

SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

INTEGRATED SANITATION PROGRAM FOR CIUDAD DE LA COSTA

SUPPLEMENTARY FINANCING

(UR-L1075)

LOAN PROPOSAL

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| ELECTRONIC LINKS | |
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| REQUIRED | |
| 1. | Annual Work Plan http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37058682 |
| 2. | Monitoring and Evaluation Plan http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37058672 |
| 3. | Procurement Plan http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37058683 |
| 4. | Environmental and Social Management Report http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37058675 |
| OPTIONAL | |
| 1. | Economic Assessment Report http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37013779 |
| 2. | Financial Assessment Report http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37058677 |
| 3. | Supporting Documentation for the Request for Supplementary Financing http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37058678 |
| 4. | Institutional Capacity Assessment System http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37006033 |
| 5. | Loan Proposal: Conditional Credit Line and Individual Loan for the Integrated Sanitation Program for Ciudad de la Costa (2095/OC-UR) http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1805393 |
| 6. | Progress Monitoring Report (PMR) for the Integrated Sanitation Program for Ciudad de la Costa (2095/OC-UR and UR-L1075) http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37058676 |
| 7. | Analysis of Compliance with the Bank's Public Utilities Policy OP-708 http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37058681 |
| 8. | Operating Guides for the application of the Public Utilities Policy in the Water and Sanitation Sector http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=36998888 |
| 9. | Loan 2095/OC-UR Operating Manual http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37038335 |
| 10. | Environmental Classification and Safeguards http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37063906 |

ABBREVIATIONS

| | |
|---------|---|
| BCU | Banco Central de Uruguay [Central Bank of Uruguay] |
| BOD | Biochemical oxygen demand |
| CPAR | Country Procurement Assessment Report |
| CPI | Consumer price index |
| DINAGUA | Dirección Nacional de Aguas [National Water Directorate] |
| EBITDA | Earnings before interest, taxes, depreciation, and amortization |
| EIRR | Economic internal rate of return |
| GPFE | Gerencia de Programas con Financiamiento Externo [Externally Financed Programs Department] |
| ICAS | Institutional Capacity Assessment System |
| IMC | Intendencia Municipal de Canelones [Municipality of Canelones] |
| O&M | Operation and maintenance |
| OSE | Administración de las Obras Sanitarias del Estado [National Water Supply and Sanitation Administration] |
| PDAMM | Plan Director del Área Metropolitana de Montevideo [Montevideo Metropolitan Area Master Plan] |
| PEFA | Public Expenditure and Financial Accountability |
| PRODEV | Program to implement the external pillar of the medium-term action plan for development effectiveness |
| SABS | Sistema de Administración de Bienes y Servicios [goods and services administration system] |
| SEPA | Procurement Plan Execution System |
| TCR | Tribunal de Cuentas de la República [Audit Office of the Republic] |
| ToR | Terms of Reference |
| URSEA | Unidad Reguladora de Servicios de Energía y Agua [Energy and Water Services Regulatory Unit] |
| WTP | Willingness to pay |
| WWTP | Wastewater treatment plant |

PROJECT SUMMARY

URUGUAY INTEGRATED SANITATION PROGRAM FOR CIUDAD DE LA COSTA SUPPLEMENTARY FINANCING (UR-L1075)

| Financial Terms and Conditions | | | | |
|---|----------------|----------|--|--|
| Borrower: Administración de las Obras Sanitarias del Estado [National Water Supply and Sanitation Administration] (OSE) Guarantor: Eastern Republic of Uruguay Executing agency: Administración de las Obras Sanitarias del Estado (OSE) *** | | | Flexible Financing Facility* | |
| | | | Amortization period: | 25 years |
| | | | Original WAL | 14.25 years |
| Source | Amount | % | Disbursement period: | 3 years |
| IDB (OC) | US\$9,000,000 | 37 | Grace period: | 3.5 years |
| | | | Inspection and supervision fee: | ** |
| Local contribution | US\$15,400,000 | 63 | Interest rate | Based on LIBOR |
| | | | Credit fee: | ** |
| Total | US\$24,400,000 | 100 | Currency: | U.S. Dollars from the Ordinary Capital |
| Project at a Glance | | | | |
| Program objectives and description: The objective of this supplementary financing project is to provide the OSE with resources additional to those under loan 2095/OC-UR (Integrated Sanitation Program for Ciudad de la Costa) to ensure fulfillment of the operation's objectives, which would remain unchanged with this supplementary financing, namely: (i) to improve water quality in the Arroyo Pando [hereinafter, Pando River], ensure that the beaches remain safe for swimming, and help improve the quality of the aquifer; and (ii) raise the quality of urban life in the area through storm drainage works and full road paving. The Integrated Sanitation Program for Ciudad de la Costa experienced increases in the cost of sanitation, storm drainage, and road paving works, primarily as a result of factors external to the project, such as: (i) the sharp rise in infrastructure construction costs in Uruguay from 2008 to the present; and (ii) the impact of fluctuations in the exchange rate between the Uruguayan peso and the U.S. dollar over the same period. This financing is requested in response to the need to cover these cost overruns, and complies with the Bank's policy on Additional Financing of Cost Overruns for Operations in Progress (document GN-2329). | | | | |
| Special contractual conditions: Precedent to the first disbursement: Evidence that the co-execution, sub-execution, and resource transfer agreement signed by the executing agency, the co-executing agency, and the sub-executing agency in the context of loan 2095/OC-UR has been modified by the parties to extend its application to cover this supplementary loan (paragraph 3.1). During execution: Twelve months before the Ciudad de la Costa wastewater treatment plant is brought on line, the executing agency will submit evidence to the Bank that an environmental plan has been prepared for sludge management (paragraph 3.13). | | | | |
| Exceptions to Bank policies: None | | | | |
| Project consistent with country strategy: Yes [X] No [] | | | | |
| Project qualifies as: SEQ [X] PTI [] Sector [] Geographic [] Headcount [] | | | | |
| Procurement: The procurement of goods and works and the selection and hiring of consultants using proceeds from the loan will comply with related Bank's policies set forth in documents GN-2349-9 and GN-2350-9 of March 2011. | | | | |

* Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, and currency and interest rate conversions, subject in all cases to the final amortization date and the original weighted average life (WAL). When considering such requests, the Bank will take market conditions into account, along with operational and risk-management considerations.

** 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 respective 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.

*** In conjunction with the Municipality of Canelones (IMC) and the Consorcio Canario Ciudad de la Costa S.A., which will act as co-executing agency and sub-executing agency, respectively.

