

PERU

**PROGRAM TO IMPROVE AND EXPAND WATER AND SANITATION
SERVICES IN PERU**

(PE-X1004)

NONREIMBURSABLE FUNDING PROPOSAL

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| Electronic Links | |
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| REQUIRED | |
| Annual work plan | http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35014227 |
| Monitoring and evaluation arrangements | http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35019265 |
| Procurement plan | http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35014242 |
| Environmental and social management report (ESMR) | http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35016637 |
| OPTIONAL | |
| Program operating manual | http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35022754 |
| Technical analysis | http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35016645 |
| Socioeconomic analysis | http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35014246 |
| Institutional analysis | http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35014279 |
| Environmental classification and safeguards | http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35022673 |

ABBREVIATIONS

| | |
|----------|---|
| AECID | Agencia Española de Cooperación Internacional para el Desarrollo [Spanish Agency for International Development Cooperation] |
| APCI | Agencia Peruana de Cooperación Internacional [Peruvian International Cooperation Agency] |
| DNS | Dirección Nacional de Saneamiento [National Sanitation Directorate] |
| EIRR | Economic internal rate of return |
| ESMP | Environmental and Social Management Plan |
| JASS | Juntas Administradoras de Servicios de Saneamiento [Sanitation Service Administrative Boards] |
| MVCS | Ministry of Housing, Construction, and Sanitation |
| PMU | Program Management Unit |
| POM | Program Operating Manual |
| PRONASAR | Programa Nacional de Apoyo al Sector Rural [National Program to Support the Rural Sector] |
| SEDAPAL | Servicio de Agua Potable y Alcantarillado de Lima [Lima Water and Sewer Utility Company] |
| SFW | Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean |
| VMCS | Vice Ministry of Construction and Sanitation |
| WFA | Water for All program |

PROJECT SUMMARY

PERU

PROGRAM TO IMPROVE AND EXPAND WATER AND SANITATION SERVICES IN PERU (PE-X1004)

| Financial Terms and Conditions ¹ | | | | | |
|--|-----------------------|------------|----------------------|------------------|---------------|
| Beneficiary: Republic of Peru | | | Financing source: | SFW | |
| Executing agency: Ministry of Housing, Construction, and Sanitation (MVCS) | | | Amortization period: | N/A | |
| | | | Grace period: | N/A | |
| Source | Program | % | Disbursement period: | 5 years | |
| Local | US\$18,000,000 | 20 | Interest rate: | N/A | |
| Spanish Cooperation Fund (SFW) | US\$72,000,000 | 80 | Credit fee: | N/A | |
| Total | US\$90,000,000 | 100 | Currency: | N/A | |
| Project at a glance | | | | | |
| Project objective/description: | | | | | |
| <p>The objective is to help increase the coverage of drinking water and sanitation services for people living in rural areas and small cities in Peru. The specific objectives are to: (i) expand coverage of drinking water and basic sanitation systems in small cities and rural communities, in accordance with the goals set in the 2006–2015 National Sanitation Plan; (ii) strengthen the community’s management capacity to provide these services, and build the institutional and management capacity of community organizations (Sanitation Service Administrative Boards or others) and of the municipal management units and/or specialized operators; (iii) strengthen entities in the sector so that they effectively perform their planning, technical assistance and local investment co-financing functions; and (iv) promote the strengthening of new forms of partnering with local governments, for integrated, sustainable management of water resources in the framework of watersheds. This program is consistent with the sector challenges in the Bank’s Water and Sanitation Initiative, is expected to help achieve the goals set in the “3,000 Rural Communities” program (paragraph 2.1), and is also in line with the strategy of the Spanish government’s Cooperation Fund for Water and Sanitation.</p> | | | | | |
| Special contractual clauses agreed on by the Bank and the Government of Spain: | | | | | |
| <p>Conditions precedent to the first disbursement: (i) formation of the management unit for the Water for All program, including appointment of the program coordinator and required support staff, as well as appointment of key personnel of the National Sanitation Directorate (DNS) and selection of specialists to be contracted for the DNS (paragraph 4.1); (ii) signing of interagency agreements with regional governments and the Ministry of Housing, Construction, and Sanitation (MVCS) to ensure their participation and the execution of their respective activities (paragraph 4.5); and (iii) entry into force of the Program Operating Manual under the agreed terms (paragraph 4.7).</p> | | | | | |
| Execution conditions: (i) signature of the agreement between the National Institute of Culture and the MVCS before starting to prepare the technical files in any localities where archeological vestiges are highly likely to be found (paragraph 3.4); and (ii) evidence of compliance with the Environmental Analysis in the annual monitoring reports (paragraph 3.5). | | | | | |
| Exceptions to Bank policies: None. | | | | | |
| Other financial conditions: None. | | | | | |
| Project qualifies as: | | | | | |
| | SEQ [X] | PTI [X] | Sector [] | Geographic [X] | Headcount [] |
| Procurement: The Bank policies set forth in documents GN-2349-7 and GN-2350-7 (paragraph 4.9) will apply for the procurement of works, goods, and consulting services. | | | | | |

¹ The Technical Framework Document between the Government of Spain and the Inter-American Development Bank on the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean was signed on 24 July 2009. The SFW Executive Committee approved the allocation of funds for this program on 6 October 2009.

I. DESCRIPTION AND RESULTS MONITORING

A. The drinking water and basic sanitation sector in Peru

- 1.1 **The existing situation and problem of water and sanitation services in Peru.** By the end of 2007, Peru had an estimated population of 28.3 million inhabitants, with 21.1 million people living in urban areas, and the remaining 7.2 million in rural zones. According to the 2006-2015 National Sanitation Plan, the coverage rates for drinking water (76%) and sanitation (57%) are below the regional averages of 91% and 77%, respectively, estimated by the World Health Organization/United Nations Children's Fund. In addition, there are significant inequalities in these coverage rates between rural and urban areas: water and sanitation coverage rates in rural areas are 62% and 30%, respectively, compared to 81% and 68% in urban areas. Within the various urban segments, water and sanitation rates in small cities, where services are predominantly the responsibility of the municipios, are 60% and 33%, respectively. Part of the problem stems from the size of the municipios and their low level of institutional capacity. Politically, the country is divided into 24 departments, which are in turn subdivided into 196 provinces and 1,833 districts. In 1,521 of these districts, services are provided by the municipios, Sanitation Service Administrative Boards (JASS) or other organizations, which are responsible for serving 38% of the population. There are 490 districts with fewer than 2,000 inhabitants, representing 9% of the total population. Another 15% of the country's inhabitants live in rural communities.
- 1.2 Given the institutional weakness of the rural communities and their poverty levels, it is important to point out the marked difference in terms of the services provided, compared to urban settings. In a sample of 1,630 systems analyzed, out of 76,891 rural settlements nationwide, 59% do not disinfect water due to a lack of water treatment systems or inputs, posing a serious risk to the health of the population. Only 24.5% of the households classified as extremely poor have access to this service, and 62.5% obtain their water from streams, irrigation ditches, or the like. In rural areas, only 2.7% of extremely poor households have access to sewerage systems (Perú: Perfil de la pobreza por departamentos 2005-2007 [Peru: Profile of Poverty by Department 2005-2007]). Given this situation, the delivery of this service is deficient and unsustainable, and it is likely that the Millennium Development Goals will not be reached, thereby excluding the most vulnerable population groups from these basic services essential for health and quality of life.

B. The institutional structure

- 1.3 The sector is primarily regulated by General Sanitation Services Act 26338, issued on 24 July 1994, and the General Regulations for the Sanitation Services Act, Supreme Decree 09-95-PRES, issued on 28 August 1995, and its subsequent updates. The sector's institutional structure provides for a clear distribution of functions among the various institutions. The Ministry of Housing, Construction and Sanitation (MVCS), created in 2002, is responsible for policy-making, planning and steering of the sector, through the Vice Ministry of Construction and Sanitation (VMCS) and its National Sanitation Directorate (DNS). The VMCS's Office of the

Environment (OMA) has a Management, Investigation and Environmental Impact Unit, and a Policy, Strategy and Standards Unit. Economic regulation of the service and regulation of service quality is in the hands of the Office of the Superintendent of National Sanitation Services (SUNASS), assisted by the National Water Authority (ANA) in the area of water resource quality, quantity, and management. The municipios are responsible for the service, and water and sanitation utilities are charged with its efficient delivery.

