

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

CIUDAD DE LA COSTA—WEST AREA SANITATION PROJECT

(UR-L1094)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Annual work plan (AWP) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38815408
2.	Monitoring and evaluation arrangements http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38822127
3.	Procurement plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38892203
4.	Environmental and social management report (ESMR) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38892184
OPTIONAL	
1.	Socioeconomic analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38826185
2.	Financial analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38892164
3.	Technical analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38892172
4.	Institutional analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38892166
5.	CCLIP evaluation report http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38823888
6.	Midterm evaluation report http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38823889
7.	Cost study of infrastructure projects with emphasis on water and sanitation http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38892212
8.	Loan proposal: CCLIP and Second Individual Loan for the Integrated Sanitation Program for Ciudad de la Costa, 2790/OC-UR http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37120025
9.	Draft progress monitoring report (PMR) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38892216
10.	Safeguard policy filter report and safeguard screening form for classification of projects http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38892148

ABBREVIATIONS

AWP	Annual work plan
BCU	Banco Central de Uruguay [Central Bank of Uruguay]
CCLIP	Conditional credit line for investment projects
CdC	Ciudad de la Costa
CHC	China Cofinancing Fund for Latin America and the Caribbean
DINAGUA	Dirección Nacional de Aguas [National Water Directorate]
DINAVI	Dirección Nacional de Vivienda [National Housing Directorate]
EDITDA	Earnings before interest, taxes, depreciation and amortization
ESA	Environmental and social analysis
ESMP	Environmental and social management plan
GCI-9	Ninth General Capital Increase, or Ninth General Increase in the Resources of the Inter-American Development Bank
GPFE	Gerencia de Programas con Financiamiento Externo [Externally Financed Programs Department]
ICAS	Institutional Capacity Assessment System
ICB	International competitive bidding
IM	Intendencia de Montevideo [Municipality of Montevideo]
INE	Instituto Nacional de Estadística [National Statistics Institute]
IRR	Internal rate of return
LRAC	Long-run average cost
NCB	National competitive bidding
O&M	Operation and maintenance
OSE	Administración de las Obras Sanitarias del Estado [National Water Supply and Sanitation Administration]
PDAM M	Plan Director del Área Metropolitana de Montevideo [Montevideo Metropolitan Area Master Plan]
PEU	Project execution unit
QCBS	Quality- and cost-based selection
SFW	Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean
TCR	Tribunal de Cuentas de la República [Audit Office of the Republic]
URSEA	Unidad Reguladora de Servicios de Energía y Agua [Energy and Water Services Regulatory Unit]
WWTP	Wastewater treatment plant

PROJECT SUMMARY

URUGUAY CIUDAD DE LA COSTA—WEST AREA SANITATION PROJECT (UR-L1094)

Financial Terms and Conditions					
Borrower: Administración de las Obras Sanitarias del Estado [National Water Supply and Sanitation Administration] (OSE)			Flexible Financing Facility*		
			Amortization period:	25 years	
Guarantor: Eastern Republic of Uruguay			Original WAL:	15.25 years	
Executing agency: OSE			Disbursement period:	5 years	
Source	Amount	%	Grace period:	5.5 years	
IDB (Ordinary Capital)	US\$45 million	60%	Inspection and supervision fee:	**	
China Cofinancing Fund for Latin America and the Caribbean (CHC)***	US\$30 million	40%	Interest rate:	LIBOR-based	
			Credit fee:	**	
Total	US\$75 million	100%	Currency:	U.S. dollars from the Ordinary Capital	
Project at a Glance					
Project objective/description: The objective of this project is to expand networked sanitation coverage in the west area of Ciudad de la Costa (CdC), to improve quality (by reducing leakage from pipes) and operational efficiency (by reducing unaccounted-for water) of water service in the west and central area of CdC, and to strengthen the utility company’s capacity to operate and maintain the CdC sanitation system. This operation will include: (i) an increase in sanitation coverage in the west area of CdC; (ii) replacement of water pipes in the west and central area of CdC; and (iii) training for OSE staff for proper operation and maintenance of the CdC sanitation system.					
Special contractual clauses:					
During execution: Within three months after eligibility, the executing agency will provide to the Bank, for its no objection, the design for a customer service center for receiving complaints from the affected population, together with the corresponding action protocols and implementation timetable (see paragraph 2.7).					
Exceptions to Bank policies: None.					
Project qualifies as:		SEQ []	PTI []	Sector []	Geographic []
					Headcount []

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

** The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

*** This segment of financing will be governed by the provisions of document GN-2686-4. The terms and conditions of this segment of financing will be the same as those for the segment of financing with resources from the Bank's ordinary capital, including the applicable provisions of the Flexible Financing Facility.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 The Eastern Republic of Uruguay covers an area of 176,000 square kilometers and is divided geographically into 19 departments. It has 3.25 million inhabitants (2011 Census), approximately 60% of whom live in the metropolitan area of Montevideo, the nation's capital. The 2004 Constitutional Amendment (Article 47) states that access to water and sanitation is a fundamental human right, and that these services must be provided exclusively by government-run corporations. Since this amendment, the national government and legislature have undertaken a number of actions to strengthen the regulatory and institutional framework. These have included passing the Potable Water and Sanitation Act in September 2009, creating an institutional framework for it, and formulating a Comprehensive National Potable Water and Sanitation Policy.¹
- 1.2 **Sector structure.** The institutional framework has been gradually implemented since 2005 and distinguishes among policy-making, regulation, and service delivery functions, assigning them to independent bodies. The National Water Directorate (DINAGUA), under the Ministry of Housing, Land-use Planning, and the Environment (MOVOTMA), plays the governing role in the sector and is responsible for proposing the National Water Policy. The Energy and Water Services Regulatory Unit (URSEA), which reports to the Office of the President, is in charge of economic regulation and service quality, customer care, formulating standards associated with regulatory aspects, and overseeing compliance. Providing clean drinking water service throughout the country is the responsibility of the National Water Supply and Sanitation Administration (OSE). Nationwide responsibility for providing sanitation services is divided between the OSE and the Municipality of Montevideo, which has exclusive responsibility for providing sanitation services in the Department of Montevideo. On the institutional level, the main challenge remains strengthening DINAGUA and URSEA, to support formulation of the National Sanitation Plan and consolidate sector regulatory functions.
- 1.3 **Water and sanitation coverage.** Uruguay has a high rate of water service coverage and is characterized by good quality public infrastructure, particularly in urban areas. According to 2011 Census data, drinking water coverage, in the form of a direct connection to the distribution system, is 98.7% of households in urban areas across the country. The average rate of coverage of sanitation services through a connection to the sewer system is high for the country as a whole, although there is a significant gap between the capital city and the interior. According to 2011 Census data, 85% of all households in the country have access to a sewage system, and of that total, 70% are in the urban area of the Department of Montevideo, and only 30% in the interior. Historically, in sanitation projects, in the first few years after completion of the works, there is a low rate of connection to the systems (less

¹ This includes sanitation, drainage and storm sewers, and disposal of solid wastes.

than 50%) among sewer frontage housing, resulting in low levels of service delivery to the population. For the country as a whole, the reasons for this situation have to do primarily with the high costs of adapting internal installations in some dwellings to allow them to connect to the sewer system, technical and financing problems in implementing the necessary works for the lower-income population, and a lack of knowledge of the health consequences and environmental harm caused by misuse of existing individual solutions. To address this low connectivity, Law 18840 was promulgated in late 2011, and its implementing regulations in February 2013 (Decree 059/012), making connection to the public sewer network mandatory and establishing a financing mechanism geared to users' incomes² (see paragraph 2.5).