I. RESULTS OF EXECUTION AND NEED FOR ADDITIONAL RESOURCES

A. Background, problem, and rationale

- 1.1 On 11 December 2008, the Board of Executive Directors of the Bank approved loan 2095/OC-UR, for a total of US\$43.0 million, to finance the Integrated Sanitation Program for Ciudad de la Costa, with a disbursement period of four years. The contract came into effect on 9 March 2009 and became eligible on 24 November of that year. The approved program was envisaged as the first operation under a conditional credit line (CCLIP) of up to US\$80.0 million. The total cost of the first program was estimated at US\$82.5 million and included a local contribution of US\$39.5 million (48%). The objective of the program is: (i) to improve water quality in the Pando River, ensure that the beaches remain safe for swimming, and help improve the quality of the aquifer; and (ii) raise the quality of urban life in the area through storm drainage works and full road paving. The program is divided into three components: (i) sanitation infrastructure: treatment plant, pumping station, underground and underwater outfalls, pump pipes, and sanitation networks; (ii) drainage and paving infrastructure: sewers, ditches and drains, runoff retention works, and paving; and (iii) institutional strengthening: training, drafting of operation and maintenance (O&M) manuals, and setting up of the drainage and paving maintenance unit.
- 1.2 The program envisage execution through competitive bidding on three packages of works: (i) wastewater treatment plant and pumping station; (ii) sanitation networks, pump pipes, underground outfall, subfluvial outfall, storm drainage, and road works in Ciudad de la Costa Area A-East; and (iii) sanitation networks, storm drainage, and road works in the city's Area A-West.
- 1.3 The first package, which includes the construction of the wastewater treatment plant and the pumping station, had financing of up to US\$15.7 million available. This package was put out to tender in September 2008, and the contract was awarded in March 2009, for a value of US\$17.4 million. Ten prequalified companies participated in the bidding, of which seven submitted price proposals, the lowest of which exceeded the available financing by 10.7%. This package of works is 95.0% complete, and is expected to be finished in late 2012.
- 1.4 The bidding for the second package of works, which includes the sanitation networks, pump pipes, underground outfall, and subfluvial outfall, storm drainage, and road works in the eastern sector of the area of influence, had financing of up to US\$34.9 million. The bidding process was launched in August 2009 and declared void by the National Water Supply and Sanitation Administration (OSE) on account of the high cost of the offers submitted (80% over the planned budget).¹ The OSE therefore invited tenders for two groups of works: (i) sanitation networks, pump pipes, underground outfall, storm drainage, and road works in the eastern sector (group of works 2A); and (ii) subfluvial outfall (group of works 2B). The

¹ Six calls for tender for infrastructure projects in Uruguay between 2007 and 2008 received price proposals that averaged 107% more than their official budgets.

decision to invite tenders for the subfluvial outfall separately was justified by the fact that the technical complexity of this type of work necessitated the involvement of specialized construction firms. The call for tender for the first group of works had financing of up to US\$5.9 million. It was launched in May 2011 and the contract was awarded in December of that year for US\$6.1 million. Five offers were submitted, the lowest being 2.4% more than the available financing. The second group had financing of up to US\$29.7 million and began in September 2010. This call for tender attracted seven bidders and the contract was awarded in June 2011. As the company offering the lowest price did not meet the qualification criteria, the OSE's Technical Bid Evaluation Committee awarded the contract to the second lowest bidder. This decision was challenged by the disqualified company, which held up the process of signing the contract and starting the works.² Due to the lapse of time between the submission of bids (November 2010) and the planned start date for the works (March 2012), the company to which the contract had been awarded notified the OSE of its decision to withdraw its offer. At this writing, the OSE is officially concluding the award of this group of works to the qualified company with the next lowest price, totaling US\$33.5 million, which is 12.7% higher than the sum available. It is expected that the works in both the first and second groups will begin in December 2012. These works should be completed towards the end of 2014 and in mid-2015, respectively.

- 1.5 The works in the third package, which includes sanitation networks, storm drainage, and road works in the western sector of the area of influence, had financing of up to US\$19.7 million. The call for tender was begun in November 2008 and the contract was awarded in July 2009, for the sum of US\$25.9 million. The bidding process involved 11 prequalified companies, of which seven submitted price proposals, the lowest of which exceeded the available financing by 31.6%. This package of works is 28% complete, and is expected to be finished in mid-2014.
- 1.6 **Variation in contract awards.** In total, the three packages of works were awarded for US\$82.9 million, a figure which is US\$12.6 million over the initial budget estimate, equivalent to an increase of 17.6% on the official budget (US\$70.3 million). In addition to these changes, the cost of the works has been affected by the increases resulting from price adjustments and fluctuations in the exchange rate.
- 1.7 **Increases due to price adjustments.** According to the OSE's analysis and information (see [optional link 3](#)), the application of the price adjustment formula³ established in works contracts 1 and 3 led to a cost increase of around US\$3.3 million in March 2012, and projecting the application of the formula to the

² The OSE decided not to sign the contract until the challenge had been resolved.

³ The price adjustment formula is applied to works contracts expressed in Uruguayan pesos and is based on changes in the cost of labor, the CPI, construction materials, and the dollar exchange rate.

end of the works yields an additional estimated increase of US\$8.5 million, such that cost of works 1 and 3 would increase by US\$11.8 million. In the case of works in groups 2A and 2B, an increase of US\$11.2 million is estimated. The increase under this heading would therefore come to US\$23.0 million.

- 1.8 **Increases caused by exchange-rate fluctuations.** The Uruguayan peso⁴ is estimated to have appreciated by around 22.3% against the U.S. dollar since the program was prepared, resulting in significant cost variations. In March 2012, the loss due to the exchange rate difference in the case of works contracts 1 and 3 came to US\$3.3 million, plus an additional increment projected by the completion of the works of US\$1.6 million.⁵ Consequently, the cost of works 1 and 3 will have risen by US\$4.9 million. For works 2A and 2B, the projections indicate an exchange loss of around US\$3.1 million, such that the total increase due to the appreciation of the Uruguayan peso against the U.S. dollar is estimated at US\$8.0 million.

Table I-1 Summary of cost increases affecting each works contract (in US\$ millions)

| ICB | Variation in contract awards | | | Increase due to price adjustments | | | Increases due to exchange-rate difference | | | Total change | | |
|--------------|------------------------------|-------------|-------------|-----------------------------------|-------------|-------------|---|------------|------------|--------------|-------------|-------------|
| | IDB | Local | Total | IDB | Local | Total | IDB | Local | Total | IDB | Local | Total |
| Works 1 | 1.7 | - | 1.7 | 1.4 | - | 1.4 | 1.8 | - | 1.8 | 4.9 | - | 4.9 |
| Works 2A | -2.7 | 6.5 | 3.8 | 3.7 | 5.7 | 9.4 | 0.9 | 1.7 | 2.7 | 1.8 | 14.0 | 15.8 |
| Works 2B | 0.7 | - | 0.7 | 1.8 | - | 1.8 | 0.5 | - | 0.5 | 3.0 | - | 3.0 |
| Works 3 | 1.4 | 4.8 | 6.2 | 2.4 | 8.0 | 10.4 | 0.9 | 2.2 | 3.0 | 4.8 | 14.9 | 19.7 |
| Total | 1.1 | 11.3 | 12.4 | 9.3 | 13.7 | 23.0 | 4.1 | 3.9 | 8.0 | 14.5 | 28.9 | 43.4 |

- 1.9 In total, the estimates suggest a cost increase of US\$43.4 million (see Table I-1) for the works as a whole; US\$14.5 million for the OSE sanitation works and US\$28.9 million for the Municipality of Canelones's drainage and road works. These increases were primarily the result of: (i) a sharp rise in infrastructure construction costs in Uruguay between November 2008 and March 2012. Over this period the variables affecting the parametric price adjustment formulas in works contracts underwent significant increases; the official cost of labor for construction workers rose by 82.5%, while the Consumer Price Index (CPI) rose by 26.3%; and (ii) the impact of the change in the exchange rate between the Uruguayan peso and the U.S. dollar, the latter stood at Ur\$23.75 in November 2008 and depreciated over the course of program execution, reaching a minimum of Ur\$18.46 in May 2011 (22.3%), and was Ur\$21.91 in June 2012. These variations had a combined impact on the cost of the works of 61.5%, against the OSE estimated official budget (US\$70.3 million).

⁴ The Uruguayan peso appreciated against the U.S. dollar from Ur\$23.75 in November 2008 to Ur\$18.46 in May 2011. Ninety-one percent of works contracts are denominated in Uruguayan pesos.

