

TC DOCUMENT

I. Basic project data

▪ Country/Region:	Colombia
▪ TC Name:	Support to the water and sanitation sector through the application of AquaRating in Colombia
▪ TC Number:	CO-T1417
▪ Team Leader/Members:	Maria del Rosario Navia (team Leader), Corinne Cathala (Alternate Team Leader), Keisuke Sasaki, Miguel Campo Llopis, Celia Bedoya and Yolanda Galaz (INE/WSA); Manuel José Navarrete (WSA/CCO), Javier Jiménez Mosquera (LEG/GSO), Juan Carlos Martell (VPC/FMP); and Miguel Angel Baruzze Lopez (VPC/FMP)
▪ Taxonomy:	Client support
▪ Reference to Request:	Ibdbdocs 40519108
▪ Date of TC Abstract:	August, 2016
▪ Beneficiary:	Financiera de Desarrollo Territorial (FINDETER)
▪ Executing Agency and contact name:	Inter-American Development Bank (INE/WSA) and FINDETER
▪ Sources of Funding	Multidonor AquaFund (MAF).
▪ IDB Funding Requested:	US\$600,000
▪ Local counterpart funding, if any:	N/A
▪ Disbursement period (which includes execution period):	40 months Execution: 36 months
▪ Required start date:	November 15 th , 2016
▪ Types of consultants:	Individual consultants
▪ Prepared by Unit:	INE/WSA
▪ Unit of Disbursement Responsibility:	INE/WSA
▪ Included in Country Strategy:	N/A
▪ TC included in CPD:	N/A
▪ GCI-9 Sector Priority:	Infrastructure for competitiveness and social welfare

II. Objective and Justification

- 2.1 AquaRating is a voluntary and universal system that offers a comprehensive assessment of the performance of water and sanitation services, based on reliable information and validated by independent agents. The development of AquaRating has been financed through TC operations ATN/WP-11217-RG, ATN/MA-13269 and ATN/MA-13270-RG. On June 25th, 2014, the Bank approved a new TC operation (RG-T2456 or ATN/MA-14477-RG and ATN/MA-14485-RG) in the amount of US\$1.0 million to support the start of operations of the AquaRating Entity, which is still under execution. Pursuant to the latter operation, the International Water Association (IWA) and the Bank signed a License Agreement on December 18, 2014 for the use and implementation of the AquaRating. Based on the initial business model, IWA was designated as the main executing agency for the execution of the TC operation and to operate as the AquaRating Entity. However, after 18 months of implementation and analysis of the market, as well as feedback from stakeholders, the IDB has obtained very valuable knowhow to implement the program directly and an agreement has been reached with IWA to modify the implementation arrangements. This has led the Bank to develop a new business and implementation model whereby the Bank needs to assume total responsibility for the implementation of the AquaRating program in order to have an effective approach towards clients in LAC. This new TC operation will make it possible to expand the implementation of the program in LAC.