- 1.4 **Management of the OSE.** The OSE's operating income is sufficient to cover operation and maintenance (O&M) and to service its debts. This enables the OSE to implement service quality improvements and allows it to support the leveraging of investments required to maintain universal drinking water coverage and guarantee collection and treatment of wastewater for users outside the capital over the medium to long term. The OSE reports adequate indicators of productivity and return: 4.7 employees per 1,000 connections and a mean gross operating margin, or EBITDA, of around 21.1%³ for the last three years. However, its level of "unaccounted-for water"⁴ is estimated at 52.60%, and is even higher (55.59%)⁵ in the Montevideo metropolitan area, which includes Ciudad de la Costa (CdC). To address this issue, the OSE is implementing a program to reduce unaccounted-for water, with multilateral financing.⁶
- 1.5 **The Montevideo Metropolitan Area Master Plan (PDAMM).** This master plan, financed with resources from loan 785/OC-UR, prioritized the main infrastructure and business management projects between now and 2030 and identified three major systems for sanitation service expansion. These include the Coastal System, which encompasses Ciudad de la Costa, Pando, Capitán Artigas, Toledo-Suárez and Salinas, making it a regional wastewater collection and treatment system projected to serve a population of 350,000 by 2030.
- 1.6 **Water and sanitation service in Ciudad de la Costa.** Water and sanitation services in CdC are the responsibility of the OSE. The city has drinking water networks covering nearly all its territory. However, areas have been identified where the 30-year-old networks have exceeded their useful life and need to be

² Law 18840 on Mandatory Sanitation Connections (see [link](#)).

³ The benchmarks used in the sector are: (i) 5 employees per 1,000 connections; and (ii) 20% gross operating margin.

⁴ Unaccounted-for water is an indicator used to periodically evaluate and monitor the operational performance of drinking water supply systems. The average unaccounted-for water among the region's water suppliers is 35%.

⁵ OSE 2013 transitional performance indicators (see [link](#)).

⁶ World Bank loan, May 2012: Uruguay: Sustainable and Efficient OSE.

changed,⁷ especially given the material with which significant portions were built (asbestos cement). In particular, in zone B, where no work has yet been done, there are 46 km of asbestos cement water pipe, 55 km of PVC, and 3 km of other materials. Pipes of this kind, in contrast to high-density polyethylene or polypropylene pipes, which the OSE is now using, require frequent repairs,⁸ are susceptible to leaks,⁹ and do not allow for proper management of pressure, which contributes to the utility's high levels of unaccounted-for water (see paragraph 1.4). In terms of sanitation coverage, zones A, B and C of Ciudad de la Costa had no networks before the intervention now underway with loans 2095/OC-UR and 2790/OC-UR. When those projects are completed, 12,100 households in CdC will have networked sewer coverage (56%). This operation is expected to increase coverage to 87% (an additional 6,700 households). In this project's target area, residential effluents are evacuated through individual static systems that, if operated properly, must be emptied by pump trucks. However, in order to minimize the hiring of pump trucks, homeowners puncture cesspools to allow liquid wastes to filter into the soil. This degrades the quality of the environment by contaminating¹⁰ the soil and the water table, which in CdC is found on average at a depth of one meter. The situation becomes critical at times of heavy rainfall, since the sewage mixes with the rainwater as the water table rises, creating surface runoff that poses a health risk.¹¹ Moreover, this runoff is conveyed to CdC's beaches, where it has an adverse impact on their recreational use. At present (and until the CdC sewage treatment plant is fully operational), the pumped liquids are disposed of at the Pinar Norte treatment plant, which is now operating well above full capacity (currently receiving discharges from 100 trucks a day, whereas it was designed for 50 trucks) and has O&M problems.

B. The county's and the Bank's strategies

- 1.7 **Government strategy.** The government has set itself the target of achieving universal access to water and sanitation services, as well as fostering their sustainability. To this end, it supports the financing of sovereign guaranteed investment projects to expand coverage, particularly in the case of sanitation,

⁷ Based on the type of infrastructure and the component materials, the estimated useful life would be: (i) for mechanical and electrical equipment, 15 to 25 years; and (ii) for pressurized conduction pipes, 25 years. See: "The International Infrastructure Management Manual, version 1.0, Australia," in the Environmental Protection Agency (EPA) publication, *The clean water and drinking water infrastructure gap analysis*, EPA-816-R02-20, September, 2002 (see [link](#)).

⁸ According to information provided by the OSE, the rupture rate for the current water systems is 8.8 occurrences/km/year, whereas for new water systems similar to those to be used in CdC this rate is only 0.9.

⁹ According to the OSE, high density polyethylene pipes and polypropylene pipes reduce leakage by 4,500 cubic meters/kilometer/year.

¹⁰ Empirical evidence of the impact of sewage pollution from individual systems on the subsoil and groundwater can be found in *Groundwater and its susceptibility to degradation*, UNEP, 2003 (see [link](#)).

¹¹ OSE presentation on the comprehensive project for sanitation, storm drainage, and road infrastructure in CdC, 2008 (see [link](#)).

wastewater treatment, and improving the operational management of the OSE and the Municipality of Montevideo.

- 1.8 **Strategic alignment.** The program is consistent with the strategic objective of expanding sanitation coverage in the Bank's country strategy with Uruguay for 2010-2015 (document GN-2626). This operation will also contribute to the lending program priority targets of the Bank's Ninth General Capital Increase (GCI-9) (document AB-2764) for "lending to small and vulnerable countries" and "lending to support climate change initiatives, energy efficiency, and environmental sustainability." The program will contribute to the following Bank outputs (as defined in the GCI-9 results framework): (i) households with new or upgraded water supply; and (ii) households with new or upgraded sanitary connections. Lastly, this project is aligned with the priority areas for action of the IDB Infrastructure Strategy: Sustainable Infrastructure for Competitiveness and Inclusive Growth (document GN-2710-5), in particular: (i) promote access to infrastructure services; and (ii) support the construction and maintenance of socially and environmentally sustainable infrastructure, thus enhancing quality of life.
- 1.9 **Consistency with Bank policies.** This program satisfies the financial sustainability and economic evaluation conditions of the Public Utilities Policy (document GN-2716-6) and is consistent with its principles. The OSE's operating revenues cover its O&M costs and are sufficient to meet its financial commitments, ensuring financial sustainability (see paragraph 2.13). The works to be financed are socially and economically viable (see paragraph 2.9). The OSE also has reduced rates and a targeted program for access to service for low-income populations;¹² institutional organization in the sector is adequate, with the roles of policy formulation, regulation, and service delivery properly segregated (see paragraph 1.2). In addition, the program complies with the Policy on Basic Environmental Sanitation (Operational Policy OP-745) by providing for treatment of wastewater generated through the increase in consumption due to improvements in the quality of drinking water service (see paragraph 1.21).
- 1.10 **The Bank's involvement.** The Bank supported the National Water and Sanitation Program I (loan 785/OC-UR), executed by the OSE and concluded in 2004. The work financed by that program included extending drinking water systems, building sewerage systems, and drawing up the PDAMM. The Bank subsequently financed two operations of the Integrated Sanitation Program for Ciudad de la Costa (loans 2095/OC-UR and 2790/OC-UR), as the first and second operations under the CCLIP UR-X1006. In addition, the Bank is drawing on nonreimbursable resources from the Spanish Cooperation Fund for Water and Sanitation in Latin America and