⁵ The exchange rate used for the projections was US\$1 = Ur\$22.00.

- 1.10 To meet the increase in the cost of the sanitation, storm drainage, and road works, estimated at US\$43.4 million, financing of up to US\$4.5 million is available from the Contingencies and Cost Escalation item of loan 2095/OC-UR, and US\$15.2 million from the IML's local contribution. Consequently, the additional financing required comes to US\$23.7 million. This financing includes US\$12.3 million for the sanitation works and US\$11.4 million for the drainage and road works (see Table I.2).

Table I.2. Cost overrun financing

| Financing | Sanitation | Drainage and road works | Total |
|--|-------------------|--------------------------------|--------------|
| Contingencies and cost escalation 2095/OC-UR | 2.2 | 2.3 | 4.5 |
| Additional resources from the IMC | 0.0 | 15.2 | 15.2 |
| Supplementary financing UR-L1075 | 12.3 | 11.4 | 23.7 |
| Total | 14.5 | 28.9 | 43.4 |

- 1.11 The purpose of this document is to submit to the consideration of the Board of Executive Directors of the Bank a proposal for the supplementary financing requested by the OSE, for the sum of US\$9 million, to cover part of the cost overruns in the sanitation works included in the Integrated Sanitation Program for Ciudad de la Costa. The remaining additional resources for the sanitation works will be contributed by the OSE, while the IMC will cover the additional cost of the drainage and road works. The project team considers that the proposed financing will make it possible to achieve the original project objectives and complies with the Policy on Additional Financing of Cost Overruns for Operations in Progress (document GN-2329, paragraph 1.28).

B. Integrated Sanitation Program for Ciudad de la Costa

- 1.12 **The sanitation service.** Ciudad de la Costa's water and sanitation services are the responsibility of the National Water Supply and Sanitation Administration (OSE). Almost the entire city has potable water coverage, but nearly 80% of the serviced area lacks sanitation system coverage. Domestic effluent is currently collected in individual treatment systems (cesspools and septic tanks) that are periodically emptied by pump trucks. Most of this wastewater is delivered to the Pinar Norte treatment plant, which discharges into the Pando River. The plant currently receives far more waste than it is able to treat.
- 1.13 **Institutional framework.** Sector policy is formulated by the National Water Directorate (DINAGUA), while the Energy and Water Services Regulatory Unit (URSEA) is in charge of regulating the service. The OSE is responsible for providing water supply and sanitation services throughout the country, except in the Department of Montevideo, where the Sanitation Division of the Municipality of Montevideo is in charge.

- 1.14 **The Bank's involvement.** Under loan 785/OC-UR, the Bank financed the National Water and Sanitation Program I, executed by the OSE and concluded in 2004. The work financed by this program included extending water and sewerage systems, and drawing up a Master Plan for the Montevideo Metropolitan Area (PDAMM). It is currently financing the Integrated Sanitation Program for Ciudad de la Costa (2095/OC-UR), for which supplementary financing is requested. This program is the first operation under Conditional Credit Line (CCLIP) UR-X1006.
- 1.15 **The PDAMM.** The master plan enabled the main infrastructure projects between now and 2030 to be prioritized, and defined three major systems for service expansion. These include the coastal system, east/northwest of the capital, which groups Ciudad de la Costa together with the towns of Pando, Capitán Artigas, Toledo-Suárez, and Salinas. This system will serve a projected population of 350,000 inhabitants by 2030. The first stage attached priority to an area with a high housing density in Ciudad de la Costa, covering 2,147 hectares, with a population currently estimated at some 55,000 inhabitants, corresponding to Areas A, B, and C.
- 1.16 **Consistency with the country strategy and GCI-9.** This program is consistent with the Bank's country strategy with Uruguay (2010-2015) (document GN-2626) and will contribute to fulfillment of the indicator for increased sanitation coverage and wastewater treatment in Ciudad de la Costa. This operation is also consistent with the priority area of support for Infrastructure for Competitiveness and contributes to the GCI-9 (document AB-2764) financing targets for support to climate change, energy efficiency, and environmental sustainability initiatives.
- 1.17 **Program design.** The OSE and the IMC intend to work together and coordinate the execution of this program that seeks to take a comprehensive approach to the problems of sanitation, storm drainage, and roads through joint execution of the works. The aim is therefore to contribute to: (i) reducing pollution in the Pando River and aquifers, by building sanitation infrastructure to ensure the beaches remain safe for swimming; and (ii) urban improvements, by paving streets and avenues, and construction of storm drainage works to improve the quality of urban life in the project's area of influence. The first operation under the CCLIP attached priority to the area of greatest population density in the city (Area A), covering 420 hectares, with a current population of 11,000 inhabitants. This program and the national objectives for the water and sanitation sector are consistent with the objectives and conditions of the Public Utilities Policy (OP-708) and the guidelines established in the Operational Guidelines developed for the implementation of that policy (see [optional link 7](#)). There is a separation between the policy formulation, regulation, and service delivery roles (paragraph 1.12). The OSE's sources of operating income cover the costs of O&M and its cost of capital (paragraph 3.15). Actions are being implemented aimed at institutional renewal and strengthening of the OSE, reduction of unaccounted for water, OSE compliance with the service

quality standards of URSEA, and implementation of sector regulatory accounting, with financial support from multilateral banks.

- 1.19 **Program components and costs.** The program included the following components: (i) sanitation works, including the construction of a wastewater treatment plant, a pumping station, a 4.7-km underground outfall, a 1-km underwater outfall, 4.4 km of pump lines, and 62 km of sanitation networks;⁶ (ii) storm drainage⁷ and road paving works, including 1.9 km of rainwater collectors, 84.5 km of ditches and sewers, 3,400 garage entrances, 7 permanent or temporary floodwater abatement ponds, 1.27 km of beach discharge channels, paving 36.7 km of internal roads, 16 km of through streets, and 2.8 km of main roads; and (iii) institutional strengthening, linked, inter alia, to organization systems and methods, training programs, storm drainage and road infrastructure maintenance plans, a register of users, and billing systems. The program's original estimated costs are listed in Table 1-3.

Table I.3. Costs and Financing – First Operation (US\$ thousands)

| Categories | | IDB | Local | Total | % |
|--------------|--|---------------|---------------|---------------|--------------|
| I. | Engineering | 1,135 | 1,028 | 2,163 | 2.6% |
| II. | Direct costs | 39,544 | 31,486 | 71,030 | 86.1% |
| 2.1 | Sanitation works | 39,320 | - | 39,320 | 47.7% |
| 2.2 | Storm drainage and road works | - | 31,060 | 31,060 | 37.6% |
| 2.3 | Institution-strengthening | 224 | 426 | 650 | 0.8% |
| III. | Audits and evaluation | 172 | 133 | 305 | 0.4% |
| IV. | Contingencies and cost escalation | 2,150 | 2,330 | 4,480 | 5.4% |
| V. | Finance charges | - | 4,523 | 4,523 | 5.5% |
| TOTAL | | 43,000 | 39,500 | 82,500 | 100% |
| % | | 52.1% | 47.9% | 100.0% | |

- 1.20 **Main expected outcomes:** (i) reduction in the number of pump trucks discharging effluent at the Pinar plant; (ii) improved water quality in the Pando River downstream of the Pinar Norte wastewater treatment plant; (iii) 2,483 dwellings with effective new connections to the sanitation network; (iv) reduction of flooding risk in 10 critical areas; and (v) 11,000 inhabitants benefiting from drainage and street paving (see Results Matrix, Annex II).