- 2.2 AquaRating is an IDB flagship knowledge product developed by the IDB. Given the high demand for the tool in the Latin American and Caribbean (LAC) region, the Bank wishes to continue supporting AquaRating until it becomes a reference for all utilities in LAC, and a world-wide standard for performance assessment of water and sanitation providers.
- 2.3 AquaRating currently offers the following products (AquaRating products): (i) the AquaRating Standard; (ii) access to the AquaRating On-line Platform for self-evaluation; (iii) information validation by trained professionals; (iv) audit process by appointed AquaRating auditing firms; and (v) certification of Utilities done by the IDB.
- 2.4 Since the initial implementation phase that started in January 2015, a lot of interest in AquaRating has been generated through different events and promotional efforts. As a result, several water and sanitation utilities in LAC have expressed their intention to apply AquaRating to know better about the state of their overall performance. In addition, some donors have shown interest in using and financing AquaRating as part of their intervention model with utilities.
- 2.5 Particularly, the interest for AquaRating in Colombia has been rising quickly. Staff from Financiera de Desarrollo Territorial S.A. (FINDETER)¹ have participated in initial training. Also, personnel from Comisión de Regulación de Agua Potable y Saneamiento Básico (CRA)², Superintendencia de Servicios Públicos Domiciliarios (SSPD)³, Ministerio de Vivienda, Ciudad y Territorio (MVCT)⁴, and the Departamento Nacional de Planeación (DNP)⁵, have participated in several presentations. Starting in June 2015, AquaRating has been presented to several Colombian utilities that have shown interest in applying it. Additionally, the Swiss State Secretariat for Economic Affairs (SECO) has offered a donation (investment operation) of around US\$15 million in order to develop and implement action plans derived from the application of AquaRating in 10 utilities⁶. Part of this TC will finance the startup costs of the SECO project, so when the donation is approved, the Project Unit is created and running, and the utilities have already applied AquaRating.
- 2.6 During this last year (2015-2016), the IDB and FINDETER have been assessing the demand of urban water utilities for implementing AquaRating and finally, in May 2016, a collaboration letter was signed between FINDETER and the IDB Water and Sanitation Division [\(link\)](#), and the initial activities for the implementation of AquaRating began in the first five utilities with resources from RG-T2456.
- 2.7 The objective of this TC is to promote efficiency in water and sanitation utilities through the use of AquaRating. The specific objectives are: (i) to support the application of AquaRating performance assessment tool in at least eight water and sanitation utilities, so this TC will serve to fund the activities required while SECO's

¹ FINDETER is a national mixed economy stock corporation, organized as a second-tier credit institution, tied to the Ministry of Finance and Public Credit that grants rediscount loans to finance public and private infrastructure and provides technical assistance in the execution of infrastructure projects.

² CRA establishes the economic regulation in terms of tariffs, quality, efficiency, and performance of water and sanitation utilities.

³ SSPD is in charge of supervising and controlling that the regulation is followed by utilities

⁴ The Ministry of Housing, City and Territory is the head of the water and sanitation sector.

⁵ DNP is the executive administrative agency in charge of defining, recommending and promoting public and economic policy.

⁶ When approved, these resources will go through the Bank as a Project Specific Grant.

contribution is agreed and approved; (ii) to strengthen the capacity of FINDETER and other sector institutions to promote efficiency in water and sanitation utilities; and (iii) to promote dialogue about utilities performance among national and regional sector institutions.

- 2.8 The participating utilities will be selected in coordination with FINDETER, SECO and the IDB, using the following criteria: (i) Demonstrated interest in improving their performance as well as using AquaRating as a tool to measure the baseline and the impacts of the measures adopted; (ii) Existing endorsement by the Utility's Board to engage in the program; (iii) Appointment of a coordinator who will be fully allocated to the implementation of this program; (iv) The cities will preferably be part of the FINDETER's Program Emerging and Sustainable Cities Initiative (called Ciudades Sostenibles, Competitivas y Ciudades Emblematicas in Colombia).
- 2.9 This TC is consistent with the Bank's Update to the Institutional Strategy 2010-2020 (GN-2788-5) and it's aligned with the development challenges of: (i) social inclusion and equality; (ii) productivity and innovation; and (iii) economic integration. since it will contribute, through the use of a very innovative tool, to improving the quality and efficiency of water and sanitation services, enhancing the management of wastewater treatment facilities, and encouraging the sustainable use of water resources as well as energy efficiency.
- 2.10 Also, this TC is aligned with the document GN-2487 Proposal for the Establishment of the AquaFund, specifically, with section VII A,B and C by strengthening water operators in measuring performance; studying and implementing improvements in the national legal framework and regulatory reform support; using an innovative performance assessment tool that has a potential for replication or scaling-up in the region; and training of operators and sector institutions to expand sector-related knowledge.