¹² Water service to beneficiaries of social plans of the Ministry of Social Development (MIDES) and to dwellings located in settlements identified by MOVOTMA and households considered to be socioeconomically vulnerable, as identified by the National Housing Directorate (DINAVI), will be eligible for a subsidy on consumption of up to 15 cubic meters; the fixed and variable charge will be billed at Ur\$82.15 for water and Ur\$131.46 for sanitation service, up to the established consumption ceiling (Tariff Decree of January 2014, see [link](#)).

the Caribbean (SFW) to support a Small Rural Community Water Supply Program (GRT/WS-12278-UR), formulation of the National Plan for Integrated Water Resource Management, and strengthening of DINAGUA (ATN/OC-12393-UR and ATN/WS-12866-UR), through a technical cooperation operation cofinanced with SFW resources.

C. Integrated Sanitation Program for Ciudad de la Costa

1.11 In December 2008, the Bank's Board of Executive Directors approved a CCLIP (UR-X1006, US\$80 million) to execute the Integrated Sanitation Program for Ciudad de la Costa. The objective of the program was to contribute to better quality of life for the people of the city of CdC by expanding the coverage of the sanitary sewer services and improving the city's environmental quality, especially water quality in the Arroyo Pando river and aquifers, so that the beaches remain safe for recreational use. At the same time, stormwater drainage and paving of streets, which are an integral part of the program, are helping to improve the quality of urban life. The CCLIP focused on three geographic zones of Ciudad de la Costa—A, B and C—and involved a staged series of interventions in those zones.

1.12 The first loan operation (2095/OC-UR) under CCLIP I, approved in December 2008 for US\$82.5 million (with US\$43 million in IDB financing), includes works and activities under the following three components:

Table I.1. Progress of Works as of March 2014

	Works description	Completion date	Physical progress
CCLIP I	Treatment plant	Aug-12	100%
	Pumping station EB-2	Aug-12	100%
	Sanitation networks, Zone A	Jun-15	70%
	Underwater outfall	Aug-14	80%
	Sewer force mains and land outfall	Nov-14	50%
	Storm drainage and roads, Zone A-West	Jun-16	30%
CCLIP II	Interconnection Pando and CdC WWTPs	Aug-14	90%
	Sanitation networks in Zones B1 and C1	Jun-16	0%

(i) sanitation infrastructure: treatment plant, pumping station, land and underwater outfalls, force mains for the entire CdC system and sanitation networks in Zone A; (ii) drainage and paving infrastructure: collectors, ditches and drains, resurfacing and paving works in Zone A; and (iii) institution-strengthening: training, preparation of O&M manuals, establishment of the drainage and pavement maintenance unit. Project execution is considered satisfactory: 100% of the loan has been committed, and US\$39.54 million (90%) disbursed. Works under this operation experienced cost overruns, primarily due to inflation-induced price adjustments and exchange rate fluctuations, which in 2012 led to a supplementary loan (2785/OC-UR) of US\$9 million. The program performance report (see [optional electronic link 5](#)) indicates that the final disposal system of CdC will be completed in the fourth quarter of 2014, and the Zone A sanitation networks in the first half of 2015. Table I.1 summarizes the physical progress of the works. It should be noted that the "Stormwater drainage works and paving of roads"

component is financed with local counterpart resources from the Municipality of Canelones.

- 1.13 The second loan operation (2790/OC-UR) under CCLIP II, approved by the Bank's Board of Executive Directors in September 2012 for US\$39.51 million (with US\$27.25 million financed by the IDB) has a sanitation works component that includes expanding network coverage in CdC Zones B1 and C1 (which drain by gravity into Zone A, and are subwatersheds of Zones B and C, respectively), rehabilitation of existing sanitation networks in Pando, interconnection of the Pando sewer system with the CdC wastewater treatment plant (WWTP), and home connections. The operation also includes a studies and designs component for plans to expand the sanitation system of the CdC and its area of influence. Project execution is considered satisfactory: 100% of the loan has been committed, and US\$8 million disbursed. The midterm evaluation report (see [optional electronic link 6](#)) indicates that interconnection of the Pando network with the WWTP will be completed in the second half of 2014, and the works in Zones B1 and C1, awarded in March 2014, will be completed in the first half of 2016. Table I.1 summarizes the physical progress of these works.
- 1.14 **Lessons learned.** The main lessons learned from the loans now in execution under the Integrated Program for Ciudad de la Costa were taken into account during preparation of this operation: (i) the funding allocated to contingencies and cost escalation was generally inadequate, since the magnitude of the increase in construction prices and the appreciation of the Uruguayan peso against the U.S. dollar were hard to predict. Consequently, during the design of this operation an analysis was done, using stochastic methods, to determine more accurately the contingencies and cost escalation component that the project might require (see paragraph 2.1); and (ii) in light of the delay in some of the bidding processes under loans 2095/OC-UR and 2790/OC-UR, particularly at the selection and award stage, the OSE established special award commissions to minimize the times required for bidding processes. This activity has been included in the Risk Matrix for this project (see [required electronic link 6](#)) as a mitigation measure for the fiduciary risk of delays in the bidding processes (see paragraph 2.4).

D. Project design

- 1.15 This project will contribute to the objective of the Integrated Program for Ciudad de la Costa in terms of better quality of life for the population by providing access to

the networked sanitation system,^{13 14} and reducing the pollution of aquifers in the coastal region by eliminating the use of individual systems. Another goal of building sanitation infrastructure was to help preserve the area's beaches for recreational use. The first loan operation (2095/OC-UR) included a system for treatment and final disposal of wastewater from the city. Construction is now nearing completion on the underwater sewage outfall into the River Plate. Taking advantage of the existence and installed capacity of this new treatment and final disposal system, this project will focus the bulk of the available resources on expanding the sewer network in the west area of CdC. This means that this area can be served at a low cost per inhabitant.