C. Service providers

- 1.4 The institutional structure for service delivery depends on the size of the population. Water and sanitation utilities are classified as large when the population has more than 60,000 inhabitants, and small when the population is between 40,001 and 60,000 inhabitants. Rural areas and small cities are considered to be population centers with no more than 15,000 inhabitants, rural settlements when there are fewer than 2,000 inhabitants, and small cities when the population is between 2,001 and 15,000 inhabitants, where the service is provided through management units and/or specialized operators. In provincial capitals or districts with a population between 15,001 and 40,000 inhabitants, the services are provided by small private or semi-public municipal sanitation companies. In rural areas, there is a large concentration of rural localities with up to 2,000 inhabitants (a total of 490 districts with 558,000 inhabitants in 2007), where water and sanitation services are managed through Sanitation Service Administrative Boards (JASS) comprised of members of the community.
- 1.5 The legal framework for rural areas stipulates that the service is to be provided by community organizations, including JASS, associations, and committees.

D. Sector policy

- 1.6 The National Sanitation Plan has the following strategic objectives: (i) modernize management of the sanitation sector; (ii) promote the sustainability of services; (iii) improve the quality of services; (iv) promote the financial viability of municipal water and sanitation utilities; and (v) increase access to these services. This national plan was developed on the basis of the following programs: the National Rural Water Supply and Sanitation Project (PRONASAR), which works to increase coverage and improve the management of rural systems; the SEDAPAL Water Program to increase wastewater treatment capacity and water coverage rates in poor areas of Lima; the Rapid-impact Measures Program (PMRI) to finance high-return emergency works in medium-sized water and sanitation utilities; and the Public-Private Joint Participation Program to support linkages among specialized operators in those utilities. These programs are complemented by the Water for All program (WFA). The estimated financing required by the National Sanitation Plan is US\$4.043 billion, US\$3.182 billion of which will be allocated for expanding coverage, with US\$861 million for rehabilitating systems.

E. Program design and consistency with the strategies of the Spanish government and the IDB

- 1.7 **Consistency with the Bank's strategy.** The program is consistent with the Bank's Country Strategy with Peru (document GN-2472-2), since it seeks to improve the quality of life in the communities that will benefit from program-financed investments. It is especially consistent with the poverty reduction area, particularly increased coverage of drinking water and sanitation services, and improved quality and access to these services in the five poorest regions with the lowest service coverage rates.
- 1.8 **The strategy of the Spanish government.** The Bank and the Spanish government, through the Office of the Water and Sanitation Cooperation Fund in Madrid (OFCAS), agreed upon the terms and conditions for the creation of the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW). The objective of this fund is to contribute to the funding of projects, programs, and activities to help accelerate the individual and collective social and economic development process of the Bank's member countries in Latin America and the Caribbean in all areas related to water and sanitation, in order to assist those countries in pursuing that purpose and attaining the Millennium Development Goals. The objective of the Spanish Cooperation Fund in Peru is to support the country's efforts to improve the living conditions of the people, and promote opportunities for inclusion of vulnerable sectors, strengthening the process of democratic consolidation, social cohesion and the exercise of citizen rights. This strategy seeks to implement a policy aimed at supporting the national strategies to fight poverty and improve the living conditions of the most disadvantaged groups, and defines five priority areas: (i) democratic governance and social participation; (ii) coverage of basic social needs; (iii) promotion of the economic and business fabric; (iv) environmental protection and improvement; (v) promotion of gender equity; and (vi) conflict prevention and peace-building. This project will contribute to success in all priority areas, especially the coverage of basic social needs, with an improvement in poverty-stricken and fringe areas, through access to drinking water and basic sanitation services.
- 1.9 **Program design.** This operation will finance the execution of investment projects, community development, and the strengthening of service operators in rural communities (with fewer than 2,000 inhabitants) and small cities (with 2,001 to 15,000 inhabitants), in order to resolve the identified gaps (see paragraph 1.2) through a sector approach targeting five of the regions with the highest coverage deficit and poverty levels: Puno, Cuzco, Huancavelica, Apurimac and Ayacucho. In order to increase the impact in each region and gain efficiencies in the use and allocation of resources through economies of scale in preparing and executing program activities, the program will focus on some 20 districts, covering the district capital and its neediest rural communities, based on service access criteria, poverty level, and the intervention of other government social programs, for purposes of prioritizing support. The program contributions will be supported by the

commitment to create Sanitation Service Administrative Boards, and management units and/or specialized operators, as appropriate, under a plan that will make them financially self-sustainable. The program also seeks to stimulate and help the various sector stakeholders in the regional governments and their districts so that they are better able to perform their assigned roles, taking advantage of synergies and complementarities, in accordance with the arrangements and conditions stipulated in a Program Operating Manual (POM) that will establish the phases of the project cycle, from promotion activities in the communities to the selection and management of systems. The proposed solutions will take into consideration the previous experiences of PRONASAR, the Pilot Project for Rural Drinking Water and Community Health in Cajamarca (PROPILAS), and the Water and Sanitation Program (AGUASAN) in the Cuzco region. This operation qualifies as a poverty-targeted investment using the geographic focus criterion, since the beneficiaries will be primarily poor communities. The program will include a monitoring and follow-up system, the design of which is being financed by technical cooperation operation PE-T1195.

II. OBJECTIVE, EXPECTED OUTCOMES, COMPONENTS, AND COST

A. Objectives

- 2.1 The objective of the program is to help increase the coverage of drinking water and sanitation services for people living in rural areas and small cities in Peru. The purpose is to help the companies that provide drinking water and wastewater disposal services to do so in an efficient, sustainable manner over the long term, so that users who have this service can improve their well-being, and so that families who do not have service will be able to get it in short order, thereby improving their health and decreasing the time they spend collecting and treating their water. The specific objectives are to: (i) expand coverage of drinking water and basic sanitation systems in small cities and rural communities in accordance with the goals set in the 2006–2015 National Sanitation Plan; (ii) strengthen the community’s management capacity to provide these services, and build the institutional and management capacity of community organizations (Sanitation Service Administrative Boards or others) and of the municipal management units and/or specialized operators; (iii) strengthen entities in the sector so that they effectively perform their planning, technical assistance, and local investment co-financing functions; and (iv) promote the strengthening of new forms of partnering with local governments, for purposes of the integrated, sustainable management of water resources in the framework of watersheds. This program is consistent with the sector challenges in the Bank’s Water and Sanitation Initiative, and is expected to help achieve the goals set in the “3,000 Rural Communities” program.

B. Components

- 2.2 The program components are: (i) infrastructure investments; (ii) project preparation, community development, and institutional and management strengthening; and (iii) sector strengthening and capacity-building.
- 2.3 **Component I – Infrastructure investments.** The objective of this component is to increase access to drinking water and basic sanitation services in rural communities, small localities, and small cities that currently either lack these services or where they are substandard, through the construction of new systems and the expansion of existing drinking water supply and wastewater disposal systems. It includes, but is not limited to, the financing of water treatment systems, raw water conveyance systems, water distribution systems, unmetered water tracking actions, storage tanks, in-home connections, basic sanitation units, wastewater collection systems, water collectors and interceptors, and wastewater treatment systems. As a result of this component, approximately 380 communities are expected to have new or expanded drinking water and basic sanitation systems, which will benefit 220,000 inhabitants.
- 2.4 **Component II – Project preparation, community development, and institutional and management strengthening.** The program will finance activities that will help provide efficiently formulated projects with community participation, and create self-sustainable management and technical assistance plans, within a model that integrates water and sanitation solutions with community development and institutional strengthening activities. This component will finance the following activities: (i) field validation of the situation in the districts and communities identified as having priority; (ii) preinvestment studies; (iii) project file that contains: technical works file, social file/record, and the file/record on institutional and management considerations; (iv) training and support for the communities that form the community organizations (JASS or others), in areas including operations, administration, and health and hygiene; (v) formation or strengthening of service providers through the management unit or specialized operators in small cities; and (vi) strengthening of the districts so that they can support the rural communities within their jurisdiction in the area of water and sanitation. As a result of this component, about 380 localities are expected to have viable studies from a technical, environmental, social and economic standpoint, with efficient, sustainable plans for the delivery of these services.
- 2.5 **Component III – Sector strengthening and capacity-building.** The objective of this component is to strengthen the management capacity of the DNS in the area of technical assistance, development of technical standards, sector planning and research, through the following activities: (i) formulation and/or update and dissemination of technical standards, regulations and tools (guidebooks, manuals, and others) for use in rural areas and small cities; (ii) development of low-cost technologies, including pilot projects to test the applicability and feasibility of these solutions, including the promotion and dissemination of these technologies in academia and professional associations for replicability purposes; (iii) building of

the capacities of sector stakeholders in project management and service management, as well as the capacities of provincial municipios; (iv) preparation of regional water and sanitation plans in the regions of Huancavelica, Ayacucho and Apurimac; and (v) promotion in regional and municipal (provincial and district) governments in the area of program intervention so that they assume responsibility for the integrated, sustainable management of water resources in the framework of the Water Resources Act and its regulations, and national and sector plans.