III. Description of activities and outputs

- 3.1 **Component 1. Self-Assessment and validation of water and sanitation services through AquaRating (Total: US\$196.000).** This component will result in the application of AquaRating in at least eight urban utilities in order to assess the level of performance and define a baseline with the objective of identifying improvement measures. As mentioned in 2.5, a SECO-financed operation will use the information derived from the application of AquaRating to develop and implement action plans. The documentation for this operation has been submitted to SECO, has been pre-approved and it's under revision for the final approval and disbursement to the IDB. It is expected that this disbursement will be done before the end of 2016.
- 3.2 For each of the utilities participating in the program, a work plan will be developed, discussed and agreed upon, to implement AquaRating. The staff of these utilities will receive training and all the information they need in order to apply the AquaRating. Also, during the application of AquaRating, each utility will receive the required technical support. This component will also include the validation of the information provided by the utilities, so that they have a validated initial assessment of the service provision (baseline). In some cases, at the request of a utility a full audit can be performed. The component will finance consultants' fees

and travel costs for consultants, IDB staff⁷, government officials and utilities staff. These consultants have a current contract with IDB financed with RG-T2456 (under execution), to support the AquaRating in general (not only this effort in Colombia). Their contracts will be extended with resources from this TC. Single Source Selection will be the procurement method for these contracts. This component will be executed by the IDB (¶5.1). The utilities will provide the participation of their staff as in-kind contribution (the amount is not included here as it will be calculated for each of the utilities when the time comes).

- 3.3 **Component 2. Training and local Capacity Building (Total: US\$300,000).** The objective of this component is to create the bases at the local level for further implementation of the AquaRating. This component will include training of staff from FINDETER, CRA, SSPD, MVCT, DNP and other government institutions at the national level that will benefit from understanding the objectives and benefits of AquaRating. A local team will be created in order to promote and support the use of AquaRating by Colombian utilities. Some of the consultants hired will become the reference for the application of AquaRating in the future. Part of this component will finance the start-up costs of the SECO project, so when the donation is approved, the core group of the Project Implementation Unit (PIU) is created and running (3 members of the PIU for six months). Also, an IDB Complementary Workforce Employee based in Colombia will be hired to be part of the IDB AquaRating team. This component will finance fees of the mentioned local and international consultants. Also, travel costs for consultants, IDB staff, and government officials are included. This component will be executed by the IDB and FINDETER (¶5.1).
- 3.4 **Component 3. Support to sector institutions (Total: US\$104,000).** The strategy for AR in Colombia is to expand the implementation of AR promoting its use as a tool for all sector institutions. Therefore, the objective is to support the sector institutions to adapt the use of AR to its mandate in order to strengthen their capacity towards improving the performance of utilities country wide, having an effect in the effectiveness of their operations, wider transparency, and enhancing information management, that the sector requires. Thus, the activities in component 2 will provide the information to sector institutions to improve their policy approach, (e.g. regulations, internal procedures, manuals, etc.). Per request of the sector institutions this component will provide the required support in order to implement some of those measures. The component will finance the fees for local and international consultants that will support the institutions in the identification of issues and implementation of measures. The IDB will execute this component (¶5.1).

⁷ Per Operational Policy for Technical Cooperation OP-400, TC resources may not supplement the budget of a Bank department or division for routine or customary activities. This TC will finance travel costs for Bank staff in accordance with GN-2470-2. The tasks to be implemented by Bank staff will include activities such as the provision of support to: (i) the performance of workshops to validate the information entered by Water Utilities into the AquaRating Software; (ii) dissemination of the AquaRating Program with government officials as well as in conferences and seminars; and (iii) Water Utilities during the process of evaluation. These functions will not constitute Bank's ordinary or routine activities, but are essential to achieve the objective of this TC. The participation of Bank staff and consultants in the activities of this TC, will allow the Bank to retain the know-how from the implementation of the AquaRating. As the Bank retains ownership of the AquaRating Program and Materials, it is critical that both intellectual property rights and the know-how from the implementation of the AquaRating Program under the TC remain within the Bank.