- 1.16 Once in operation, the treatment and final disposal system for Ciudad de la Costa will be operated by the contracted firm for one year (2015-2016). However, these contracts do not include training modules for OSE staff, since OSE had not yet determined (during the design of loan 2095/OC-UR) whether it would operate the final disposal system with its own staff or hire a private firm. As OSE has now decided to operate the system directly, this project includes specific training for its staff on operation and maintenance of the CdC treatment plant, the pumping systems, and the outfall system for final disposal.
- 1.17 In addition to the OSE efforts now under way (see paragraph 1.4), this project will also contribute to the objective of reducing levels of unaccounted-for water by replacing water pipes that have reached the end of their useful life, which not only are prone to frequent bursts but cannot maintain optimal pressure, exacerbating the problem of unaccounted-for water and lowering the quality of service.¹⁵
- 1.18 Although this operation contributes to the objectives of the Integrated Sanitation Program for Ciudad de la Costa, it is not proposed to process it as an operation under the CCLIP (UR-X1006). That decision is based on the fact that: (i) the

¹³ Evaluation of the impact of access to sanitation on human health in Treinta y Tres, Uruguay can be found in: "Uruguay – Measuring human development outcomes through water and sanitation connectivity: Treinta y Tres Municipality, Uruguay," World Bank, 2013. (see [link](#)). Mascarini, M. L et al., "Impacto de um programa de saneamento ambiental na prevalência e na incidência de parasitoses intestinais na população de idade escolar de Salvador" [Impact of an environmental sanitation program on the prevalence and incidence of intestinal parasites among the school-age population of Salvador], *Revista VeraCidade*, year IV, no. 14. March 2009 (see [link](#)). Moraes, L. R. et al., "Impact of drainage and sewerage on diarrhea in Salvador, Brazil." *Transactions of the Royal Society of Tropical Medicine and Hygiene*. 2003 Mar-Apr; 97(2): 153-8 (see [link](#)).

¹⁴ Empirical evidence of the effectiveness of installing sewer and drainage systems for improving health and the environment can be found in: "Avaliação do projeto Belém-Pará. Estudo longitudinal da bacia do UNA" [Evaluation of the Belém-Pará project: longitudinal study of the UNA watershed], 2004 (see [link](#)); Ampla. 2006. Ex post evaluations of project 649/OC-BR (see [link A](#) and [link B](#)).

¹⁵ Empirical evidence of the effectiveness of interventions of this kind in reducing unaccounted-for water can be found in: Rizzo, Alex, David Pearson, Matthew Stephenson, and Neil Harper, "Apparent loss control: a practical approach," International Water Association (IWA), *Water 21*, seventh article, IWA Task Force, June 2004 (see [link](#)); Miya 2014, "Annual project implementation report for 2013." Water and Sewerage Corporation, The Bahamas (see [link](#)); and Wyatt, A., 2014, RTI International, "Database on NRW Projects" (see [link](#)).

integrated design of the CCLIP no longer applies, given the decision by the OSE and the Municipality of Canelones to continue with the investments in Ciudad de la Costa independently, although in coordination with one another; and (ii) the execution mechanism designed into the CCLIP is inconsistent with the new financing arrangements to be used by the Municipality of Canelones, which opted for a financing alternative with private sector involvement, under the legislation in force,¹⁶ to make the drainage and paving investments in the west area of Ciudad de la Costa.

E. Project objectives

- 1.19 The objective of this project is to expand networked sanitation coverage in the west area of Ciudad de la Costa (CdC), to improve quality (by reducing leakage from pipes) and operational efficiency (by reducing unaccounted-for water) of water service in the west and central area of CdC, and to strengthen the utility company's capacity to operate and maintain the CdC sanitation system. This operation will include: (i) an increase in sanitation coverage in the west area of CdC; (ii) replacement of water pipes in the west and central area of CdC; and (iii) training for OSE staff for proper operation and maintenance of the CdC sanitation system.

F. Project components

- 1.20 **Component 1. Sanitation works** (US\$51.3 million). This component includes: (i) sanitation systems (US\$41.5 million), involving construction of approximately 100 km of secondary networks and drains, providing access to service for approximately 6,700 dwellings and completing the sewer network in the west area of CdC; (ii) coastal interceptor (US\$2.0 million), involving the construction of approximately 2.2 km of collector to receive wastewater from the entire project area and convey it to the EBC-1 pumping station, which in turn will pump the wastewater to the main pumping station of the CdC system (EBC-2, built under loan 2095/OC-UR), and from there it will be pumped to the WWTP; and (iii) seven pumping stations (US\$7.8 million), which will complete the sanitation system in the west area of CdC; five of these stations will have a capacity of less than 100 liters per second (l/s), one will have capacity of between 100 and 200 l/s, and the station that pumps sewage collected from the coastal interceptor, EBC-1, has a capacity of 325 l/s.
- 1.21 **Component 2. Drinking water works** (US\$10.2 million). This component includes the replacement of approximately 120 km of the drinking water network in the west and central area (B1 and C1) of CdC (see paragraph 1.6), thus enhancing the quality of clean drinking water service (see paragraph 1.17) to approximately 7,000 dwellings by reducing pipe bursts.

¹⁶ Article 19 of the Economic Recovery Act ([Law 17555 of 2002](#)) empowers the departmental governments to receive initiatives relative to activities liable to be executed directly by private parties, concessioned in accordance with constitutional and legal requirements in force.

- 1.22 **Component 3. Institutional strengthening** (US\$0.2 million). This component will finance training for OSE personnel to ensure proper O&M of the CdC sanitation system, including the WWTP, the land and underwater outfalls, the network of pumping stations, and the sanitation networks.

G. Key results indicators

- 1.23 The Results Matrix (see Annex II) presents the outputs and outcomes of each component. Table I-2 sets out the main indicators.

Table I.2. Program Matrix of Indicators
(cumulative values at end of calendar year)

Program indicators	Base 2014	2015	2016	2017	2018	2019
1. Number of households newly connected to the sanitation network in the west area of CdC ^{1 2}	0	1,000	1,500	1,400	1,500	900
2. Unaccounted-for water in the west and central area of CdC (liters/connection/day)	365					150
3. Households with upgraded water connections in the west and central area of CdC (households) ²	0	2,350	1,750	1,750	900	250
4. Systems operating and maintained in accordance with design technical specifications (system)	0		1			

¹ Indicator from the 2010-2015 country strategy.

² Contributes to GCI-9 indicator 3.2.2.

II. FINANCING STRUCTURE AND RISKS

A. Financing instruments

- 2.1 **Costs and financing.** This operation is structured as a specific investment program. The total cost will be US\$75 million, financed from the Bank's Ordinary Capital and the China Cofinancing Fund for Latin America and the Caribbean (CHC). Table II-1 shows the distribution of the estimated costs, including US\$10.8 million for contingencies and cost escalation. According to the cost analysis performed using stochastic methods (see [optional electronic link 7](#)), there is a probability of less than 30% that the direct costs (US\$61.5 million) will experience contingencies and escalation greater than 17%.

Table II.1. Costs and Financing (US\$)

CATEGORY	IDB	CHC	Total	%
ENGINEERING AND ADMINISTRATION	2,300,000		2,300,000	3.0
Project execution unit	2,300,000			
DIRECT COSTS	31,500,000	30,000,000	61,500,000	82.0
Sanitation works	21,300,000	30,000,000		
Replacement of drinking water networks	10,200,000			
INSTITUTION-STRENGTHENING	200,000		200,000	0.3
ASSOCIATED COSTS	200,000		200,000	0.3
Evaluation	200,000			
UNALLOCATED COSTS	10,800,000		10,800,000	14.4
Contingencies and cost escalation	10,800,000			
TOTAL	45,000,000	30,000,00	75,000,000	100.0

- 2.2 **Disbursement schedule.** The planned execution period for this operation is five years (see Table II-2). Disbursements will be made according to liquidity requirements. Disbursement requests will be accompanied by an expenditure forecast for the activities in the annual work plan (AWP) for the next 180 days. The project will use ex post review of processes and supporting documentation for disbursement requests. Expenditures ineligible for Bank financing will be repaid by the OSE.