⁶ Empirical evidence for the effectiveness of this type of intervention can be found in: "Reuso de Aguas de Esgoto Sanitario, Inclusive Desenvolvimento de Tecnologias de Tratamento para esse Fim" produced by the Programa de Pesquisa em Saneamento Basico (PROSAB) of the Financiadora de Estudos e Projetos (FINEP) in 2006. (<http://www.finep.gov.br/prosab/produtos.htm>).

⁷ Empirical evidence for the effectiveness of this type of intervention can be found in: Canholi, A., 2005. "Drenagem Urbana e Controle de Enchentes". Evidence of the effectiveness of the solution proposed for Ciudad de la Costa can be found in Tucci, C., 2009. Evaluación del Sistema de Drenaje para Ciudad de la Costa.

C. Progress of the Integrated Sanitation Program for Ciudad de la Costa

- 1.21 On 30 June 2012, loan 2095/OC-UR was 73% committed and 60% disbursed. The local contribution is 66% committed and 21.3% disbursed. Project implementation has been satisfactory and it is likely that the program's outcomes will be achieved.
- 1.22 **Component 1. Sanitation works.** The construction of the works included in this component are divided into four packages that have been put out to tender. The sanitation works in packages 1 and 3 are near the completion stage and those corresponding to package 2B are due to commence in August 2012. The works contract for package 2A is in the process of being awarded and is expected to start towards the end of 2012.
- 1.23 **Component 2. Storm water drainage and road paving.** The works corresponding to this component are included in packages 2A and 3, which are being financed from local IMC resources. The drainage and road paving works in Area A-West (package 3) were 19% complete in March 2012, while execution of those in Area A-East (package 2A) is due to start in late 2012.
- 1.24 **Component 3. Institutional strengthening.** This component includes training, drafting of operation and maintenance (O&M) manuals, and setup of a drainage and pavement maintenance unit, with cost center accounting. Calls for proposals for this consulting work are planned for the second half of 2012 and first half of 2013 (see link [Procurement Plan](#)), with contracts due to be awarded in 2013. This component is behind the original schedule partly because the executing agency's attention was needed for the bidding process for the four packages of works.

D. Need for more financing resources

- 1.25 The lowest offers during the bidding process for the program's works—to which the contracts were awarded—totaled US\$82.9 million, a figure US\$12.6 million higher than the initial estimate of US\$70.3 million (paragraph 1.6). In addition to the increase in the costs of works in the calls for tender, there have been increases due to: (i) readjustment of prices established in the works contracts, which would total close to US\$23.0 million by the end of works (paragraph 1.6); and (ii) exchange rate differences due to the depreciation of the dollar, estimated at US\$8.0 million (paragraph 1.8). These increases in direct costs have generated an additional need for resources of US\$43.4 million to complete the works.
- 1.26 Bearing in mind the US\$4.5 million available under the program's contingencies and cost escalation item (US\$2.2 million of OSE funding and US\$2.3 million from the IMC), the program would require additional financing that, added to the increments for financial and other costs (US\$0.7 million), is estimated at US\$39.6 million (US\$13.0 for sanitation works and US\$26.6 million for drainage and road works). Lack of this financing would prevent completion of package of works 2A, related to the sanitation networks, storm drainage, and road works in Area A-East, the pump line, and the underground outfall, which, for technical

- reasons, must be considered an indivisible unit. At this writing, financing of US\$15.2 million from the local contribution by the IMC is assured to meet the increase in the cost of the storm drainage and road works (US\$26.6 million); consequently the IMC's additional financing need is reduced to US\$11.4 million. The supplementary amount required by the OSE comes to US\$13 million (US\$9.0 million in IDB financing and US\$4.0 from its own resources).
- 1.27 The price increases mainly originated from factors external to the program arising in a period of rapid economic growth and a significant scaling up of public infrastructure investments in the country. These factors resulted mainly in: (i) sharp increases in infrastructure construction costs in Uruguay; and (ii) the effect of changes in the exchange rate between the Uruguayan peso and the United States dollar (paragraph 1.11). It should be noted that an analysis by the OSE (see [optional link 3](#)) concluded that the costs estimated during project preparation in 2008 were reasonable, having been based on engineering studies by experienced consulting firms. The bidding process to select the construction firms featured broad participation by national and foreign companies.
- 1.28 The request for supplementary financing satisfies all the conditions of the Bank's policy on "Additional financing of cost overruns for operations in progress" (document GN-2329), given that: (i) it was requested before the disbursement period expires (see paragraph 1.21); (ii) the program is proceeding satisfactorily (paragraph 1.21); (iii) the costs above the estimates are the result of exceptional circumstances beyond the borrower's control (paragraphs 1.25 and 1.27); (iv) scaling back the agreed targets would compromise achievement of the program objectives (paragraph 1.26); (v) the requested financing would make it possible to achieve the program's objectives without adversely affecting its economic, financial, institutional, and environmental viability (see the viability analysis in paragraphs 3.7 to 3.15); (vi) the borrower has no resources of its own to finance the program in full, and deems it necessary to request additional resources; (vii) with resources that may include an IMC contribution, the OSE is in a position to provide additional counterpart resources, even exceeding the local counterpart percentage provided for under the original loan (paragraph 3.15); and (viii) the country is current on its payments to the Bank.
- 1.29 **Lessons learned:** (i) although the magnitude of the increase in construction prices and the appreciation of the Uruguayan peso against the U.S. dollar were very hard to predict during the design of the program, more resources should have been set aside for cost escalation; (ii) packaging works together in a single contract within a call for bids generates more interest in the construction market; however, the inclusion of highly complex works in packages with simpler ones, as in the case of the subfluvial sewage outfall, which requires the contracting of highly specialized firms, could lead to a substantial increase in the bid price due to the perception of greater execution risk, therefore contracting this kind of work separately might reduce the risk of cost overruns in the bids for less complex works; (iii) an effort

should be made to minimize delays in contractual processes, such as in the second package of works, in order to avoid cost increases related to price adjustments; and (iv) although developing urban improvement structures in sanitation projects, such as in package 3, is the result of good practices, its suitability needs to be reviewed case by case in order to mitigate the risk of cost increases.

II. SUPPLEMENTARY FINANCING

A. Objectives

- 2.1 The objective of this supplementary financing project is to provide the OSE with resources additional to those under loan 2095/OC-UR (Integrated Sanitation Program for Ciudad de la Costa) to ensure fulfillment of the operation's objectives, which are not being modified with this supplementary financing, namely: (i) to improve the water quality in the Pando River, ensure that the beaches remain safe for swimming, and help improve the quality of the aquifer; and (ii) raise the quality of urban life in the area through storm drainage and full road paving works.

B. Program components

- 2.2 The supplementary loan will partially finance sanitation works contracts in package 2A that could not be completed with financing from the original loan as a result of the cost increase observed. The works included under this supplementary loan are: (i) Component 1 – Sanitation works (US\$13 million); including a 4,350-m long, 800-mm diameter pump pipe connecting the pumping station to the treatment plant; a 4.7-km underground outfall; and 30 km of sanitation networks in Area A-East; and (ii) Component 2 – Storm drainage and road paving works (US\$11.4 million); including 4 km of storm drains, 36 km of ditches, and paving of 23.4 km of streets.

C. Project financing

- 2.3 This proposal is for US\$9 million (36.9%) in supplementary financing from the Bank, with a local counterpart contribution of US\$15.4 million (63.1%), for a total of US\$24.4 million. Table II.1 shows the distribution of costs by source of financing.