C. Costs and financing

2.6 The total program amount is US\$90 million, US\$72 million of which will be contributed by the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean, with US\$18 million contributed by the Republic of Peru as counterpart funds. The breakdown by component is as follows:

| CATEGORY | SFW | Local contribution | Total | % |
|--|-------------|--------------------|-------------|--------------|
| I. Engineering and administration | 6.5 | 2.5 | 9.0 | 10.0 |
| 1. Program administration | 3.5 | 1.0 | 4.5 | |
| 2. Inspection and supervision of works and engineering studies | 3.0 | 1.5 | 4.5 | |
| II. Direct costs | 64.6 | 15.0 | 79.6 | 88.4 |
| 1. Infrastructure projects | 57.1 | 11.7 | 68.8 | |
| 2. Project preparation, community development and strengthening of service operators and districts | 6.0 | 3.0 | 9.0 | |
| 3. Sector strengthening and capacity-building | 1.5 | 0.3 | 1.8 | |
| III. Associated costs | 0.9 | 0.5 | 1.4 | 1.6 |
| 1. Audit | 0.1 | - | 0.1 | |
| 2. Monitoring and evaluation | 0.1 | 0.2 | 0.3 | |
| 3. Unallocated (contingencies) | 0.7 | 0.3 | 1.0 | |
| Total costs | 72.0 | 18.0 | 90.0 | 100.0 |

2.7 The program will finance: (i) direct costs, which includes drinking water and sanitation systems as described in Component 1 (paragraph 2.3), project preparation, community development, and strengthening of service operators and districts, as described in Component 2 (paragraph 2.4), and institutional strengthening, as described in Component 3 (paragraph 2.5); (ii) engineering and administration costs, which includes the operating expenses of the Program Management Unit, and the inspection and supervision of works; and (iii) associated costs, including audits, monitoring and evaluation activities, and contingencies.

D. Key indicators of the Results Matrix

| Performance Indicators (cumulative value by the end of each year) | | | | |
|--|--------|--------|--------|--------|
| Indicator – Rural Areas | Year 1 | Year 2 | Year 3 | Year 4 |
| No. of drinking water systems in operation | 0 | 90 | 110 | 143 |
| Inhabitants benefiting from the construction of drinking water systems | 0 | 35,046 | 42,834 | 55,684 |
| No. of basic sanitation units installed and in operation | 0 | 6,372 | 7,788 | 10,124 |
| No. of women who hold decision-making positions in the community organization | 0 | 90 | 110 | 143 |
| No. of women trained in the management and/or operation and/or maintenance of water and sanitation systems | 0 | 90 | 110 | 143 |
| Sanitation Board Associations created | 0 | 90 | 110 | 143 |
| Indicator – Small Cities | Year 1 | Year 2 | Year 3 | Year 4 |
| No. of drinking water systems in operation | 0 | 3 | 6 | 10 |
| Inhabitants benefiting from the construction of drinking water systems | 0 | 11,540 | 23,080 | 37,816 |
| No. of municipalities that have set up management units | 0 | 3 | 6 | 9 |
| No. of women who hold decision-making positions in the community organization | 0 | 3 | 6 | 9 |

- 2.8 The goal of the program is to benefit some 343 rural communities and 19 small cities in 18 districts through drinking water and sanitation projects, installing systems for 187,876 inhabitants and improving services for another 19,000. On average, the service coverage rate in the beneficiary districts will increase from 12.27% to 66% for drinking water, and from 10% to 64% for sanitation. Each project will have a matrix of indicators to monitor the attainment of results.

III. FINANCING STRUCTURE AND RISKS

A. Financing structure

- 3.1 The funds provided by the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW) will be nonreimbursable. The execution period will be a maximum of five years. The local counterpart funds will be guaranteed by the national government. The program will be executed according to a Program Operating Manual (POM) (see paragraph 4.6). The disbursement schedule is as follows:

| Disbursement Schedule (US\$ million) | | | | | | |
|--------------------------------------|------|------|------|------|-------|-------|
| YEAR | 1 | 2 | 3 | 4 | Total | % |
| SFW | 8.5 | 30.2 | 25.0 | 8.4 | 72.0 | 80.0 |
| Local | 2.1 | 7.5 | 6.2 | 2.1 | 18.0 | 20.0 |
| TOTAL | 10.6 | 37.7 | 31.2 | 10.5 | 90.0 | 100.0 |
| % | 11.8 | 41.9 | 34.7 | 11.7 | 100.0 | |

3.2 **Program rationale.** Of the 24 departments in Peru, the project will be carried out in the five regions with the greatest coverage deficit and the highest poverty and development rates, which will significantly contribute to improving the living conditions of the beneficiary population. The water and sanitation coverage rates in the program intervention area are 12% and 10%, respectively. Work is currently underway to complete the profiles and technical files for a group of projects that will be financed with the funds from operation PE-T1195. The program includes interventions to provide universal water and sanitation services in the districts with the greatest service deficit and the highest poverty levels in the country, through a strategy aimed at sustainability (infrastructure, management, and health and environmental education), with a favorable impact on the health of the beneficiary population, and with measures to ensure the participation of regional and local governments.

B. Environmental and social safeguards

3.3 The program is expected to have a positive environmental and social impact in the area of influence. However, due to their nature, the works may have low to moderate environmental and social impacts, which will be localized and of short duration (see paragraph 3.6). With this in mind, effective mitigation measures will be applied during the construction stage. Although these are standard practices for this type of work in the country, they have been included in the POM. The expected main impacts of the small-scale works in primarily rural projects relate to the generation of dust and construction waste materials, and interference with traffic.

3.4 The project has been classified as category B, pursuant to the IDB's Environment and Safeguards Compliance Policy (OP-703). Although such a risk has not been identified, if families must be resettled or if there is evidence of disaster risks during program execution, Bank policies OP-710 and OP-704, respectively, will be applied. Because of the possibility of working in areas with archeological vestiges, and given the formalities to be fulfilled with the National Institute of Culture, **a condition for execution of the program will be the signature of an agreement between that institution and the MVCS before starting to prepare the technical files in any localities where such items are very likely to be found.**

3.5 As part of program preparation and in accordance with the Bank's Environment and Safeguards Compliance Policy (OP-703), the MVCS conducted an Environmental and Social Analysis of the program and prepared an Environmental and Social Management Plan (ESMP). This report was made available to the public on 11 November 2009. The project team prepared an Environmental and Social Management Report, which summarizes the main environmental considerations involved in the program (see ESMR link). The measures for mitigating the direct environmental impacts caused by program-financed projects have been defined in the ESMP, and were incorporated into the bidding terms and conditions for the works (and will be the direct responsibility of the contractor under the supervision of the Project Coordination Unit), as well as in the POM, which includes the standards and models to be followed to declare projects environmentally and

socially feasible, as well as the mechanisms for ensuring the participation of the population in all decisions in the project cycle. The implementation of the principal considerations of the program's environmental and social strategy, outlined in the ESMP, is ensured through the allocation of budget resources (US\$96,000 for mitigation of impacts from the works, and US\$40,000 for institutional and community strengthening in rural areas and small localities), and is included in the terms of reference for other activities when they are contracted in connection with studies or consulting services having a wider scope (design and supervision of works). The ESMP also spells out the measures to be carried out and who is responsible for them. The Office of the Environment of the MVCS and the Program Management Unit will be responsible for monitoring all program activities of an environmental or social nature. **A condition for program execution will be that evidence of compliance with the Environmental Analysis is presented in the annual monitoring reports.**

