pending	Direct contracting of equipment for different communities
3.3	Water works supervision	30.000	DC	ex ante	50%	50%	NO	2nd Half 2010		Pending	For those communities where construction is tendered, works supervisors will have to be hired
3.4	School sanitation works supervision	10.000	DC	ex ante	50%	50%	NO	2nd Half 2010		Pending	
3.5	Program audit of OSE components	70.000	ICQ - QCBS	ex ante	0%	100%	NO	2nd Half 2010		Pending	
3.6	Final program audit of CODICEN components	30.000	ICQ - QCBS	ex ante	0%	100%	NO	1st Half 2014		Pending	

**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 the consultants' qualifications; **ICQ:** Individual consultant selection based on qualifications; **SSS:** Single-source selection