

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC2460

Project Name	EC PROSANEAMIENTO (P147951)
Region	LATIN AMERICA AND CARIBBEAN
Country	Ecuador
Sector(s)	General water, sanitation and flood protection sector (100%)
Theme(s)	City-wide Infrastructure and Service Delivery (60%), Pollution management and environmental health (20%), Rural services and infrastructure (10%), Water resource management (10%)
Lending Instrument	Investment Project Financing
Project ID	P147951
Borrower(s)	BEDE
Implementing Agency	BEDE/MIDUVI
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	07-Nov-2013
Date PID Approved/ Disclosed	15-Nov-2013
Estimated Date of Appraisal Completion	26-Mar-2014
Estimated Date of Board Approval	22-May-2014
Concept Review Decision	

I. Introduction and Context

Country Context

1. During the 1990's, Ecuador experienced years of significant political instability, recurrent economic crises and volatility. In the last decade, the country has seen a period of relative political stability and the Government (GoE) has invested heavily in infrastructure and social sectors in an effort to stimulate growth, reduce inequality and promote inclusion for a total population of slightly more than 15.7 million inhabitants.

2. Growth combined with falling inequality has led to important gains in reducing poverty and promoting shared prosperity. As a result of these efforts, Ecuador is one of the countries in the Latin America and the Caribbean region with the strongest results in reducing poverty. During 2001-11, GDP per capita growth in Ecuador was above regional average levels (3.1% vs. 2.2%)¹. Progress in reducing inequality has exceeded regional trends. Between 2006 and 2012, income poverty at the

national poverty line fell from 37.6 percent to 27.3 percent, while extreme poverty fell from 16.9 percent to 11.2 percent. Notwithstanding these significant strides in poverty reduction and growth of middle class, more than half of the population in Ecuador remains poor or vulnerable to falling back into poverty.

3. Public sector investment has been an important catalyst for economic growth, increasing from 4.7% in 2006 to 13.7% of GDP in 2011. Wage expenditure also grew from 7.6% of GDP to 10.8% of GDP over the same period. The GoE is expected to maintain a high level of public spending in the near and medium term. As Ecuador's urban areas continue to expand, with urbanization levels reaching 65 percent in 2009, increased resources and attention are needed for housing, infrastructure and urban services. Demand for these services will expand beyond the two major cities of Quito and Guayaquil to small and medium sized cities across the country.

4. The World Bank Group's Interim Strategy Note (ISN) for Ecuador discussed on April 9, 2013 identified access water and sanitation amongst other basic services at the sub-national levels as key priorities for the authorities to contribute to the country's goal for inclusive and sustainable growth.

Sectoral and Institutional Context

5. Water and sanitation coverage has substantially increased in recent years, particularly in large cities, though Ecuador still faces a significant challenge in providing the services in medium and small size cities and rural areas. In 2008, urban coverage for water and sanitation services was 76.1% and 57.6%, respectively (up from 67% and 48% in 2001), whereas rural coverage was 25.3 and 14.6, respectively. National coverage of domestic wastewater treatment is particularly low, at 24% in urban areas in 2007. The overall quality and level of service varies significantly across cities and providers, though in general service quality requires urgent attention for improvements in continuity, efficiency levels (i.e. substantial water losses are reported) and sustainability (better integration with overall water resources management, cost recovery and increasing resilience to natural disasters and climate change). Further improvements in the institutional and management capacities of service providers are also needed to increase sector performance.

6. The institutional framework at the national level is headed by the National Water Secretariat (SENAGUA), which holds the responsibility for water resources nation-wide including water supply and sanitation services, and is responsible for defining sector policies, strategic planning and technical regulation. As in many other countries in the region, the legal competencies for service provision are decentralized and autonomous municipal governments (GADs) are responsible for the operation and maintenance of water supply and sanitation systems. At a national level, there are 24 provinces and 221 municipalities or cantones, with its corresponding GAD. Of these, 138 GADs provide the WSS services directly or through a municipal division, 73 have established a dedicated WSS municipal utility service provider, eight have established a public cooperative company, one has granted a concession to a private operator and another one has set up a mixed public-private company for the provision of the services. The SENAGUA works closely with the national Ministry of Environment to support and oversee the GADs, WSS utilities and dedicated service providers in their performance of these functions. The Government of Ecuador's (GoE's) current plans include the establishment of the economic and service quality regulatory function at the national level.

7. The Banco del Estado de Ecuador (BEDE) is a government-owned public financial institution established in 1976 to provide financing for investment in public services and local

infrastructure (water and sanitation, energy, housing, amongst others) through the granting of loans to local government and state-owned entities. Since 2007, BEDE has been actively involved in the financing of water and sanitation and infrastructure and technical assistance to GADs through different projects and programs and invested nearly US\$800 million in more than 450 subprojects across the country in collaboration with the Corporacion Andina de Fomento (CAF) and the Inter-American Development Bank (IADB) through the PROMADEC I and II projects and the ongoing PYRSA project. Some of the investments financed by these programs are still under implementation and will now be merged under the PROSANEAMIENTO program. CAF is currently considering and in discussions with BEDE for a third phase of engagement.

8. The PROSANEAMIENTO Program was developed in 2012 to articulate the national strategy for achieving the country's ambitious service coverage targets in water, sanitation and solid waste management: 95% by 2017 in each of the country's 221 municipalities. The program focuses on developing water and sanitation infrastructure in addition to technical assistance for improving service provision and its sustainability to reduce poverty and malnutrition rates in the country as part of the 2009-2013 National Development Plan (Plan Nacional del Buen Vivir). PROSANEAMIENTO builds on and tries to scale up achievements under the above mentioned WSS programs previously funded by BEDE. The estimated cost of the Program is US\$5 billion in total, including direct subsidies from the national government (US\$3 billion) and local GADs contributions through loans from BEDE (US\$ 2 billion). The amount of the subsidy will be allocated by BEDE on a first come -first served basis, and could be up to 95% of the cost of the investment according to a pre-established formula, which accounts for poverty rates, WSS coverage and nutrition levels and which will favor the poorest GADs.