C. Special considerations and risks

- 3.6 **Analysis of engineering considerations.** The solutions to be implemented under the program involve simple gravity and pump-operated water supply systems, and sanitation systems using various latrine options (adaptations of pour-flush latrines). For homes without a water connection, ventilated latrines will be used. The water systems will include the installation of chlorination systems to disinfect water. The Water for All program follows technical specifications appropriate to the design of the systems, and sanitation solutions have a standard design that will be adapted by the contractors who conduct the pre-investment studies, in order to adapt them to the existing situation in each region and to obtain the lowest construction costs. The technical analysis was conducted on the basis of a sample of 23 projects to be built as well as the review of a sample of projects executed in recent years under the PRONASAR program.
- 3.7 **Socioeconomic feasibility.** A sample of 19 drinking water and 21 wastewater management projects from the Water for All program was evaluated that are similar to the ones to be financed by this operation. From this sample, eight water projects and eight wastewater management projects will be considered for financing under this program. Based on this sample, the methodology was designed that will ultimately be used in evaluating all of the projects. Standard drinking water demand curves and willingness to pay for wastewater management were determined, and are included in the POM.
- 3.8 **Drinking water.** The 'without the project' scenario shows users who do not have any service with a connection and/or have rationed service. Initially, 20-year supply and demand projections were made, in order to verify existing rationing, with consumption corresponding to metered demand. Later, a cost-benefit analysis was prepared for the systems that required an additional source or a new source. The benefits considered were the savings in terms of resources (trucking of water or purchase of tank trucks) and the increased consumption of inhabitants with either no connection or with rationing. These benefits were valued using the demand

curve for drinking water of each population, prepared on the basis of surveys. The costs considered were investment, operation and maintenance costs valued at efficiency prices. A discount rate of 12% was used in the evaluation. A total of 19 projects for US\$3.9 million were evaluated; 14 of them, for US\$1.6 million, were considered viable. The average economic internal rate of return (EIRR) of the viable projects is 20.4%.

- 3.9 **Wastewater management.** In the projects analyzed, in the ‘without the project’ scenario users do not have any type of solution. Public and private benefits are presented, stemming from the construction of water collection and wastewater disposal systems. The private benefit is increased well-being resulting from an improvement in the environment of each dwelling and the health of the population. Public benefits include improvement and preservation of the environment in the project area. Direct benefits were estimated by determining the value of the willingness to pay for the service, using information from similar projects in larger populations, and therefore, benefits are over-estimated. As a result, it was found that sewerage system projects are not viable in the sample populations. The costs considered were investment, operation and maintenance costs valued at efficiency prices. A discount rate of 12% was used in the evaluation. Of the 21 projects analyzed, for US\$8.9 million, four valued at US\$700,000 were deemed viable. It was agreed with the sector that rural populations (with fewer than 2,000 inhabitants) will have individual solutions, and for projects with larger populations they will be evaluated. If these projects do not turn out to be viable, individual solutions will be financed. The viable projects are estimated to have an average EIRR of 15%.
- 3.10 **Financial viability.** Financial viability will be evaluated during the assessment and identification (pre-investment) stage of each project. Capital investments in the drinking water and sanitation systems benefiting from this program will be made in the form of subsidies. The community development specialist will work with the communities to determine the size of the projects, and will ensure that they select a project that matches their ability to pay. In particular, this specialist will evaluate: (i) the community’s ability to pay a monthly rate per family to cover at a minimum operating and maintenance, management and equipment replacement costs; and (ii) the community’s willingness and ability to contribute to direct construction costs. The program includes a strategy to make the communities aware of the economic value of the service, the importance of paying the rates, and the benefits of improving their water service. The specific contributions to be made by the community in the various stages of the project cycle will be clearly determined.
- 3.11 The program will prioritize drinking water and sanitation systems that require minimum operating and maintenance costs. It will give priority to gravity-based systems, when feasible from a topographic standpoint, given the high operating and maintenance costs of pump-based systems. Borderline cases will be studied.
- 3.12 **Local government contribution.** The contribution from the local government will depend on its budget situation, as well as the contribution provided by the

- communities. The communities will contribute unskilled labor and construction materials (sand, rocks, etc.). The value of the work performed by the community (labor) and construction materials will be determined and reported in the preinvestment and feasibility phase, and will be tracked for program planning, monitoring and follow-up purposes.
- 3.13 **PTI/SEQ.** This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, it qualifies as a poverty-targeted investment using the geographic criterion, since one of the criteria used to select the program populations was poverty.
- 3.14 **Institutional considerations of the executing agency.** The MVCS is authorized to act as the executing agency through its two subexecuting units: The Water for All program (WFA) and the National Sanitation Directorate (DNS). The WFA was created by Supreme Decree 006-2007-VIVIENDA to coordinate the activities of the various project cycle phases, as well as sanitation sector projects and programs financed by public funding and other resources, which are located in urban and rural areas in the country. Its current Operating Manual was approved through Ministerial Resolution 087-2009-VIVIENDA of 24 February 2009, which also gave the WFA the required autonomy in its spheres of competence, as well as the executive and technical staff needed to perform its functions. Its institutional capacity was evaluated during program preparation using the Institutional Capacity Assessment System (see Institutional link), and it was agreed to expand its organizational structure and implement a monitoring and follow-up system for the program (see paragraph 1.9). It was agreed with the WFA that evidence will be submitted which shows that the counterpart funds have been budgeted each year in order to fulfill those commitments in a timely manner. The agreements made regarding the execution plan are part of the POM. The DNS will carry out the activities as part of its duties, and its operating capacity only needs to be strengthened by hiring three consultants.

IV. IMPLEMENTATION AND MANAGEMENT PLAN

- 4.1 The beneficiary will be the Republic of Peru through the Peruvian International Cooperation Agency (APCI), and the executing agency will be the Ministry of Housing, Construction and Sanitation (MVCS), through its executing unit for the Water for All program (WFA), which will be responsible to the Spanish Cooperation Fund and the IDB for administering the grant resources, and for managing the timely financing of the local counterpart contributions. The WFA will execute the activities in Components 1 and 2, for channeling all of the program resources, and for planning, organizing, directing, overseeing, implementing, executing and evaluating program activities. For implementation of Component 3, the DNS will be responsible for executing the technical and operating aspects, which includes: development of the regulatory framework, training, pilot projects to adapt appropriate technologies, and formulation of regional sanitation plans.

A condition precedent to the first disbursement will be setting up the management unit in the Water for All program, including the appointment of the program coordinator and necessary support staff, as well as the appointment of the key staff members in the DNS and selection of the specialists to be contracted for the DNS.

- 4.2 **Program Management Unit (PMU).** Due to the scope of the program to be executed by the WFA, a PMU will be set up within it, under the functional authority (but with administrative and management autonomy) of the Rural Sanitation Operating Unit. A program coordinator will be contracted, who will be responsible to the Bank and the Spanish Agency for International Development Cooperation (AECID) for program implementation, and will be in charge of general program coordination and the functioning of the PMU. The PMU will be comprised of work areas that will address engineering-technical-operational, social, and institution- and management-strengthening elements, and they will have support staff assigned and contracted to work full-time for the program. The program will be executed in a deconcentrated manner, i.e., minimum work teams will be set up in the five regions, with the number of team members varying depending on the number of localities and projects involved. Each team will be comprised of civil engineering/sanitation and environment, social and strengthening, and social institutional and management specialists who will be responsible for the technical-operating-environmental, social institutional and management aspects of the projects, and for monitoring contracts. The bidding and procurement process, and the administrative and financial-accounting aspects of the entire program, will be the responsibility of the WFA's Administrative Unit, for which full-time staff will be hired. The goods, services, equipment, and support vehicles included in the Procurement Plan will be procured for program implementation.
- 4.3 Personnel from the DNS's Directorates of Planning and Programming, Standards and Management, and Development will be appointed to work on the program; this staff will be supported by a program and project specialist, a sector planning specialist, a strengthening and technical assistance specialist, and a specialist in assessing environmental impact studies for implementation of Component 3. During program preparation, work was coordinated with AECID's Technical Cooperation Office in Peru, as well as the APCI, which has already authorized program execution. Joint missions will be organized during the execution phase, including a launch mission, during which the procurement plan, execution plan and annual work plan for the program will be agreed on with the executing agency. The Results Matrix will also be reviewed and the project risk analysis updated. During project execution, the Bank will organize routine follow-up missions, one monitoring mission 18 months into the project, and one midterm review mission, if necessary.
- 4.4 **Outsourcing execution.** The projects will be executed by third parties contracted for this purpose (considered temporary players in part of the project cycle): contractors to execute the works, and consultants or NGOs to prepare the