Indicative Results Matrix

Outcome: To promote efficiency in water and sanitation utilities through the use of AquaRating								
Outcome indicators	Unit	Base line	Y 1	Y 2	Y 3	T EOP	Means of verification	
AquaRating Professionals available in the regions	Professionals	0	4	2	0	6	Listing of professionals trained and able to support utilities in the implementation of AquaRating	
AquaRating, an IDB knowledge product, is used by water and sanitation utilities in Colombia	Knowledge products	0			1	1	Semiannual Reports	
Colombian utilities that express interest in using AR	Utilities	5	5	4	4	18	Listing of utilities that request access to the AquaRating Demo	
Outputs	Unit	Base line	Y 1	Y 2	Y 3	T EOP	Means of verification	Estimated Cost US\$
Component 1. Self-Assessment and validation of water and sanitation services through AquaRating								
Training workshops delivered (utilities)	Workshops	0	3	3	0	6	Workshop report by FINDETER (attendees by gender)	56,000
Workshops organized (initial and closing)	Workshops	0	1	2	0	3	Workshop report by FINDETER (attendees by gender)	25,000
Number of utilities that have used AquaRating for self-evaluation	Utilities	0	4	4	0	8	AquaRating Platform Report	5,000
Institutional capacity analysis conducted (utilities validated)	Assessments	0	4	4	0	8	AquaRating Platform Validation Reports	110,000
Component 2. Training and local Capacity Building								
Project implementation unit strengthened	PIUs (#)	0	1	0	0	1	Contracts signed by FINDETER and PIU consultants	250,000
Training workshops delivered (government staff)	Workshops	0	1	0	0	1	Workshop report by FINDETER	50,000
Component 3. Support to sector institutions								
Institutional development plan designed	Plans (#)	0	0	2	0	2	Consultants Reports	20,000
Institutional development plan implemented	Plans (#)	0	0	0	2	2	Consultants Reports	84,000

IV. Budget

- 4.1 The total amount of funding requested, is US\$600,000 to be financed from the Multidonor AquaFund (MAF). The distribution of resources by component is shown in the table below. The detailed budget can be found in ([link](#)). The IDB will execute US\$435,000 and FINDETER will be responsible for executing US\$165,000 (¶15.1).

Indicative Budget (US\$)

Activity/Component	Description	IDB/Fund Funding	Total Funding
Self-Assessment and validation of water and sanitation services through AquaRating	Application of AquaRating in at least 5 urban utilities	196,000	196,000
Training and local Capacity Building	Training of staff from governmental institutions and utilities etc. Creating the team and basis for further application of AquaRating	300,000	300,000
Support to sector institutions	Support the change required in sector institutions	104,000	104,000
TOTAL		600,000	600,000

V. Executing agency and execution structure

- 5.1 Based on demand, Colombia has been selected as the first country where the AquaRating will be implemented with the participation of all entities in the sector, led by FINDETER. Component 1 will be executed by the IDB (US\$196,000). Component 2 will be executed by FINDETER (US\$165,000) and the IDB (US\$135,000). Component 3 will be executed by the IDB (US\$104,000). The supervision responsibility for the execution of this TC will rest with María del Rosario Navia (INE/WSA). Given that the IDB manages the AquaRating⁸, and that the IDB has the know-how (this TC will support the know-how transfer), the Government of Colombia requested that the activities related to the self-evaluation of the utilities and validation of the information, as well as the strengthening of the sector institutions be executed by the IDB ([link](#)). The activities to be financed under this TC will be implemented in coordination and with the support from IWA, pursuant to the License Agreement entered into IWA and the Bank (¶2.1), as it may be modified from time to time or until it expires. Such License Agreement is currently under revision.
- 5.2 FINDETER has been a key actor to support the implementation of projects within the program Agua para la Prosperidad, a program funded by the MVCT. The specialized technical assistance provided by FINDETER's Water and Sanitation Unit (Gerencia de Agua) has contributed to a better administration of financial resources dedicated to water, sanitation and solid waste management projects. Since 2012 FINDETER has provided technical assistance in projects benefiting more than 26 states, 165 municipalities and 9 million people. FINDETER has also taken part in the supervision of 65 sewerage projects, 62 water projects, 23 technical assistance projects, eight water and sewerage projects, and seven sanitary landfills. As a result of this work, FINDETER has strengthened its Water and Sanitation Unit and has defined as a priority to continue its work with urban water and sanitation utilities in order to improve their performance and increase the service level, promoting a better and more sustainable service to the users. FINDETER will be the executing agency for the SECO project.
- 5.3 FINDETER has extensive experience with IDB operations. It has executed loans in the past, and it's currently executing the following loans and technical cooperation operations: Program for Support of Sustainable Development in San Andres (CO-L1125) for US\$70 million; Fiscal and Public Expenditure Strengthening-