Table II.2. Disbursement Schedule (US\$ millions)

	Year 1	Year 2	Year 3	Year 4	Year 5
Amount	4.0	15.0	19.0	20.0	17.0
TOTAL	4.0	19.0	38.0	58.0	75.0

B. Fiduciary and other risks

- 2.3 The fiduciary risk assessment was based on an analysis of institutional capacity of the project execution unit using the Institutional Capacity Assessment System (ICAS) (see [optional electronic link 4](#)), as well as a risk workshop (PRM) with key OSE staff who will be involved in project execution and administration. The experience and know-how of the Bank's Country Office in Uruguay, which is currently working with the OSE on the execution of loans 2095/OC-UR, 2785/OC-UR and 2790/OC-UR, was also taken into account. The risk assessment exercises performed during the design stage found the overall fiduciary risk of the program to be low, partly because of the OSE's experience in the use and application of various Bank tools in the programs now in execution (see [Annex III](#)).
- 2.4 The procurement risks identified relate to costs rising beyond the levels envisaged due to price escalation and delays in bidding processes that affect planned execution times and can drive up costs. The risk of cost increases is low/medium, due to the fact that: (i) all the works have designs ready for bidding, and (ii) the budgets for the final designs were updated using bid prices (loan 2790/OC-UR) for February 2014, corresponding to lots adjacent to the project area. According to the

cost analysis (see [optional electronic link 7](#)), the risk that the funds allocated to contingencies and cost escalation will be insufficient is low (see paragraph 2.1), and any shortfall will be financed from the local counterpart contribution.

- 2.5 The currently low rate of connection to sanitation networks in the country represents a medium-level risk. To mitigate this risk, loan 2790/OC-UR (see [optional electronic link 8](#)) included measures to raise users' awareness of the benefits of environmental sanitation and map out strategies to ensure that the envisaged connections materialize. These include: (i) design of a communication plan by OSE (financed with funds from loan 2790/OC-UR), to be implemented by the OSE Communications Department in the third quarter of 2014 (once the final disposal system is ready), to encourage residents of CdC Zone A to connect to the sanitation network; and (ii) ensuring compliance with the existing law on mandatory sewer connections (see paragraph 1.6). These measures will be implemented in the west area of CdC, once the sanitation system is ready, along with the lessons learned in Zone A, using the OSE's own funds.

C. Environmental and social impact

- 2.6 The program is expected to have a net positive environmental and social impact as it will improve the population's access to basic services and enhance the environmental quality of its target areas. This operation was classified as category "B" under the Environment and Safeguards Compliance Policy (Operational Policy OP-703), since it will cause localized, short-term adverse environmental and social impacts, for which effective mitigation measures are available. These impacts are those resulting from the civil engineering construction works, such as noise, dust, solid and liquid waste from camps, disruption of traffic and people's access to homes, public buildings, and services, and the risk of occupational accidents. An environmental and social analysis (ESA) was conducted during the design process, which found that the project complies with the applicable directives in OP-703 and the relevant provisions of other Bank policies, such as OP-102 (Access to Information) and OP-704 (Disaster Risk Management). The project complies with Directive B.02 of Policy OP-703 (country laws and regulations), B.03 (screening and classification), B.05 (environmental assessment requirements), B.06 (consultations), and B.07 (supervision and compliance).
- 2.7 The environmental and social management plan (ESMP) will include the mitigation measures for the environmental, social, occupational health and safety risks and impacts; the environmental and social management arrangements, defining the parties responsible for implementing mitigation measures, and a set of environmental management indicators. In order to minimize the adverse impact on people living in the project area, the OSE will submit a strategy for communicating with the population to be affected, which will be reviewed jointly with ESG. As a special execution condition, within three months after eligibility, the executing agency will provide to the Bank, for its no objection, the design for a customer service center for receiving complaints from the affected population, together with the corresponding action protocols and implementation timetable.

D. Special considerations, risks, and lessons learned

- 2.8 **Technical feasibility.** The proposed expansion of the sanitary sewer network represents a continuation of lines of work from two previous operations (see paragraphs 1.12 and 1.13) and addresses the priorities and main issues established in the PDAMM.¹⁷ This new operation builds on the experience gained, for example, by adjusting construction techniques to reflect the presence of loose, highly permeable, sandy soils along the coastal strip, in conjunction with a high water table. The proposed works are integrated into the city's sanitation system as a whole, taking advantage of an existing wastewater treatment plant and an underwater outfall currently under construction to guarantee appropriate treatment and proper disposal of collected wastewater. The treatment plant and the outfall were financed under the first operation mentioned. The final designs for the networks and pumping stations were completed in 2012 by an international consortium of consulting firms, using generally accepted engineering standards and principles. The works execution timetables and the estimated costs have been developed in light of previous procurement outcomes for similar works built by the OSE. The component for the replacement of drinking water networks takes advantage of sanitation interventions on public roads to replace those water networks that so require, given their age, condition, and type of material. The project also includes training for OSE staff in sanitation system O&M, taking into account the existence of a sewage treatment plant with anaerobic UASB-type reactors,¹⁸ land and underwater outfalls, and eight pumping stations that will require careful, ongoing attention.
- 2.9 **Socioeconomic viability.** An economic assessment was performed, using the cost-benefit method, for projects to replace water networks in CdC Zones B (West and B1) and C1, and to install sanitation networks in the west area of CdC. The investments were analyzed in terms of the net flow of expected benefits (benefits less costs valued at social prices in the scenarios "with" and "without" the project). The sanitation benefits were quantified using "willingness to pay" models calculated for CdC on the basis of socioeconomic surveys conducted in 2007 and updated with monetary corrections for median family income and/or the March 2014 consumer price index (CPI) of the National Statistics Institute (INE). To quantify the benefits of replacing the drinking water networks, estimates were made of the volume of water that would no longer be produced and transported and the reduction in O&M and repair cost over the useful life of the networks (20 years), valued at long-run average costs, LRAC (cost savings). The projects evaluated are socioeconomically viable with internal rates of return above 12% (the discount rate used in the analysis) (see [optional electronic link 1](#)).
- 2.10 **Sensitivity analysis.** The analysis included changes in the cost of investment and of O&M, cubic meters of water saved, the LRAC of water production and

¹⁷ Preparation of the PDAMM (2000) was financed by Bank loan 785/OC-UR.

¹⁸ Upflow anaerobic sludge blanket.

transportation, as well as values for willingness to pay and change in the rate of connections to the system. The project to replace the drinking water networks can withstand a cost increase of 10% or a reduction of up to 20% in cubic meters saved. The sanitation project can withstand cost increases of up to 25% or a reduction of up to 25% in expected benefits, but only a 10% reduction in the annual connection rate.