- preinvestment studies and technical files, and to execute the social-institutional component, and supervision activities.
- 4.5 **Local stakeholders in the sector.** The program prioritizes the strengthening of sector stakeholders at the district, provincial and regional level to help them perform their roles. Regional, provincial and district governments, service providers to be formed/strengthened (which may be management units, specialized operators or community organizations) and the beneficiary population will actively participate in program implementation. **A condition precedent to the first disbursement will be the signing of interagency agreements with the regional governments and the MVCS in order to ensure their participation and the execution of their respective activities.**
- 4.6 **Project cycle.** The project cycle is divided into two stages, *the pre-cycle and the cycle*: (i) the pre-cycle consists of prioritizing and selecting the cities and localities to be included, through the application of criteria; and (ii) the *cycle* includes: (a) *preinvestment*, which includes preparation of the preinvestment study, evaluation, approval and declaration of feasibility of the project, promotion and information for local authorities and populations on alternative management unit or specialized operator management models, selection of the model, and determination of the preliminary rate structure; (b) *investment*, which includes preparation of the project file that contains: the technical works file, social file/record, and the file/record on institutional and management considerations (for the investment and post-investment phases), the construction of works and equipment, and implementation of the social-environmental, institutional and management part, implementation of the health and environmental education plan, the training of neighborhood committees in citizen oversight; and (c) *post-investment*, which includes strengthening and providing feedback on what was done in the investment stage. It includes transferring the works from local governments (district municipios) and assigning them for use by the service providers for administration, operation and maintenance of the systems. The cycle closes with the final settlement of contracts.
- 4.7 **Program Operating Manual (POM).** The program will be governed by the POM, which establishes the program eligibility and selection criteria, the organizational structure, operating procedures and responsibilities of the specialized operator and the WFA, the support units, as well as other participating institutions such as the Ministry of the Economy and Finance, and the program beneficiaries. The POM includes: (i) a description of the program, its purpose, objectives, and components, as well as eligibility criteria; (ii) the structure and organization of the specialized operator, organizational chart, duties, responsibilities, and procedures; (iii) a description of the stages of the execution cycle, including flow charts; (iv) the requirements for determining the viability of the projects and compliance with the environmental, labor and social regulatory framework in Peru, as well as with policies OP-703, OP-704, OP-102 and OP-765; (v) bidding, contracting and disbursement rules; and (vi) monitoring and evaluation. **A condition precedent to**

the first disbursement will be the entry into force of the POM under the agreed terms.

- 4.8 **Coordination with the Technical Cooperation Office.** The IDB has coordinated and agreed with this Office on how it will participate in program implementation, in accordance with the Spanish Cooperation Fund's Technical Framework and Operating Regulations (document OP-207). The POM will specify how the Government of Spain will participate in executing the project through the Technical Cooperation Office.

A. Procurement

- 4.9 **Procurement.** Works, goods and consulting services financed in whole or in part with the loan proceeds will be procured in accordance with the Bank's policies set forth in documents GN-2349-7 and GN-2350-7. Program procurements will be reviewed ex ante, unless otherwise stipulated in the reports on the assessment of the executing agency's institutional capacity, or in the review of the Procurement Plan. Ex post reviews will be conducted a maximum of every six months, and the executing agency's capacity will be rated annually, with input from the procurement specialist in the Country Office. Any items to be procured in any given period, which are included in the Procurement Plan and any updates thereto approved by the Bank, must adhere to the established methods and ranges.

| Thresholds for International Competitive Bidding Processes | |
|---|--|
| Works | Greater than or equal to US\$3,000,000 |
| Goods | Greater than or equal to US\$250,000 |
| Consulting services | Greater than or equal to US\$350,000 |

- 4.10 **Disbursements.** Under the project management modality based on risk and performance, disbursements will be made according to the financial requirements of the project with respect to the activities and costs programmed in the annual planning exercise and based on the outcomes achieved and/or the activities completed. A system for advancing funds will be established, to be managed by the WFA in a separate account. However, all disbursements will be made based on the attainment of results and project progress, and their amounts will be calculated according to the financial requirements of the project during a period of approximately six months. For new disbursements, accounts will be rendered for at least 80% of the previous disbursement. The Bank may ask the WFA to submit financial information on the project. Supporting documentation for disbursements will be reviewed ex post. The method and frequency of reviews may be modified by the Bank, based on the results of the reviews and/or updates to the risk analysis.

B. Monitoring and evaluation

- 4.11 **Monitoring and evaluation** will be carried out using the IDB's supervision tools, based on the execution plan and a procurement plan. It was agreed to review the annual work plan yearly, and that the MVCS will send semiannual reports on the progress made towards the activities specified in the annual work plans, the

outcomes obtained from execution of the activities, and an action plan for the following six-month period. The MVCS, through the WFA, will be responsible for monitoring and evaluating the projects financed, and to this end it may contract independent consultancies previously agreed on with the Bank, and the indicators included in the Results Matrix will be reported. The Bank will participate in the following stages: (i) preinvestment: after declaring a project eligible, the WFA will send a project profile to the Bank for its information, verifying fulfillment of the eligibility criteria; (ii) investment: prior to the bidding processes, the WFA will send the corresponding bidding documentation to the Bank; and (iii) post-investment: the Bank will conduct one evaluation 24 months after the contract enters into force, and another six months before the end of the project. The APCI will be informed of the progress made.

- 4.12 **Operation and maintenance.** The infrastructure works will be operated and maintained by the beneficiary communities, through the JASS, management units or specialized operators in charge of the services; during the preparation of projects, the executing agency will check to make sure the JASS, management units and/or specialized operators can generate the funds to cover the technical staff and operation and maintenance.
- 4.13 **Auditing.** The MVCS will submit annual audited financial statements for the program during program execution. The external audit will be conducted by an independent firm of auditors acceptable to the Bank and the Government of Spain. The commissioning and scope of these audits will be consistent with the Bank's policies and requirements. The total costs will be financed with program resources.
- 4.14 **Ex post evaluation.** The MVCS will compile the data necessary to evaluate the attainment of program targets, which may be used to evaluate the program's efficiency and effectiveness in terms of achieving the stated objectives and building upon the lessons learned. A baseline was established to measure program effectiveness. The MVCS will prepare a sheet for each beneficiary community, containing the information indicated in the Results Matrix.

PROGRAM TO IMPROVE AND EXPAND WATER AND SANITATION SERVICE IN PERU

PE-X1004

CERTIFICATION

I hereby certify that this nonreimbursable investment operation was approved for financing by the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean at the Executive Committee meeting of the Spanish Cooperation Fund for Water and Sanitation on 6 October 2009, pursuant to the communication of 1 January 2010 signed by Ms. Carmen Fuente, Director of the Office of the Water and Sanitation Cooperation Fund, of the Spanish Agency for International Development Cooperation of the Ministry of Foreign Affairs and Cooperation.

Also, I certify that resources are available for up to US\$72,000,000 in the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean in order to finance the activities described and budgeted in this document. This certification reserves resources for a period of 12 calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources funds will be cancelled, unless a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in U.S. dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own country who may have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this program. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

(original signed)

Marguerite S. Berger
Chief

Grants and Cofinancing Management Unit
VPC/GCM

(2 February 2010)

Date

**Development Effectiveness Matrix
Summary**

| Indicator | Score | Maximum Score |
|--|--------------|---------------|
| <i>I. Strategic Relevance</i> | High | |
| 1. IDB Strategic Development Objectives | 5.2 | 10 |
| Country Diversification | 0.7 | 2 |
| Corporate Initiatives | 2.5 | 2.5 |
| Harmonization and Alignment | 0.0 | 3.5 |
| Beneficiary Target Population | 2.0 | 2 |
| 2. Country Strategy Development Objectives | 5.4 | 10 |
| Country Strategy Sector Diagnosis | 1.8 | 6 |
| Country Strategy sector objective & indicator | 3.6 | 4 |
| <i>II. Development Outcomes - Evaluability</i> | Satisfactory | |
| 3. Evidence-based Assessment & Solution | 4.1 | 10 |
| 4. Evaluation & Monitoring Plan | 5.3 | 10 |
| 5. Cost-Benefit or Cost-Effectiveness | 7.0 | 10 |
| 6. Risks & Mitigation Monitoring Matrix | 7.5 | 10 |
| <i>III. IDB's Role - Additionality</i> | | |
| 7. Additionality | 7.0 | 10 |
| Technical Assistance provided prior to the project | 3.0 | 3 |
| Improvements in management of financial, procurement, monitoring or statistics internal controls | 4.0 | 4 |
| Improvements in environmental, health and labor performance | 0.0 | 3 |

I. Strategic Relevance: This operation will be carried out through an investment loan. Its objective is consistent with the Bank's water and sanitation initiative, under the "3,000 Rural Communities" program. There is no evidence that country financial administration, procurement, M&E, or environmental management systems will be used. The strategy-level sector diagnostic assessment was not available for this validation; nevertheless, the project is consistent with the sector objective indicated in the current country strategy.