Table II. 1- Program cost and financing

| Categories | | Loan 2095/OC-UR ¹ | | | Supplementary loan | | | Consolidated | | | |
|--------------------|--------------------------------------|------------------------------|---------------|---------------|--------------------|--------------------|---------------|---------------|---------------|----------------|--------------|
| | | IDB | Local | Total | IDB | Local ² | Total | IDB | Local | Total | % |
| I | Engineering and Management | 1,134 | 1,029 | 2,163 | - | - | - | 1,134 | 1,029 | 2,163 | 1.8% |
| II | Direct costs | 39,544 | 46,675 | 86,219 | 9,000 | 9,400 | 18,400 | 48,544 | 56,075 | 104,619 | 85.7% |
| 2.1 | Sanitation works | 39,320 | - | 39,320 | 9,000 | 2,000 | 11,000 | 48,320 | 2,000 | 50,320 | |
| 2.2 | Storm drainage and road works | - | 46,249 | 46,249 | - | 7,400 | 7,400 | - | 53,649 | 53,649 | |
| 2.3 | Institution-strengthening | 224 | 426 | 650 | - | - | - | 224 | 426 | 650 | |
| III | Associated costs | 172 | 133 | 305 | - | - | - | 172 | 133 | 305 | 0.2% |
| 3.1 | Audits and evaluation | 172 | 133 | 305 | - | - | - | 172 | 133 | 305 | |
| IV | Unallocated costs² | 2,150 | 2,330 | 4,480 | - | 5,650 | 5,650 | 2,150 | 7,980 | 10,130 | 8.3% |
| 4.1 | Contingencies and cost escalation | 2,150 | 2,330 | 4,480 | - | 5,650 | 5,650 | 2,150 | 7,980 | 10,130 | |
| V | Finance charges | - | 4,523 | 4,523 | - | 350 | 350 | - | 4,873 | 4,873 | 4.0% |
| Totals | | 43,000 | 54,690 | 97,690 | 9,000 | 15,400 | 24,400 | 52,000 | 70,090 | 122,090 | |
| Percentages | | 44.0% | 56.0% | 100% | 36.9% | 63.1% | 100.0% | 42.6% | 57.4% | 100.0% | 100% |

¹ Reflects the operation's current table of costs with an increase of \$15.2 million in IMC resources in category 2.2.

² Includes the local contributions from the OSE (US\$4 million) and the IMC (US\$11.4 million).

III. PROGRAM EXECUTION

A. Borrower and Executing Agency

- 3.1 The activities financed by the supplementary loan will be executed within the same parameters agreed upon under loan 2095/OC-UR. The borrower and executing agency will be the OSE, with the Eastern Republic of Uruguay as the guarantor. The executing agency, through the Externally Financed Programs Department (GPFE), will be responsible for adequate fulfillment of the program objectives, administration of loan resources, and timely financing of the local contribution. The IMC will be the co-executing agency, and Consorcio Canario Ciudad de la Costa S.A., established during execution of loan 2095/OC-UR, will be the sub-executing agency, supporting OSE's management and following the same guidelines as in the program currently being executed. **Submission of evidence that the co-execution, sub-execution, and resource transfer agreement signed by the executing agency, the co-executing agency, and the sub-executing agency under loan 2095/OC-UR has been modified by the parties to extend its application to cover this supplementary loan will be a condition precedent to the first disbursement.**
- 3.2 The main role of the IMC will be the supervision and monitoring, in coordination with the OSE, of the execution of the activities due to be financed from the local contribution, whereas Consorcio Canario Ciudad de la Costa S.A. will be responsible for contracting and management of the activities assigned to it by the OSE and the IMC. All procedures and functions involved in the management and execution of the program through the sub-executing agency in interaction with the executing agency and co-executing agency will be set out in the operating manual

of loan 2095/OC-UR (see [optional link 9](#)). This manual will be applicable to this second operation and must be annexed to the co-execution, sub-execution, and resource transfer agreement.

B. Procurement of works, goods and services.

- 3.3 Goods and works will be procured and consultants selected and hired in accordance with the Bank's policies, in particular GN-2349-9 and GN-2350-9, and in accordance with the Procurement Plan (see Annex III).

**Table III.1 Disbursement Schedule
(US\$ million)**

C. Project disbursements

| Source | IDB | Local contribution | TOTAL |
|--------------|------------|--------------------|-------------|
| Year 1 | 1.4 | 2.1 | 3.5 |
| Year 2 | 4.1 | 6.5 | 10.6 |
| Year 3 | 3.5 | 6.8 | 10.3 |
| TOTAL | 9.0 | 15.4 | 24.4 |

- 3.4 In view of the use of the loan proceeds and progress on the original project, this supplementary loan will have an execution period of three years. This reflects the time needed to complete the works for the sanitation networks, pump line, and underground outfall. The disbursement schedule is shown in Table III-1.

D. Project accounting/financial management, auditing, and evaluation

- 3.5 **Accounting/financial management and audits.** The OSE will be in charge of the accounting/financial management of the program as it has been in the case of loan 2095/OC-UR. In view of the fact that this financing operation is supplementary to the aforementioned loan, the financial statements will be consolidated with the audited financial statements for loan 2095/OC-UR, within 120 after the close of the fiscal year, and within 120 days of the last disbursements, and audited by the Audit Office of the Republic (TCR) or by a firm of independent auditors acceptable to the Bank (paragraph 3.15).

- 3.6 **Project evaluation and monitoring.** The evaluation of the supplementary loan will be carried out based on the loan 2095/OC-UR and for this operation (see Annex II), agreed upon with the executing agency. The OSE will send semiannual reports on the progress achieved and outcomes obtained, with a plan of action for the following six months, integrated with the reports envisaged for loan 2095/OC-UR. The reports will be used as the basis for the semiannual update of a single Progress Monitoring Report (PMR) for both loans, the draft of which has been agreed upon with the executing agency (see [optional link 6](#)). The following Bank supervision instruments will be used for monitoring and evaluation purposes, along with others agreed upon in loan 2095/OC-UR: the Program Execution Plan, the Annual Work Plan (AWP), the procurement plan, the Results Matrix, and the Risk Management Plan. An ex post socioeconomic evaluation has also been agreed upon with the executing agency.

E. Program viability

- 3.7 **Technical viability.** The works intended to be partially financed through this supplementary operation are: (i) 30 km of sanitation networks in the western sector of Area A; (ii) a 4.35-km, 800-mm diameter pump conduit connecting the main pumping station to the treatment plant; and (iii) a 4.7 km underground outfall. In parallel, the storm drainage and road paving works in the aforementioned area will be financed with local counterpart resources. All these works form part of the original program and have not been modified. The detailed designs were completed in 2007 by an international consortium of specialized firms, applying generally accepted engineering standards and principles, and were reviewed at the time by the Bank. The execution schedules and original cost estimates have been updated based on the results of similar contracts, either completed or in execution.
- 3.8 **Socioeconomic viability.** A socioeconomic assessment was carried out on the projects financed with loan 2095/OC-UR, which includes sanitation (networks and treatment plant) and storm drainage and road paving projects in progress, and the works in package B (subfluvial outfall) awarded, and the package A works (sanitation networks, pump pipes, underground outfall, storm drainage, and road works), put out to tender but not awarded. The assessment employed the same methodology as the original program evaluation. The economic value of the benefits of the sanitation works were calculated using the values of willingness to pay (WTP) used in the original study, updated to July 2012 by monetary corrections to average family income and the CPI, and using an estimated model for the city of Pando based on surveys conducted between June and July 2012 (benefit transfers). The economic value of the drainage and road improvement works were updated using the hedonic price function calculated in the original study, based on the value of the properties in 2012, to estimate the property value resulting from the implementation of the works. The assessment in current investment and operation and maintenance costs at efficiency prices.
- 3.9 The cost-benefit analysis was done for each project, and for the program as a whole. The results of the analysis, evaluated with the additional costs, show that the program remains economically viable, with economic internal rates of return (EIRR) in excess of 12% per year. In addition, the ratio of benefits to costs is greater than one. Details of the analysis and the methodology used are presented in the Economic Analysis (see [optional link 1](#)).