⁸ AquaRating is operated by IWA through the license agreement mentioned in 2.1

Barranquilla (CO-L1133) for US\$100 million; Second Operation Under the Multi-sector Conditional Credit Line For Investment (CO-L1155) for US\$150 million; Financing Mechanisms for Private Investments in Energy Efficient (CO-T1423) for US\$1,999,725 and Support Pre-Investment Studies in Regional Infrastructure Projects (CO-T1380) for US\$500,000. Therefore FINDETER's internal control structure is known to the IDB, and no audit will be required (only a certification).

- 5.4 The execution and disbursement period is 36 and 40 months respectively. Goods, works and consulting services will be procured in accordance with Bank's current procurement policies and procedures. All activities foreseen for this TC operation will be included in the procurement plan, and will be executed in accordance with the bidding methods and terms established therein.

VI. Project Risks and issues

- 6.1 There is the risk that a utility starts applying the AquaRating and doesn't complete the process. To mitigate this risk, the team will ensure that high level professionals in the utility are closely involved and leading the process, including the general manager of the utility. Additionally each utility will sign an agreement with the IDB and FINDETER before the application of AquaRating begins.
- 6.2 Another risk is that there might be a low level of acceptance of the AquaRating tool among sector institutions. To mitigate this risk, the team will ensure that there is a buy-in from those institutions by engaging with them for a long period and in several occasions. They have always confirmed that the AquaRating would be very beneficial for the sector. Additionally, and as a way to ensure sustainability of AquaRating in Colombia, FINDETER's staff will be very well trained in order to have an internal team, capable of understanding and promoting the tool.
- 6.3 Although a low risk at this point⁹, SECO might not approve the donation, in which case we'd have 8 utilities with an AquaRating performance assessment validated, that is always a good output to have. Performance improvement opportunities resulting from the application of AquaRating could be financed with new or existing IDB loans, or utilities can look for other donor's funding.

VII. Exceptions to Bank policy

- 7.1 This TC does not involve any exceptions to the Bank's Policies.

VIII. Environmental and Social Classification

- 8.1 Following ESG's project classification process requirements, it has been determined that this TC operation falls under Category C. No environmental assessment studies or consultations are required for Category "C" operations.

Required Annexes:

- [Carta de Solicitud](#)
- [TOR Consultor 1 Técnico*](#)
- [TOR Consultor 2 - Governance](#)
- [TOR Consultores Componente 3](#)
- [Procurement Plan](#)

⁹ SECO's Investment Grant follows a two-step approval process. Currently, the proposal has been approved in the first step, and SECO's technical team is at the final stage of preparation of the document to be presented at the second step, programmed for November 2nd.

SUPPORT TO THE WATER AND SANITATION SECTOR THROUGH THE APPLICATION OF AQUARATING IN COLOMBIA

CO-T1417

CERTIFICATION

I hereby certify that this operation was approved for financing under The **Multidonor AquaFund (MAF)** through a communication dated October 6, 2016 and signed by Felipe Caicedo (ORP/GCM). Also, I certify that resources from said fund are available for up to US\$600,000 in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US 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 borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, represent a risk that will not be absorbed by the Fund.

(original firmado)

11/02/2016

Sonia M. Rivera
Chief
Grants and Co-Financing Management Unit
ORP/GCM

Date

(original firmado)

11/7/2016

Approved:

Sergio I. Campos
Division Chief
Water and Sanitation Division
INE/WSA

Date