- 2.11 **Ability to pay.** The amount of the average monthly charge for the water and sanitation service was found to be less than 5% of family income for the program's beneficiary population. This charge comes to UR\$586.46 in CdC. For households in the lowest quintiles (5 and 4) the average charge represents 4.4% of household income. For households in the highest quintiles (1 and 2) the average charge represents 2.5% of household income.
- 2.12 **Financial viability.** The financial analysis of the OSE included both a historical analysis based on the entity's financial statements, and a financial model projecting the estimated financial position for the next 11 years. The historical financial information indicates that the OSE, with its own resources from service delivery (user charges), has been able to adequately cover its O&M and overhead costs (as reflected in an average annual EBITDA margin of 21.1% for the last three fiscal years), as well as its financing costs. Moreover, the OSE has achieved year-end net profits on its income statement, and has been able to finance a significant portion of its investment plan with internally generated funds. Rate schedule changes are made annually, and collection levels exceed 90% (see [optional electronic link 2](#)). The base case for the financial projections indicates that the OSE could maintain an adequate financial position over the projection period. During the loan disbursement period, the borrower must demonstrate to the Bank annually that it has sufficient capacity to cover O&M and depreciation costs with its operating income, and that its 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 will adopt measures acceptable to the Bank enabling it to meet these commitments.
- 2.13 **Institutional viability.** The ICAS assessment (see [optional electronic link 4](#)) indicates a satisfactory degree of development and low risk. This is consistent with the OSE's current satisfactory performance on programs executed with the Bank. Management of the OSE is underpinned by a modernized organizational structure resulting from an improvement plan implemented since 2005, as part of which the organization and functions of the Externally Financed Programs Department (GPFE) have been redesigned, enabling the OSE to internalize the strengthening received. The GPFE reports directly to the institution's General Manager and is responsible for executing and supervising projects financed with external resources. It serves as the direct liaison with multilateral lenders (primarily the IDB, the World Bank, and the CAF). Notwithstanding the specific nature of its responsibilities, its work is supported by the OSE's formal organizational structure through the Departments of Finance and Accounting, Supply, Human Resources, and

Information Technologies of the General Administration Branch, the Management Planning and Control Department, and the Department of Works, Drinking Water and Sanitation of the General Technical Branch and the Environmental Management Unit.

III. PROGRAM EXECUTION AND ADMINISTRATION

- 3.1 **Borrower and executing agency.** The borrower and executing agency will be the National Water Supply and Sanitation Administration (OSE), and the Eastern Republic of Uruguay will be the guarantor. The executing agency, acting through the Externally Financed Programs Department (GPFE), will be responsible for fully meeting the program objectives, administering the loan proceeds, and contract administration. The Works Department of the OSE will supervise execution of the works included in the project, and the Environmental Management Unit of the OSE will be responsible for execution of the wastewater treatment plant.
- 3.2 **Procurement.** Works, goods, and consulting services financed in whole or part with loan proceeds will be procured in accordance with the “Policies for the procurement of works and goods financed by the Inter-American Development Bank” (document GN-2349-9) and “Policies for the selection and contracting of consultants financed by the Inter-American Development Bank” (document GN-2350-9). Procurement processes will be subject to ex post review, with the exception of international competitive bidding. Direct contracting is planned, under the modality of extension of existing works contracts in execution with proceeds from loan 2095/OC-UR (see Annex III). All procurements to be conducted during a period must be included in the procurement plan approved by the Bank through the Procurement Plan Execution System (SEPA) and adhere to the methods and ranges established in it, as described in the Fiduciary Agreements and Requirements (see Annex III). The executing agency has agreed with the Bank on a procurement plan for the first 18 months of execution (see [required electronic link 4](#)).
- 3.3 **Retroactive financing.** The Bank may retroactively finance, as part of the loan proceeds, up to US\$6.5 million in eligible expenditures (8.7% of the proposed loan) incurred by the borrower prior to the loan approval date for works in Subzone B2-I, including the coastal interceptor (see [optional electronic link 3](#)), provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been incurred on or after 28 January 2014, but in no case will they include expenditures incurred more than 18 months prior to the loan approval date.
- 3.4 **Operation and maintenance.** The borrower will ensure that the works and goods financed with program resources are properly operated and maintained, in accordance with generally accepted technical standards. During the disbursement period, the executing agency will deliver a report to the Bank within the first quarter of each calendar year starting in the year of completion of the first project financed by the program, and for up to five years after the end of the program

- execution period, containing the annual maintenance plan for works and goods financed by the program, and information on the process of operation and maintenance done on works and equipment financed by the program. If the inspections performed by the Bank, or the reports it receives, show that maintenance is falling short of acceptable levels, the borrower will take the steps necessary to fully correct the deficiencies.
- 3.5 **Accounting and financial management.** The OSE will handle the accounting/financial management of the program, as it has been doing satisfactorily for loans 2095/OC-UR and 2790/OC-UR. The program's financial statements will be audited by the Audit Office of the Republic (TCR) or by a firm of independent auditors acceptable to the Bank. The annual financial statements will be delivered within 120 days after the end of the fiscal year, and the closing financial statements within 120 days after the last disbursement.
- 3.6 **Advance of funds.** Disbursements will be made under the advance of funds modality, based on actual liquidity needs for a maximum period of six months, as established in the "Financial management policy for IDB-financed projects" (document OP-273-2) and the "Financial management operational guidelines for IDB-financed projects" (document OP-274-1), as described in the Fiduciary Agreements and Requirements.
- 3.7 **Monitoring and evaluation.** The program will be monitored and evaluated using the program Results Matrix agreed upon with the executing agency (see Annex II), and by means of a midterm and final evaluation. The OSE will send six-monthly reports on the progress achieved and outcomes obtained, with a plan of action for the following six months, which will be used as the basis for the six-monthly update to the progress monitoring report for the loan, the draft of which has been agreed upon with the executing agency (see [optional electronic link 9](#)). In addition the following Bank supervision tools will be used: the program execution plan, AWP, procurement plan, and risk management plan. Arrangements for program monitoring and supervision and a data collection plan, including its budget, have been agreed upon with the executing agency (see [required electronic link 3](#)). The OSE will be ultimately responsible for monitoring and evaluation of the projects, for which it may engage independent consultants acceptable to the Bank.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives		Aligned	
Lending Program	i) Lending to small and vulnerable countries; and ii) Lending to support climate change initiatives, renewable energy and environmental sustainability.		
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) Households with new or upgraded water supply; and ii) Households with new or upgraded sanitary connections.		
2. Country Strategy Development Objectives		Aligned	
Country Strategy Results Matrix	GN-2626	To expand sanitation and drainage coverage.	
Country Program Results Matrix	GN-2756-2 *	The intervention is included in the 2014 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Evaluable	Weight	Maximum Score
	8.8		10
3. Evidence-based Assessment & Solution	9.0	33.33%	10
3.1 Program Diagnosis	2.4		
3.2 Proposed Interventions or Solutions	3.6		
3.3 Results Matrix Quality	3.0		
4. Ex ante Economic Analysis	10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.5		
4.3 Identified and Quantified Costs	1.5		
4.4 Reasonable Assumptions	1.5		
4.5 Sensitivity Analysis	1.5		
5. Monitoring and Evaluation	7.5	33.33%	10
5.1 Monitoring Mechanisms	2.5		
5.2 Evaluation Plan	5.0		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Medium		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B		
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/PDP Criteria)	Yes	Financial Management: i) Budget, ii) Treasury, iii) Accounting and Reporting, iv) External Control, and v) Internal Audit.	
Non-Fiduciary			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

* 2014 Operational Program Report Update under revision.