Table III.2 Economic Cost-Benefit Analysis
Projects under First Loan under the CCLIP (with cost overruns)

| Project | Economic net present value (in US\$ 000) | | | | EIRR | B/C |
|-------------------------------|--|-------------------------|----------|-------------|--------|------|
| | Benefit | Investment | O&M | Net benefit | | |
| Networks - 1st stage | 9,714.11 | 9,407.6 ⁽¹⁾ | 558.1 | (251.6) | 11.65% | 0.98 |
| Treatment plant | 50,890.5 ⁽²⁾ | 30,452.8 | 10,284.6 | 10,189.1 | 15.91% | 1.25 |
| Networks and treatment plant | 60,335.6 | 39,860.4 ⁽³⁾ | 10,842.7 | 9,937.5 | 15.20% | 1.17 |
| Storm drainage and road works | 32,887.1 | 30,534.7 | 1,359.1 | 993.3 | 14.49% | 1.03 |

(1) Includes investment costs of networks and household connections in Area A only.

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

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

3.10 Sensitivity analysis. The sensitivity analysis included variation in WTP values obtained, changes in real estate values for sanitation projects, and cost increases. The sanitation project (networks and treatment plant) allows for cost increases of up to 25%, and reduction in expected benefits of up to 20%. The drainage and road works project allows for cost increases of up to only 5%, and reduction in benefits of up to only 5%.

3.11 Payment capacity. The amount of the average monthly bill for service was confirmed to be less than 5% of family income for the program's beneficiary population. This rate is equivalent to US\$26.66 (Ur\$586.46).⁸ For households in the lowest quintiles (levels 5 and 4) the average charge represents 4.4% of family income. At the other end of the scale, for the highest quintiles (levels 1 and 2) the average charge represents 2.5% of income. For the sample as a whole, the average water and sanitation bill represents 3.7% of the average income of a Ciudad de la Costa family.

3.12 Social equity and poverty reduction. From the poverty incidence standpoint, and utilizing information from the National Statistics Institute (INE) 2011 Household Survey, the data reported in Ciudad de la Costa indicate that the proportion of the population considered poor is 16.7%,⁹ and extremely poor, just 0.6%, compared with national averages of 13.7% and 0.5%, respectively. Consequently, the project does not qualify as a poverty-targeted investment (PTI). However, this project does qualify as promoting social equity, as described in the report on the Ninth General Increase Resources (GCI-9) (document AB-2764).

3.13 Environmental and social viability. The project team has classified this program as a category "B" operation under the Environment and Safeguards Compliance Policy (OP-703). An environmental and social analysis during the design process

⁸ http://www.ose.com.uy/descargas/clientes/tarifas/decreto_tarifario_feb_2012.pdf

⁹ This figure for the incidence of poverty is similar to that for Montevideo (16.7%). This indicator is calculated using the poverty and indigence lines defined by the INE, which in 2011 were US\$387.57 and US\$1,961.92, respectively, and correspond to the value of a basket of basic consumer goods for urban areas in Uruguay excluding Montevideo. <http://www.ine.gub.uy/biblioteca/pobreza/Informe%20Pobreza%202011.pdf>

concluded that the project satisfies the relevant provisions of the Bank's environmental and social policies, in particular OP-703, OP-102 (Access to Information), OP-761 (Gender Equity in Development), and OP-704 (Disaster Risk Management Policy). The project will make a significant contribution to reducing pollution in the Pando River and aquifers, ensuring the beaches of the River Plate remain safe for swimming, and improving the quality of urban life. To identify possible impacts in the subfluvial outfall's discharge area and design the necessary mitigation measures, the executing agency is monitoring water quality, biota, and sediment before the outfall comes on line, in order to determine the baseline. These monitoring and evaluation activities will continue when the outfall and treatment plant are in operation. The OSE will also draw up an environmental management plan for the final disposal of the sludge generated by the Ciudad de la Costa treatment plant. It will be an execution condition that 12 months before the Ciudad de la Costa wastewater treatment plant comes on line, the executing agency must submit evidence to the Bank that an environmental sludge management plan has been prepared.

- 3.14 **Institutional viability.** The institutional capacity assessment performed based on the ICAS methodology (see [optional link 4](#)) indicates a satisfactory degree of development and low risk. This is consistent with the OSE's current satisfactory performance in relation to its experience in the use and application of the various Bank tools over the course of the current phase of implementation of loan 2095/OC-UR. The management of the OSE rests on a modernized organization resulting from an improvement plan first implemented in 2005, in the context of which the organization and functions of the Externally Financed Programs Department (GPFE) have been redesigned, enabling the OSE to internalize the strengthening received. It is currently continuing the process of updating certain aspects of its operation.
- 3.15 **Financial viability.** The financial analysis of the OSE has shown it to have the capacity to finance the local contribution during the project's execution period, and to cover debt servicing. This financial analysis included both a historical analysis based on the entity's financial statements, and a financial model projecting the estimated financial situation for the next 11 years (see [optional link 2](#)). The historical financial information indicates that the OSE, with its own resources from providing services, has been able to cover its O&M costs, fixed asset depreciation, and financial charges. This is reflected in a net income over the last three years and an EBITDA margin of 23%. The base case for the financial projections indicates that the OSE will be able to maintain an adequate financial situation over the period of the forecast. Annually, during the loan disbursement period, the borrower must demonstrate to the Bank that it has sufficient capacity to cover its operating expenses, costs of operation, maintenance, and depreciation, and that net internal cash generation allows it to finance at least 30% of its investment program. Should the above condition not be met, the executing agency must adopt measures acceptable to the Bank enabling it to meet these commitments.

F. Program risks

- 3.16 The risk of a cost increase is deemed low as contracts have been signed for all the works and they are in execution, except the works in package 2A, which are at the award stage. If cost increases occur in the contracts signed with participating companies in excess of the updated costs and estimated contingencies, these increases will be financed with counterpart resources. A low rate of connection to the sanitation network could cause a delay in obtaining the expected results. Actions will therefore be taken to raise beneficiaries' awareness and take measures to ensure that household connections proceed as envisaged. The second CCLIP operation (UR-L1081) includes a component that will finance a program of network connection incentives. The OSE's difficulties defining alternatives for the final disposal of sludge could delay activation of the treatment plant. Preparation of a sludge management plan has therefore been agreed upon as part of this operation.