II. Evaluability: This project outlines the different problems it seeks to address and its intervention logic is sound. However, the empirical evidence provided regarding the magnitude of the basic water and sanitation coverage problem is not consistent with the proposed level of intervention (in five of the country's regions), which makes it impossible to establish whether the magnitude of the intervention is consistent with the magnitude of the problem. The project has metrics to monitor and evaluate the expected results in all project intervention areas, but the outcome indicators lack specificity and clarity and in some cases lack baselines. The project has defined mechanisms to monitor the expected results. Applying a reflexive evaluation (before and after) to measure program results at the end of the intervention is considered. There is no specific evaluation plan with the principal activities to be carried out (including data collection) or people responsible for each of them. A cost-benefit analysis of the project-financed investments has been carried out. The main environmental and social risks have been identified as well as the required mitigation measures. There are no baselines or targets indicated that would make it possible to follow up on implementation of such mitigation measures.

III. Additionality: Technical-cooperation operation PE-T1195—whereby a monitoring and evaluation system for the water and sanitation system will be created—supports project design and execution.

| RESULTS MATRIX | | | | | |
|--|---------------------|---|----------------|---------------|--|
| Project Objective | | The objective is to help increase the coverage of drinking water and sanitation services for people living in rural areas and small cities in Peru. | | | |
| Outcome indicators | Baseline | YEAR | | | |
| | | Year 2 | End of project | 2 years later | Entity in charge |
| No. of inhabitants with properly operating water and sanitation services ² | 0 | | 206,000 | 206,000 | WFA until end of project. DNS ex post evaluation |
| Drinking water coverage in the districts benefiting from the program | 12.27% ¹ | | 66% | | WFA until end of project. DNS ex post evaluation |
| Sanitation coverage in the districts benefiting from the program | 10% ¹ | | 64% | | WFA until end of project. DNS ex post evaluation |
| ¹ Estimate based on 2007 INEI census information. ² The program will expand service for 187,000 inhabitants and improve service for 19,000 inhabitants. | | | | | |

| Component 1 | WATER AND SANITATION IN RURAL AREAS | | | | | | | |
|---|-------------------------------------|--------|--------|--------|--------|--------|--|------------------|
| Output | Baseline | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | MEANS OF VERIFICATION ² | Entity in charge |
| No. of drinking water systems in operation | 0 | 0 | 90 | 110 | 143 | | Works supervision and ex post evaluation reports | WFA |
| No. of basic sanitation units installed and in operation | 0 | | 6,372 | 7,788 | 10,124 | | Works supervision and ex post evaluation reports | WFA |
| No. of inhabitants with drinking water services | 0 | | 35,046 | 42,834 | 55,684 | | Works supervision and ex post evaluation reports | WFA |
| No. of inhabitants with sanitation services | 0 | | 35,046 | 42,834 | 55,684 | | Works supervision and ex post evaluation reports | WFA |
| No. of community organizations set up and trained, and properly managing the services | 0 | | 90 | 110 | 143 | | Works supervision and ex post evaluation reports | WFA |
| Coverage | | | | | | | | |
| No. of rural communities with 100% coverage upon completion of infrastructure | 0 | | 90 | 110 | 143 | | User survey (contractor) Works supervision and ex post evaluation reports | WFA |
| Continuity | | | | | | | | |
| No. of rural communities with drinking water service (12 hours minimum) | 0 | | 90 | 110 | 143 | | Service provider's report and user survey (contractor) Works supervision and ex post evaluation reports | WFA |
| Water quality | | | | | | | | |
| No. of water systems with residual chlorine greater than or equal to 0.5 mg/lit, measured at the most distant point in the system | 0 | | 90 | 110 | 143 | | Service provider's report, works supervision and ex post evaluation reports | WFA |
| Financial sustainability | | | | | | | | |
| Number of community organizations in which the indicator (service revenues/operation, administration, maintenance, and repair costs) >= 1 | 0 | | 90 | 110 | 143 | | Service provider's report and ex post evaluation | WFA |
| No. of community organizations that have updated user lists | 0 | | 90 | 110 | 143 | | Service provider's report and ex post evaluation; project profile | WFA |
| HEALTH EDUCATION | | | | | | | | |
| No. of users educated in the social and economic value of water and sanitation services | 0 | | 6,372 | 7,788 | 10,124 | | Report on educational activities | WFA |
| No. of users who promptly pay their water bill | 0 | | 6,372 | 7,788 | 10,124 | | Record of users current in the payment of their rates (service provider) | WFA |
| GENDER INDICATORS | | | | | | | | |
| No. of women who hold decision-making positions in the community organization | 0 | | 90 | 110 | 143 | | Works supervision and ex post evaluation reports | WFA |
| No. of women trained to manage and/or operate and/or maintain the water and sanitation service | 0 | | 90 | 110 | 143 | | Works supervision and ex post evaluation reports | WFA |

NOTE:

¹ The baseline will be adjusted once the consultants hired for the preinvestment studies complete the assessment of the localities to be targeted by the program.

² The means of verification used are from the supervision and contractor reports to be included in the respective terms of reference for their services, and therefore do not entail any additional costs to the program.

| Component 2 | WATER AND SANITATION IN SMALL CITIES | | | | | | | | |
|---|--------------------------------------|--------|--------|--------|--------|--------|--|------------------|--|
| Output | Baseline | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | MEANS OF VERIFICATION | Entity in charge | |
| No. of drinking water and sanitation systems installed and in operation | 0 | | 3 | 6 | 10 | | Works supervision and ex post evaluation reports | WFA | |
| No. of water connections installed and in operation | 0 | | 2,098 | 4,196 | 6,994 | | Works supervision and ex post evaluation reports | WFA | |
| No. of sewerage connections installed and in operation | 0 | | 2,098 | 4,196 | 6,994 | | Works supervision and ex post evaluation reports | WFA | |
| No. of inhabitants with drinking water service | 0 | | 11,540 | 23,080 | 37,816 | | User surveys | WFA | |
| No. of inhabitants with sewerage service | 0 | | 11,540 | 23,080 | 37,816 | | User surveys | WFA | |
| No. of localities with wastewater treatment plants installed and in operation | 0 | | 3 | 6 | 9 | | Works supervision and ex post evaluation reports | WFA | |
| No. of municipios that have management units set up | 0 | | 3 | 6 | 9 | | Municipios' reports and ex post evaluation | WFA | |
| No. of municipios that received technical assistance | 0 | | 3 | 6 | 9 | | Report on technical assistance provided | WFA | |
| Coverage | | | | | | | | | |
| No. of localities with 100% coverage upon completion of infrastructure | | | 3 | 6 | 9 | | User survey (contractor) Works supervision and ex post evaluation reports | WFA | |
| Continuity | | | | | | | | | |
| No. of localities with drinking water service (minimum 16 hours) | 0 | | 3 | 6 | 9 | | Service provider's report and user survey (contractor) Works supervision and ex post evaluation reports | WFA | |
| No. of localities with 100% coverage upon completion of infrastructure | 0 | | 3 | 6 | 9 | | User surveys | WFA | |
| Water purity | | | | | | | | | |
| No. of water systems with residual chlorine greater than or equal to 0.5 mg/lit, measured at the most distant point in the system | | | 3 | 6 | 10 | | Service provider's report and ex post evaluation | WFA | |
| Financial sustainability | | | | | | | | | |
| No. of service providers in which the indicator (service revenues/operation, administration, maintenance, and repair costs) >= 1 | 0 | | 3 | 6 | 9 | | Service provider's report and ex post evaluation | WFA | |
| No. of service providers that have updated user lists | 0 | | 3 | 6 | 9 | | Service provider's report and ex post evaluation | WFA | |
| HEALTH EDUCATION | | | | | | | | | |
| No. of users educated in the social and economic value of water and sanitation services | 0 | | 2,098 | 4,196 | 6,994 | | Report on educational activities | WFA | |
| No. of users who promptly pay their water bill | 0 | | 2,098 | 4,196 | 6,994 | | Record of users current in the payment of their rates (service provider) | WFA | |
| GENDER INDICATORS | | | | | | | | | |
| No. of women who hold positions in the utility service provider | 0 | | 3 | 6 | 9 | | Works supervision and ex post evaluation reports | WFA | |
| No. of women trained to manage and/or operate and/or maintain the water and sanitation service | 0 | | 3 | 6 | 9 | | Works supervision and ex post evaluation reports | WFA | |

NOTE:

1 The baseline will be adjusted once the consultants hired for the preinvestment studies complete the assessment of the localities to be targeted by the program.