The Sanitation Program for Ciudad de la Costa - Western Zone aims to improve the quality of life of its population, reduce groundwater contamination and improve beach conditions in the coast area next to the River Plate shore in the Coastal City. To achieve these goals, the program increases access to sanitation services through installation of a sewage network in the area, in addition to improving the quality and efficiency for potable water supply services, and strengthening institutional capacity of the agency responsible for the provision of these services.

The POD presents a diagnosis of the current situation before the intervention. By extending the sewage system, it is expected that 6,300 households will benefit from this operation while 7,000 households will benefit from improved services in potable water supply. The logical framework presented in the POD describes how the program will contribute towards its final objectives, even though the program will not attempt to measure impact level outcomes. As such, the results matrix includes indicators for major outputs and outcomes, while not including or aiming to measure final impacts. The indicators in the results matrix meet the SMART criteria for components 1 and 2.

The POD includes a plan for the program's monitoring and evaluation and these activities have been planned and budgeted. The data sources for monitoring include audit reports, consultancy reports, administrative data and a survey of 300 households. The proposed evaluation is an intermediate and final operational assessment and ex-post cost-effectiveness analysis.

RESULTS MATRIX

Program objective¹	The objective of this project is to expand networked sanitation coverage in the west area of Ciudad de la Costa (CdC), to improve quality (by reducing leakage from pipes) and operational efficiency (by reducing unaccounted-for water) of water service in the west and central area ² of CdC, and to strengthen the utility company’s capacity to operate and maintain the CdC sanitation system. This operation will include: (i) an increase in sanitation coverage in the west area of CdC; (ii) replacement of water pipes in the west and central area of CdC; and (iii) training for OSE staff for proper operation and maintenance of the CdC sanitation system.								
Outcome indicators (purpose) by component									
Component 1. Sanitation works									
	Baseline (May 2014)	2014	2015	2016	2017	2018	2019	End of Project	Means of verification
Number of households newly connected to the sanitation network in the west area of CdC (households) ³	0		1,000	2,500	3,900	5,400	6,300	6,300 ⁴	Requests for connection to the sanitation network. Responsible unit: OSE Business Department.
Number of households with sewage treatment service in the west area of CdC (households)	0		1,000	2,500	3,900	5,400	6,300	6,300	Requests for connection to the sanitation network. Responsible unit: OSE Business Department.
Component 2. Drinking water works									
Unaccounted-for water in the west and central area of CdC (liters/connection/day)	365						150	150	Water accounts prepared by the OSE Water Losses Department.
Households with upgraded water connections ⁵ in the west and central area of CdC (households)	0	0	2,350	4,100	5,850	6,750	7,000	7,000	Number of connections replaced according to works certificates. Responsible unit: Works Department, OSE.
Number of network ruptures in the west and central area of CdC (number/km/year)	8						0.9	0.9	Number of bursts repaired as recorded by the Metropolitan Area Department, OSE.

¹ The project will not generate information for measuring impact indicators.

² The central area of Ciudad de la Costa corresponds to Zones B1 and C1 of the second individual loan for the Integrated Sanitation Program for Ciudad de la Costa (loan 2790/OC-UR).

³ Households effectively connected to the sanitation network.

⁴ By the end of the project, 95% of households are expected to be connected to the sanitation network.

⁵ Service upgrade refers to better pressure and greater continuity. Continuity improvement is measured through the reduction in bursts (outcome indicator: number of bursts in the network in the central and west area of CdC).

Component 3. Institution-strengthening									
	Baseline (May 2014)	2014	2015	2016	2017	2018	2019	End of project	Means of verification
Sanitation systems operating and maintained in accordance with design technical specifications (system)	0	0	0	1	1	1	1	1	Achievement of wastewater treatment levels at the treatment plant and final disposal in the River Plate. Responsible unit: Environmental Management unit, OSE.
Output indicators by component	Unit of measure	2014	2015	2016	2017	2018	2019	End of project	Means of verification
Component 1. Sanitation works in Ciudad de la Costa, west area									
P1: Sanitation networks built	Meters	3,000	25,000	30,000	25,000	11,000	5,680	99,680	Six-monthly program status reports. Responsible unit: PEU.
P2: Coastal interceptor built	Meters	200	1,965	0	0	0	0	2,165	Six-monthly program status reports. Responsible unit: PEU.
P3: Pumping stations built	Number	0	2	5		0	0	7	Six-monthly program status reports. Responsible unit: PEU.
Component 2. Drinking water works in Ciudad de la Costa, west and central area									
P1: Water distribution networks replaced ⁶	Meters	6,000	35,000	44,000	22,000	10,000	5,261	122,261	Six-monthly program status reports. Responsible unit: PEU.
Component 3. Institution-strengthening									
P1: OSE staff trained for O&M of the CdC sanitation system ⁷	Persons	0	20	20	0	0	0	40	Six-monthly program status reports. Responsible unit: PEU.

⁶ The currently installed pipes, made of asbestos cement and PVC, will be replaced with pipes made of high-density polyethylene or polypropylene.

⁷ Training involves instruction for 40 OSE employees, with courses lasting approximately 4 months, in operation and maintenance of the treatment plant (UASB-type anaerobic digesters, sludge filtration stations, chlorination and clarification system, system control panels), the pumping stations system (8 in total), network maintenance, and underwater outfall.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Uruguay
Project number: UR-L1094
Name: Ciudad de la Costa–West Area Sanitation Project
Executing agency: Administración de las Obras Sanitarias del Estado [National Water Supply and Sanitation Administration] (OSE)
Prepared by: Nadia Rauschert and David Salazar

I. FIDUCIARY CONTEXT OF THE COUNTRY

- 1.1 The Fiduciary Agreements and Requirements established for this program are based on an institutional analysis of the executing agency performed in May 2014 using the Institutional Capacity Assessment System (ICAS). It should be noted that the executing agency has been responsible for loans 2095/OC-UR, 2785/OC-UR, and 2790/OC-UR, and operation GRT/WS-12278-UR-1.
- 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. As regards public procurement, the country has a recognized legal and institutional framework and its legal basis is sound, but there is room for improvement in terms of effectiveness and cost reduction. Various studies indicate that corruption is not perceived as a problem. For procurement purposes, the country is regarded as "medium risk."
- 1.3 The estimated total cost of the program is US\$75 million. The borrower and executing agency will be the National Water Supply and Sanitation Administration (OSE), with the Eastern Republic of Uruguay as guarantor for the operation. The OSE, acting through the Externally Financed Programs Department (GPFE), will maintain an administrative/financial structure that will be responsible for administering the operation's resources.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The executing agency is a government legal entity created as a decentralized service by Law 11907 of 19 December 1952, as amended.
- 2.2 For the purposes of illustration, the context of the systems used by the executing agency is 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 that 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 Department with a staff of 20, which carries out an annual program approved by the Board of Directors. The unit has three sections, one for management and works (eight staff), one for operations and control (nine staff), and one for information systems (in process of hiring one staffer).
- e. **External control.** By constitutional requirement, OSE's annual financial statements must be endorsed by the Audit Office of the Republic (TCR).
- f. **Procurement procedures.** Procurement procedures are based on the Amended Text of the Accounting and Financial Administration Act (TOCAF). The ICAS rating of the execution capacity of the the Goods and Services Administration System (SABS)¹ is satisfactory and low risk.