| 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 chance initiatives, renewable energy and environmental sustainability. | | | |
| Regional Development Goals | | | | |
| Bank Output Contribution (as defined in Results Framework of IDB-9) | Households with new or upgraded sanitary connections. | | | |
| 2. Country Strategy Development Objectives | | Aligned | | |
| Country Strategy Results Matrix | GN-2626 | To expand sanitation and drainage coverage. | | |
| 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 |
| | | 9.2 | | 10 |
| 3. Evidence-based Assessment & Solution | 9.4 | 25% | 10 | |
| 4. Ex ante Economic Analysis | 10.0 | 25% | 10 | |
| 5. Monitoring and Evaluation | 7.5 | 25% | 10 | |
| 6. Risks & Mitigation Monitoring Matrix | 10.0 | 25% | 10 | |
| Overall risks rate = magnitude of risks*likelihood | | Medium | | |
| Environmental & social risk classification | | B | | |
| III. IDB's Role - Additionality | | | | |
| The project relies on the use of country systems (VPC/PDP criteria) | Yes | The project uses contry systems for budgeting, treasury, and external control. | | |
| 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 | Yes | The project will contribute significantly to the decontamination of Arroyo Pando waters and aquifers, to preserve bathing conditions of the beaches in Rio de la Plata and improving the quality of urban life. In order to identify the possible impacts in the outfall discharge subfluvial and design mitigation measures that may be required, the executor is monitoring water quality, biota and sediments to establish the baseline prior to the commissioning of the emissary. These monitoring and evaluation activities will continue during the period of operation of the outfall and treatment plant. Additionally, the OSE, with Bank support, prepare an environmental management plan for the disposal of sludge generated in the wastewater treatment plant in Ciudad de la Costa. | | |
| Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project | | | | |
| The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan. | | | | |

The objective of the proposed supplementary financing is to provide OSE with additional resources to ensure compliance with the objectives of the Loan 2095/OC-UR (Integrated Sanitation Program Coast City): i) improve water quality of Pando stream, preserving bathing conditions of the beaches and help improve the quality of the ground water table, and ii) improve the quality of urban life in the area by rain drainage and an comprehensive paving street. The program experienced cost increases of sanitation works, rain drainage and roads, which were originated mainly by: i) the sharp increase in the costs of building infrastructure in Uruguay from November 2008 to date, and ii) the effect caused by changes in the exchange rate between theUruguayan peso and theUnited States dollar during the same period.

The POD presents a diagnosis of the current state of implementation, and price increases have led to demands for additional funding, of which \$ 9 billion would be Bank resources. The results matrix has vertical logic and includes SMART indicators for monitoring products. For results indicators, it is necessary to clarify and specify those related to "working drainage works" and "Residents benefited from drainage and paving streets." The program has a cost-benefit analysis in which the economic benefits and the actual costs to the economy are clearly identified. The assumptions are rational and included a sensitivity analysis. The monitoring mechanisms have been identified and budgeted. The evaluation plan is based on an ex post cost-benefit analysis.

Finally, the risk matrix shows project risks classified by magnitude and probability, and these risks have mitigation measures and indicators to monitor its implementation.

RESULTS FRAMEWORK

| | | | |
|--|---|--------------------|---------------------------------|
| Program impact | The aim of the Integrated Sanitation Program for Ciudad de la Costa is to support the OSE's efforts to improve living conditions for the city's population and improve the quality of the Pando River and nearby beaches. | | |
| Program purpose | (i) to increase sanitation coverage, storm drainage, and road paving for the population of Ciudad de la Costa, Area A (ii) reduce discharges of wastewater into the Pando River. (iii) improve the management of sanitation services and storm drainage and road works. | | |
| Impact indicators | Baseline (2010) | Target | Impact² |
| Improved water quality in Pando River (BOD (mg/l) upstream of Pinar Norte WWTP/BOD (mg/l) downstream | — ⁽¹⁾ | 1 | 80% 2095/OC-UR and 20% UR-L1075 |
| Outcome indicators (Purpose) | Baseline (2010) | Target | Impact² |
| 1. Pump trucks disposing of liquid effluent at the Del Pinar WWTP (trucks/day) | 88 | 0 | 80% 2095/OC-UR and 20% UR-L1075 |
| 2. Households with effective new connections to the sanitation network | 0 ³ | 2,483 ⁴ | |
| 3. Drainage works functioning according to specifications design ⁵ | 0 | 10 | |
| 4. Inhabitants benefiting from drainage and paved streets in Area A | 0 | 11,000 (100%) | |

| Output indicators by subcomponent | 2011 baseline | 2012 | 2013 | 2014 | 2015 | 2016 | Impact ² |
|--|---------------|------|------|------|------|------|---------------------------------|
| Component 1: Sanitation works | | | | | | | |
| 1.1 Ciudad de la Costa – Area A sanitation system built | | | | | | | |
| Sewage treatment plant built | - | 1 | | | | | 100% 2095/OC-UR |
| Pumping station built | - | 1 | | | | | 100% 2095/OC-UR |
| Underground outfall built (km) | 0 | | 4.7 | | | | 25% 2095/OC-UR and 75% UR-L1075 |
| Underwater outfall built (km) | 0 | | 1.0 | | | | 100% 2095/OC-UR |
| Pump line built (km). | 0 | | 4.4 | | | | 25% 2095/OC-UR and 75% UR-L1075 |
| Sanitation networks built (km) | 21.2 | 13.9 | 2.0 | 15.0 | 12.8 | | 50% 2095/OC-UR and 50% UR-L1075 |

¹ The baseline for this indicator will be determined in September 2012.

² Achievement associated with loan 2095/OC-UR, operation UR-L1075, or a combination of the two.

³ Until the WWTP is finished and the subfluvial outfall built (2015) it will not be possible to install the network connections, so the number of **effective connections** [in 2012] is 0.

⁴ The target is an effective connection rate of 60% of homes in Area A. The total number of potential connections is 4,500.

⁵ Elimination of critical flood-prone areas for a return period of 10 years.

| Output indicators by subcomponent | 2011 baseline | 2012 | 2013 | 2014 | 2015 | 2016 | Impact ² |
|---|---------------|------|------|------|------|------|---------------------------------|
| Component 2: Storm drainage and road paving works | | | | | | | |
| 2.1 Storm drainage system built | | | | | | | |
| Rainwater collectors built (km) | 0.6 | 0.3 | 2.9 | 1.0 | 0.5 | | 56% 2095/OC-UR and 44% UR-L1075 |
| Ditches or sewers built (km) | 1.6 | 19.0 | 11.0 | 8.0 | 16.0 | 7.6 | 56% 2095/OC-UR and 44% UR-L1075 |
| Streets paved (km) | 2.4 | 10.0 | 19.9 | 6.0 | 12.0 | 5.4 | 56% 2095/OC-UR and 44% UR-L1075 |
| Component 3: Institution-strengthening | | | | | | | |
| 3.1 Obras Sanitarias del Estado (OSE) strengthened | | | | | | | |
| Network operation and maintenance manual designed | - | | 1 | | | | 100% 2095/OC-UR |
| Environmental training module for treatment plant operators developed | - | | 1 | | | | 100% 2095/OC-UR |
| 3.2 Municipality of Canelones strengthened | | | | | | | |
| Maintenance unit with cost accounting in place | - | | | 1 | | | 100% 2095/OC-UR |
| Storm drainage and road maintenance plan designed | - | | | 1 | | | 100% 2095/OC-UR |
| Batch of road and storm drain maintenance equipment purchased | - | | | 1 | | | 100% 2095/OC-UR |

FIDUCIARY AGREEMENTS AND REQUIREMENTS

| | |
|--------------------------|--|
| Country: | Uruguay |
| Project number: | UR-L1075 |
| Name: | Supplementary Financing for the Integrated Sanitation Program for Ciudad de la Costa |
| Executing agency: | Obras Sanitarias del Estado (OSE) |
| Prepared by: | Gabriele M. del Monte and Nadia Rauschert |