2 The means of verification used are from the supervision and contractor reports to be included in the respective terms of reference for their services, and therefore do not entail any additional costs to the program.

| Component 3 | Institutional Strengthening | | | | | | | MEANS OF VERIFICATION | Entity in charge |
|--|-----------------------------|----------|--------|--------|--------|--------|--------|--|--|
| | Output | Baseline | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | | |
| Plans and Programs | | | | | | | | | |
| No. of regional sanitation plans cleared by the sector | 0 | | 3 | | | | | Outputs approved by the DNS | Directorate of Planning and Programming |
| Standards | | | | | | | | | |
| No. of standards on implementation of management units | 0 | 1 | | | | | | Outputs approved by the DNS | Directorate of Standards |
| No. of complementary standards in rural areas | 0 | | 1 | | | | | Outputs approved by the DNS | Directorate of Standards |
| No. of complementary standards in small cities | 0 | | 1 | | | | | Outputs approved by the DNS | Directorate of Standards |
| Strengthening | | | | | | | | | |
| No. of municipios and regional governments informed about the guidelines, policies and standards for the sanitation sector, and the objectives, strategies and scope of the Spanish Cooperation Program. | 0 | | 23 | | | | | Report on training activities | Directorate of Promotion and Development |
| No. of consulting and supervisory firms informed about the guidelines, policies and standards for the sanitation sector, and the objectives, strategies and scope of the Spanish Cooperation Program. | 0 | 16 | | | | | | Report on training activities | Directorate of Promotion and Development |
| No. of consulting and supervisory firms informed about the guidelines, policies and standards for the sanitation sector, and the objectives, strategies and scope of the Spanish Cooperation Program. | 0 | | 16 | 16 | 16 | 16 | | Report on training activities | Directorate of Promotion and Development |
| No. of Programming and Investment Offices (OPIs) of regional governments, strengthened through technical assistance in the "Evaluation of Water and Sanitation Public Investment Projects (PIPs) | 0 | | 5 | | | | | Final technical assistance evaluation report | Directorate of Promotion and Development |
| No. of municipios and regional governments (OPIs and Formulation Units) trained in the "Formulation and Evaluation of Water and Sanitation PIPs." | 0 | 23 | | | | | | Final training evaluation report | Directorate of Promotion and Development |
| No. of regional governments trained in the "Methodology for the Formulation of Regional Water and Sanitation Plans" | 0 | 15 | | | | | | Final training evaluation report | Directorate of Promotion and Development |
| Pilot project to develop appropriate technologies for rural areas | 0 | | 1 | | | | | Final evaluation report and, if applicable, formulation of the respective standard | Directorate of Promotion and Development |
| Development of software (including manuals and training) for the management of water and sanitation services in small cities | 0 | 1 | | | | | | Final evaluation report and, if applicable, formulation of the respective standard | Directorate of Promotion and Development |
| Implementation of software (including manuals and training) for the management of water and sanitation services in small cities | 0 | | 8 | 8 | | | | Final evaluation report and, if applicable, formulation of the respective standard | Directorate of Promotion and Development |
| No. of municipios with technical assistance in setting up and implementing Management Units | 0 | | | 2 | | | | Final technical assistance evaluation report | Directorate of Promotion and Development |

The annexes to the Results Matrix are available at the following links:

[Appendix 1 - Means and Purposes Tree](#)

[Appendix 2 of the Results Matrix](#)

PROCUREMENT PLAN
PERIOD INCLUDED IN THIS PROCUREMENT PLAN: MARCH 2010 TO AUGUST 2011

| Ref. No. ¹ | Description and type of procurement contract | Estimated contract cost (US\$ thousands) | Procurement method ² | Review (ex ante or ex post) | Source of financing and percentage | | Prequalification ³ (Yes/No) | Estimated dates | | Status ⁴ (pending, in process, awarded, cancelled) | Comments |
|-----------------------|--|---|---------------------------------|-----------------------------|------------------------------------|-----------------|--|--|-----------------------------------|---|----------|
| | | | | | IDB % | Local / Other % | | Publication of specific procurement notice | Completion of contract | | |
| 1 | GOODS | | | | | | | | | | |
| 1.1 | Computer and communications equipment (hardware and software) | 200 | NCB | ex ante | 90 | 10 | no | Apr/10 | Jul/10 | Pending | |
| 1.2 | Furnishings | 50 | PC | ex ante | 90 | 10 | no | Apr/10 | Jul/10 | Pending | |
| 1.3 | Vehicles | 175 | NCB | ex ante | 90 | 10 | no | Apr/10 | Jun/10 | Pending | |
| 1.4 | Office supplies | 30 | PC | ex ante | 90 | 10 | no | Apr/10 | Jun/10 | Pending | |
| 2 | WORKS | | | | | | | | | | |
| 2.1 | Group of projects from the sample. Construction of 15 water and basic sanitation systems and social development– institutional strengthening phase 2 | 2,873 (works) 108.5 (institutional strengthening and community development of Group 2 (IS-CD2)) 2,981.5 (total) | NCB | ex post | 80 | 20 | no | Aug/10 | Feb/11 (works) Aug/11 (IS-CD2) | Pending | |
| 2.1 | Group 1: Puno region. Construction of 115 water and basic sanitation systems and social development– institutional strengthening phase 2 | 19,418.5 (works) 832.2 (IS-CD2) 20,250.7 (total) | ICB | ex ante | 80 | 20 | no | May/11 | Jan/12 (works) Jul/12 (IS-CD2) | Pending | |
| 2.2 | Group 2 Cuzco-Apurimac region. Construction of 77 water and basic sanitation systems and social development– institutional strengthening phase 2 | 15,068 (works) 557 (IS-CD2) 15,625 (total) | NCB | ex ante | 80 | 20 | no | Oct/11 | Jun/12 (works) Dec (IS-CD2) | Pending | |
| 2.4 | Group 3 Huancavelica-Ayacucho region. Construction of 155 water and basic sanitation systems and social development– institutional strengthening phase 2 | 3,1440 (works) 1,121.6 (IS-CD2) 32,561.6 (total) | NCB | ex ante | 80 | 20 | no | May/11 | Jan/12 (works) Jul/12 (IS-CD2) | Pending | |
| 3 | NONCONSULTING SERVICES | | | | | | | | | | |
| 3.2 | Office rent | 75 | PC | ex post | 90 | 10 | no | May/10 | Jul/13 | Pending | |
| 3.3 | Leasing of copy machines and printers | 5 | PC | ex post | 90 | 10 | no | May/10 | Jul/13 | Pending | |
| 3.4 | Communication services | 15 | PC | ex post | 90 | 10 | no | May/10 | Jul/13 | Pending | |

| Ref. No. ¹ | Description and type of procurement contract | Estimated contract cost (US\$ thousands) | Procurement method ² | Review (ex ante or ex post) | Source of financing and percentage | | Prequalification ³ (Yes/No) | Estimated dates | | Status ⁴ (pending, in process, awarded, cancelled) | Comments |
|-----------------------|--|--|---------------------------------|-----------------------------|------------------------------------|-----------------|--|--|------------------------|---|----------|
| | | | | | IDB % | Local / Other % | | Publication of specific procurement notice | Completion of contract | | |
| 4 | CONSULTING SERVICES | | | | | | | | | | |
| 4.1 | Formulation of regional sanitation plans (3) | 390 | LCS | ex ante | 80 | 20 | no | Jul/10 | Oct/11 | Pending | |
| 4.2 | Implementation of regulatory framework for management units | 25 | QCBS | ex ante | 80 | 20 | no | Apr/10 | Nov/10 | Pending | |
| 4.3 | Formulation of policies, guidelines, and technical standards for sanitation solutions in rural areas and small cities (2) | 50 | QCBS | ex ante | 80 | 20 | no | Apr/11 | Nov/11 | Pending | |
| 4.4 | Research and development of appropriate low-cost technologies (2) | 70 | QCBS | ex ante | 80 | 20 | no | Jan/11 | Feb/12 | Pending | |
| 4.5 | Initiation of in-house staff and regional and local stakeholders, with respect to the program, policies and current regulations for the sector | 188 | LCS | ex ante | 80 | 20 | no | Apr/10 | Jul/10 | Pending | |
| 4.6 | Technical assistance in preinvestment and investment for local authorities and consultants | 96 | LOI | ex ante | 80 | 20 | no | May/10 | Sep/10 | Pending | |
| 4.7 | Training of regional and local governments on Public Investment Projects (PIPs) | 44.75 | LOI | ex ante | 80 | 20 | no | Nov/10 | Feb/11 | Pending | |
| 4.8 | Training in regional planning methodologies in other regions | 71.4 | LCS | ex ante | 80 | 20 | no | Jul/10 | Jan/11 | Pending | |
| 4.9 | Development of software to manage services in small cities | 30 | QCBS | ex ante | 80 | 20 | no | Jul/10 | Feb/11 | Pending | |
| 4.10 | Formation and implementation of management units outside the program area | 259 | QCBS | ex ante | 80 | 20 | no | Apr/11 | Jun/12 | Pending | |
| 4.11 | Group of projects from the sample. Field validation of communities and districts | 2.7 | LOI | ex ante | 80 | 20 | no | Dec/09 | Jan/10 | | |
| 4.12 | Group 1 Puno region. Group of projects from the sample. Field validation of communities and districts | 21 | LOI | ex ante | 80 | 20 | no | Dec/09 | Jan/10 | | |
| 4.13 | Group 2 Cuzco – Apurimac region. Group of projects from the sample. Field validation of communities and districts | 14 | LOI | ex ante | 80 | 20 | no | May/10 | Jun/10 | | |