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 The OSE has a **low risk** profile, so, in principle, no fiduciary mitigation measures will be required.
- 3.2 Two potential procurement risks have been identified. The first risk relates to the final costs of awarding works contracts, which could be higher than expected. This risk will be mitigated through a detailed cost analysis prior to each call for bids. The second risk relates to delays in bidding processes, and will be mitigated by optimizing those processes through ongoing, close monitoring of the time limits involved.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 The agreements and requirements to be reflected in the Special Provisions are described below:
 - a. **Exchange rate.** For dollar-based accounting, the same criterion is suggested as used for all operations executed with the IDB, i.e., that the exchange rate at which funds disbursed by the Bank were converted into local currency be used to convert expenditures incurred in local currency into dollars.

¹ Includes rules and procedures for requests, authorization, pricing, contracting, verification of execution or delivery, registration, and verification of the existence of goods and services procured in the course of operational programming.

- b. **Financial statements.** Project financial statements audited by the TCR are to be delivered at the end of each year. The TCR must also report on the review of processes and disbursement requests, the evaluation of the internal control environment, and any potential breaches of the provisions of the loan contract.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The procurement policies applicable to this loan are documents GN-2349-9 and GN-2350-9.

A. Procurement execution

- 5.2 The project execution unit will update the procurement plan in the Procurement Plan Execution System (SEPA) and keep it up-to-date.
- 5.3 The relevance of the expenditure, i.e., the terms of reference, technical specifications, bidding documents, and budget, is the responsibility of the project Sector Specialist and, in all cases, will require prior no objection for the start of the procurement, according to the operational criteria of the Project Team Leader.
- 5.4 **Procurement of works, goods, and nonconsulting services:**² Contracts subject to international competitive bidding (ICB) will be executed using the bidding documents issued by the Bank. Contracts subject to national competitive bidding (NCB) will be executed using bidding documents satisfactory to the Bank.
- 5.5 **Selection and contracting of consultants:**
 - a. Consulting firms will be selected and contracted in accordance with Bank policies. Solicitations with international publicity (values greater than US\$200,000) will be subject to ex ante review.
 - b. Individual consultants³ consultants will be selected and contracted in accordance with Bank policies.
- 5.6 **Advance procurement/Retroactive financing:** The Bank may retroactively finance, as part of the loan proceeds, up to US\$6.5 million in eligible expenditures (8.7% of the proposed loan) incurred by the borrower prior to the loan approval date for works in Subzone B2-I, including the coastal interceptor, provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been incurred on or after 28 January 2014, but in no case will they include expenditures incurred more than 18 months prior to the loan approval date.

² “Policies for the procurement of goods and works financed by the Inter-American Development Bank” (document [GN-2349-9](#)), paragraph 1.1: Nonconsulting services are treated as goods.

³ In accordance with document GN-2350-9, Section V, no short list is required, and the standard request for proposals is not used.

2. Table of Threshold Amounts (US\$000) Applicable to Uruguay

Works			Goods ⁴			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International publicity	Short list 100% national
≥ 3,000	250 - 3,000	≤ 250	≥ 250	50 - 250	≤ 50	> 200	≤ 200

- 5.7 **Main procurement items.** The procurements during the first 18 months are reflected in the procurement plan (see [electronic link](#)).
- 5.8 Direct contracting is planned for one of the six planned works, “B2-I including coastal interceptor,” for a total of US\$14.2 million. This is an extension of ICB process 10963, supervised by the Bank under loan 2095/OC-UR, which was awarded to the Consorcio Espina CVC with a bid of US\$39.88 million (at the prevailing exchange rate of Ur\$20.0 per US\$). The proposed direct contracting:
- Represents a 36% increase in the value of the original contract.
 - Will be conducted under the terms of document GN-2349-7, point 3.6(a), extend a contract for works awarded through international competitive bidding (ICB), necessary to expand/include additional works of a similar nature.
- 5.9 **Procurement supervision.** The initial review method is ex post, subject to modification by agreement reflected in the procurement plan. ICB processes and consulting contracts exceeding US\$200,000 will be subject to ex ante review. The ex post review reports will not involve physical inspection visits.⁵ Given the low risk represented by the executing agency and the nature of the activities, physical inspection visits will be replaced by verification during the ex post reviews of evidence of delivery of the goods and services to the beneficiaries entities.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 6.1 **Programming and budget.** No requirements additional to those in the contract.
- 6.2 **Accounting and information systems.** Project accounting records will be kept using the executing agency’s SAP system. 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 open a special account in the program’s name at the Central Bank of Uruguay (BCU), into which disbursements from the Bank will be deposited for subsequent transfer to another account used by the project for payments.

⁴ Includes nonconsulting services.

⁵ The inspection will verify that the procurements exist, leaving quality and compliance with specifications to be verified by the sector specialist.

- 6.4 Disbursements will be made under the advance of funds modality, based on actual liquidity needs, supported by sound financial and disbursement projections.
- 6.5 **Internal control and external audit.** Project external audit reports 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, as they relate to aspects of the project.
- 6.6 **Financial supervision plan.** Considering the low risk of the operation and the executing agency's experience in executing three loans and one technical cooperation operation with the Bank (see point 1), no schedule of visits may be required for this operation.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/14

Uruguay. Loan ___/OC-UR to Administración de las Obras Sanitarias del Estado (OSE)
Ciudad de la Costa Sanitation Project-Western Area

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 Administración de las Obras Sanitarias del Estado (OSE), as Borrower, and with the Eastern Republic of Uruguay, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the Ciudad de la Costa Sanitation Project-Western Area. Such financing will be for an amount of up to US\$45,000,000 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 ____ 2014)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/14

Uruguay. Loan ___/CH-UR to Administración de las Obras Sanitarias del Estado (OSE)
Ciudad de la Costa Sanitation Project-Western Area

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, acting as Administrator of the China Cofinancing Fund for Latin America and the Caribbean, to enter into such contract or contracts as may be necessary with Administración de las Obras Sanitarias del Estado (OSE), as Borrower, and with the Eastern Republic of Uruguay, as Guarantor, for the purpose of granting it a financing to cooperate in the execution of the Ciudad de la Costa Sanitation Project-Western Area. Such financing will be for the amount of up to US\$30,000,000, from the resources of the China Cofinancing Fund for Latin America and the Caribbean, 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 ____ 2014)