I. THE COUNTRY'S FIDUCIARY CONTEXT

- 1.1 The fiduciary agreements and requirements established for this program are based on the following existing analyses: a 2005 Country Financial Accountability Assessment (CFAA), the ICAS of the executing agency in June 2012, and previous knowledge of the executing agency (OSE), which has been responsible for several loans (785/OC-UR closed and 2095/OC-UR in execution). In March 2011 an evaluation of public finance management was begun using the PEFA methodology. The final report giving the evaluation's findings is due in the second half of 2012.
- 1.2 Uruguay's fiduciary risk is considered low, i.e. there is little likelihood that public and donors' funds will be used for unauthorized purposes. In general, public financial administration in Uruguay is considered to be responsible and transparent, but subject to a high degree of control, which can slow down the processes involved. As regards public procurement, it has a recognized legal and institutional framework and its legal basis is sound, but certain weaknesses undermine effectiveness and generate higher costs in terms of process transaction costs. Studies conducted in 2005 and 2008¹ indicate that corruption is not perceived as a problem and rank the country as being "medium risk."
- 1.3 The estimated total cost of the program is US\$24.4 million (US\$9 million in Bank financing and US\$15.4 million from the local counterpart). The borrower and executing agency will be the OSE, with the Eastern Republic of Uruguay as guarantor for the operation. The OSE, through the Externally Financed Programs Department (GPFE) will maintain an administrative-financial structure that will be responsible for administering the operation's resources, and managing timely payment of the local counterpart contributions.

¹ CPAR and PRODEV

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 The executing agency is a government legal entity created as a decentralized service by Act 11907 passed on 19/December/1952 and its successive amendments.
- 2.2 For the purposes of illustration, the context of the systems with which the executing agency operates are described below:
- a. Budget. The OSE's annual budget is drawn up in accordance with the constitutional provisions in force, and structured according to the rules applicable to the entity in view of its specialization. The OSE prepares its budget annually and submits it to the Executive Branch for approval.
 - b. Treasury. There is a treasury section in the Finance-Accounts Department responsible for all payments, including externally financed loans.
 - c. Accounting and financial reports. The executing agency uses the SAPI program, which runs on the SAP Management and Accounts system platform the OSE uses for its management, and prepares its annual financial statements according to accounting rules in force in Uruguay.
 - d. Internal control. There is an internal audit unit called the "Inspección General" [Office of the Inspector General], which executes an annual program.
 - e. External control. Under the Constitution, its annual financial statements must be endorsed by the Audit Office of the Republic (TCR).
 - f. Procurement procedures: these are based on the amended text on Accounting and Financial Administration (TOCAF). For the goods and services administration system (SABS) the ICAS rating, as regards execution capacity, reports: standards and procedures on requests, authorization, pricing, contracting, verification of execution or delivery, registration and verification of the existence of goods and services acquired in the execution of the schedule of operations, a satisfactory level and low risk.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The OSE has a low risk profile, such that the fiduciary mitigation actions will be those typical for this level of risk.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 Below are the agreements and requirements to be reflected in the Special Provisions:
- a. Exchange rate. For dollar-based accounting, it is suggested that the same criterion be used as for loan 2095-OC-UR, i.e. that the exchange rate at which funds disbursed by the Bank were converted to local currency be used for the conversion to dollars.

- b. Financial statements: Considering that this operation involves supplementary financing for the aforementioned loan, it is suggested that, if possible, consolidated financial statements be delivered at the end of each year and audited by the TCR. The TCR will also report on the review of disbursement processes and requests, the evaluation of the internal control environment, and any potential breaches of the provisions of the loan contract.
- c. Taxes. The same criterion as for loan 2095/OC-UR will be applied, namely that taxes will not be paid for from the supplementary loan, considering that the operation enjoys a tax exemption.
- d. Bank account. For operational management, a specific bank account will be opened at the Central Bank of Uruguay (BCU).

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The procurement policies applicable to this loan are GN-2349-9 and GN-2350-9, as this is a supplementary loan for loan 2095/OC-UR, the contract for which was signed under the Bank procurement policies in place before the new policy came into effect in March 2011.

A. Procurement execution

- 5.2 The execution unit will update the Procurement Plan Execution System (SEPA) with the new amounts, and keep it updated. In this case, the amounts will be consolidated with those of the previous loan.
- 5.3 The relevance of the expense, i.e. the ToR, technical specifications, bidding documents, and budget, is the responsibility of the Project Team Leader/Sector Specialist and, in all cases, will require the prior no objection regarding the start of the procurement, according to the operating criteria of the Project Team Leader/Sector Specialist.
- 5.4 **Procurement of works, goods and nonconsulting services:**² Not applicable.
- 5.5 **Procurement, selection, and contracting of consultants** Not applicable.
- 5.6 **Training:** Not applicable.
- 5.7 **Advance procurement/Retroactive financing:** Not applicable.
- 5.8 **Main procurement items.** As supplementary resources for International Competitive Bidding 10693, there is no procurement plan as such. Instead, consolidation with the procurement plan in force for loan 2095/OC-UR is envisaged.

² Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank ([GN-2349-9](#)) paragraph 1.1: Nonconsulting services will be treated in the same way as goods.

Main procurement activities with financing resources (US\$ 000)

| | |
|--|---------------|
| WORKS | 12,760 |
| Supplementary contribution to the sanitation works | 9,000 |
| TOTAL | 9,000 |

- 5.9 **Recurrent costs:** Not applicable.
- 5.10 **Funds awarded by competition:** Not applicable.
- 5.11 **Procurement supervision:** will follow the conditions envisaged for loan 2095/OC-UR.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 6.1 **Programming and budget.** No requirements further to those in the contract.
- 6.2 **Accounting and information systems.** Project accounting records will be kept using the executing agency's SAPI. The project's financial statements must be issued in accordance with accounting standards accepted by the Bank in its Financial Management Policy and must be audited annually by the TCR.
- 6.3 **Disbursements and cash flow.** For the purposes of executing project funds, the executing agency must enable a special account in the program's name at the BCU, into which fund disbursements from the Bank will be received for subsequent transfer to another account used by the project for payments.
- 6.4 Disbursements will be paid in the form of advances, based on actual liquidity needs, supported by adequate financial and disbursement forecasts.

VII. INTERNAL CONTROL AND EXTERNAL AUDITING

- 7.1 Project external audit reports (consolidated with those of loan 2095/OC-UR) and the review of the disbursement requests and processes must be submitted for each fiscal year during the disbursement stage, by 30 April of the following year. International Auditing Standards (IAS) and the relevant guides issued by the Bank will be followed. Reports by the Internal Audit Area may also be taken into account where they consider aspects of the project.

VIII. FINANCIAL SUPERVISION PLAN

- 8.1 The plan includes the following points: (i) for the first year of execution a financial visit is planned, which will review the timeliness of the accounting records and document file, among other points; and (ii) the disbursement requests will be reviewed ex post and verified by the TCR or an independent auditor with the submission of the annual reports.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/12

Uruguay. Loan ___/OC-UR to the Eastern Republic of Uruguay
Integrated Sanitation Program for Ciudad de la Costa
Supplementary financing

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Administración de las Obras Sanitarias del Estado (OSE), as Borrower, and with the Eastern Republic of Uruguay, as Guarantor, for the purpose of granting the former a supplementary financing to cooperate in the execution of an integrated sanitation program for Ciudad de la Costa. Such financing will be for an amount of up to US\$9,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ _____ 2012)

LEG/SGO/CSC/IDBDOCS: 37044376
Pipeline No. UR-L1075