| Ref. No. ¹ | Description and type of procurement contract | Estimated contract cost (US\$ thousands) | Procurement method ² | Review (ex ante or ex post) | Source of financing and percentage | | Prequalification ³ (Yes/No) | Estimated dates | | Status ⁴ (pending, in process, awarded, cancelled) | Comments |
|-----------------------|---|---|---------------------------------|-----------------------------|------------------------------------|-----------------|--|--|------------------------|---|----------|
| | | | | | IDB % | Local / Other % | | Publication of specific procurement notice | Completion of contract | | |
| 4.14 | Group 3 Huancavelica – Ayacucho region. Group of projects from the sample. Field validation of communities and districts | 28.3 | LOI | ex ante | 80 | 20 | no | Dec/09 | Jan/10 | | |
| 4.15 | Group of projects from the sample. Preparation of preinvestment studies and files for the construction of 15 water and basic sanitation systems (including IS-CD phase I) | 195 (PINV) 66.5 (DC-FI 1) 261.5 (Total) | QCBS | ex ante | 80 | 20 | no | Dec/10 | Jul/11 | Pending | |
| 4.16 | Group 1 Puno region. Preparation of preinvestment studies and files for the construction of 115 water and basic sanitation systems (including IS-CD phase I) | 1,496 (PINV) 509.6 (DC-FI1) 2,005.6 (Total) | QCBS | ex ante | 80 | 20 | no | May/10 | Apr/11 | Pending | |
| 4.17 | Group 2 Cuzco – Apurimac region. Preparation of preinvestment studies and files for the construction of 77 water and basic sanitation systems (including IS-CD phase I) | 1,002 (PINV) 341 (DC-FI 1) 1,343 (Total) | QCBS | ex ante | 90 | 10 | no | Oct/10 | Sep/11 | Pending | |
| 4.18 | Group 3 Huancavelica – Ayacucho region. Preparation of preinvestment studies and files for the construction of 155 water and basic sanitation systems (including IS-CD phase I) | 2,017 (PINV) 686.5 (DC-FI1) 2,703.5 (Total) | LCS | ex ante | 90 | 10 | no | May/10 | Apr/11 | Pending | |
| 4.19 | Supervision of the preparation of preinvestment studies, files and IS-CD phase I for 15 water and sanitation systems in rural areas and small cities in the sample group | 37.2 | LCS | ex ante | 80 | 20 | no | Dec/10 | Jul/11 | Pending | |
| 4.20 | Supervision of the preparation of preinvestment studies, files and IS-CD phase I for 115 water and sanitation systems in rural areas and small cities in group 1: Puno region | 285.5 | LCS | ex ante | 80 | 20 | no | May/10 | Apr/11 | Pending | |
| 4.21 | Supervision of the preparation of preinvestment studies, files and IS-CD phase I group 2: Cuzco-Apurimac region | 191.1 | LCS | ex ante | 80 | 20 | no | Oct/10 | Sep/11 | Pending | |

| Ref. No. ¹ | Description and type of procurement contract | Estimated contract cost (US\$ thousands) | Procurement method ² | Review (ex ante or ex post) | Source of financing and percentage | | Prequalification ³ (Yes/No) | Estimated dates | | Status ⁴ (pending, in process, awarded, cancelled) | Comments |
|-----------------------|--|--|---------------------------------|-----------------------------|------------------------------------|-----------------|--|--|------------------------|---|--|
| | | | | | IDB % | Local / Other % | | Publication of specific procurement notice | Completion of contract | | |
| 4.22 | Supervision of the preparation of preinvestment studies, files and IS-CD phase I group 3: Huancavelica-Ayacucho region | 384.8 | LCS | ex ante | 80 | 20 | no | May/10 | Apr/11 | Pending | |
| 4.23 | Supervision of works and IS-CD phase II sample group | 149.2 | LCS | ex ante | 80 | 20 | no | Aug/10 | Aug/11 | Pending | |
| 4.24 | Supervision of works and IS-CD phase II sample group from group 1: Puno region | 1,144 | LCS | ex ante | 80 | 20 | no | May/11 | Jul/12 | Pending | |
| 4.25 | Supervision of works and IS-CD phase II sample group from group 2: Cuzco-Apurimac region | 766 | LCS | ex ante | 80 | 20 | no | Oct/11 | Dec/12 | Pending | |
| 4.26 | Supervision of works and IS-CD phase II sample group from group 3: Huancavelica-Ayacucho region | 1,542 | LCS | ex ante | 80 | 20 | no | May/11 | Jul/12 | Pending | |
| 4.27 | Consultants for the program executing unit | 3,000 | NICQ | ex ante | 90 | 10 | no | Mar/10 | Dec/13 | Pending | Consultants will be contracted in the first year: general coordinator, procurement, technical, administrative and financial, and community development coordinators, and environmental specialist. |
| 4.28 | External audit of the program | 100 | QCBS | ex ante | 90 | 10 | no | Jun/10 | Jun/15 | Pending | |

¹ If a number of similar individual contracts were to be executed in different places or at different times, these can be grouped together under a single heading, with an explanation in the comments column indicating the average individual contract amount and the period during which they would be executed. For example, an education project that includes school construction might include an item "school construction" for a total of US\$20 million, and an explanation in the comments column such as: "This encompasses some 200 contracts for school construction averaging US\$100,000 each, to be awarded individually by participating municipal governments over a three-year period between January 2006 and December 2008."

² **Goods and Works:** **ICB:** International competitive bidding; **LIB:** Limited international bidding; **NCB:** National competitive bidding; **PC:** Price comparison; **DC:** Direct contracting; **FA:** Force account; **PSA:** Procurement through Specialized Agencies; **PA:** Procurement Agents; **IA:** Inspection Agents; **PLFI:** Procurement in loans to financial intermediaries; **BOO/BOT/BOOT:** Build, Own, Operate/Build, Operate, Transfer/Build, Own, Operate, Transfer; **PBP:** Performance-based procurement; **PLGB:** Procurement under loans guaranteed by the Bank; **CPP:** Community participation procurement. **Consulting Firms:** **QCBS:** Quality- and cost-based selection; **QBS:** Quality-based selection; **FBS:** Fixed-budget selection; **LCS:** Least-cost selection; **CQS:** Selection based on consultants' qualifications; **DS:** Direct selection.

Individual consultants: **NICQ:** National individual consultant selection based on qualifications; **IICQ:** International individual consultant selection based on qualifications.

³ In the case of the new policies it applies only for Goods and Works. In the case of the old procurement policies it applies for Goods, Works and Consulting Services.

⁴ This column "Status" should be used for retroactive procurement and for procurement plan updates.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/10

Peru. Nonreimbursable Financing GRT/WS-_____-PE to the Republic of Peru
Program to Improve and Expand Water and Sanitation Services in Peru

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, as administrator of the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean, hereinafter referred to as the "Fund", to enter into such contract or contracts as may be necessary with the Republic of Peru, as Beneficiary, for the purpose of granting it a nonreimbursable financing to cooperate in the execution of a program to improve and expand water and sanitation services in Peru. Such nonreimbursable financing will be for an amount of up to US\$72.000.000 that forms part of the Fund, and will be subject to the Terms and Conditions and the Special Contractual Conditions of the Project Summary of the nonreimbursable Financing Project Report.

(Adopted on _____ 2010)

LEG/SGO/PE-35050917
PE-X1004