9. The GoE is looking to fund this ambitious investment program with different International Financing Institutions (CAF, IADB, EIB, KFW and the World Bank) and is currently preparing several projects to raise the funds required by the PROSANEAMIENTO Program with a few of these institutions. The proposed Project aims at providing up to US\$ 250 million in financing for investments and technical assistance in water and sanitation under the overall umbrella of the GoE's PROSANEAMIENTO Program.

Relationship to CAS

10. The proposed Project is fully consistent with the World Bank's ISN for Ecuador for the period 2014-2015, which focuses on investment project financing on three strategic areas. The proposed project is consistent with the first two, namely "Sustainable and Inclusive Growth" and "Access to Social Protection and Quality Services for All" and with the country's Plan Nacional para el Buen Vivir, where two out of twelve key objectives outline the access to water and sanitation as key intermediate priorities to ensure quality of life and social cohesion for its citizens.

11. Both the PROSANEAMIENTO Program and the proposed project aim at increasing equitable and sustainable coverage and improving quality of WSS services in the water and sanitation, thus contributing to the reduction of poverty and increase of shared prosperity in targeted municipalities across the country. It is expected that the proposed Project will contribute to the reduction of extreme poverty by around 15% through the reduction of basic unsatisfied needs and health and nutrition improvements in participating municipalities, as well as shared prosperity by improving environmental conditions and enabling productive activities, including tourism. A Project Impact Evaluation Assessment, funded by the Project (component 3) will aim to measure the impact of the proposed Project in poverty reduction and increased shared prosperity. This

assessment will be and based on before and post Project surveys and be specific to the proposed project's intervention areas and will be embedded in the overall impact Evaluation of the PROSANEAMIENTO Program, which BEDE will be undertaking . The TOR and scope of this assessment will be further defined during project preparation and will include earlier experience from the IADB and CAF financed projects.

12. One of the main indicators that Ecuador monitors to track the wellbeing and poverty level of its population is the concept of Unsatisfied Basic Needs (UBN) . According to survey data from INEC, around 46% of households in Ecuador lack access to one basic need and almost 17% lack access to two basic needs. Based on this data, “inadequate water and sanitation services” affects 31% of the national households. A recent study on the nutrition situation in Ecuador underscored the importance of incorporating water and sanitation interventions into the national nutritional strategy, using available evidence that suggested lack of access to the services remains a major factor underlying the incidence of digestive tract disease, since hygiene practices are not adapted to this situation and there is widespread ignorance regarding water supply quality and the dangers of untreated water, particularly in rural areas.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

13. The PROSANEAMIENTO Program objective, as designed by the Government of Ecuador, is to focus public investment in environmental sanitation in order to improve the quality of life of the population. As an outcome target, PROSANEAMIENTO Program aims to increase the coverage index for water supply, sanitation and solid waste management services to 95% nationwide. In line with this target, the Project Development Objective (PDO) for the proposed PROSANEAMIENTO Project is to increase equitable and sustainable coverage of water supply and sanitation services in participating municipalities. This objective will be achieved by (i) increasing the availability of water supply and sanitation services; (ii) enhancing the technical capacity of GADs for preparing and implementing investments, operating and maintaining water and sanitation systems and managing the services through technical assistance programs.

Key Results (From PCN)

14. The Bank’s core sector indicators and others will be used to measure Project results and PDO achievement, seeking their alignment with the overall PROSANEAMIENTO program indicators to facilitate monitoring and data collection. The target value for each of these indicators and any additional results indicators (in particular to reflect access and sustainability aspects), will be defined during Project preparation. The core sector indicators include, amongst others: (i) Number of new piped household water connections that are resulting from the project intervention; (ii) Number of piped household water connections affected by rehabilitation works undertaken under the project; (iii) Number of water utilities and other water service providers that the project is supporting; (iv) Number of new household sewer connections constructed under the project; and (v) Volume (mass) of BOD pollution loads removed by the treatment plants supported under the project (tons/year).

15. Sustainability indicators will be defined during project preparation and will probably be tailored on a case by case basis for each financed subproject. These indicators will reflect evidence of more effective, efficient and sustainable providers of WSS services as measured by a set of indicators to be selected from a long list and depending on the specific technical assistance to be

received by the GAD/service provider and its Action Plan under component 2 (O&M cost recovery, revenue collection, water leakages, customer complains, pressure, continuity, water quality, and others). Project's impact on social and human development, including improvements in health, environment and gender disparity would be assessed through the Impact Evaluation assessment.

III. Preliminary Description

Concept Description

The Project would have the following three components:

Component 1: Municipal Water Supply and Sewerage Infrastructure (US\$ 140 million of loan financing) to finance investments in the construction and rehabilitation of primary and secondary water and sewerage networks, water treatment plants, pumping stations and main collectors, and wastewater treatment infrastructure, including treatment plants and discharge infrastructure, amongst others. Investments would be financed with a combination of direct grants from the National Government through BEDE to each participating GAD, credit resources from loans from BEDE to the GAD, and in some cases municipal and water and sanitation (WSS) utilities own-sources. The large subsidy amounts that will be financed under PROSANEAMIENTO Program (around US\$ 3 billion) reflect the priority of achieving universal access to both services for the Government. The program has designed screening procedures and approval criteria to focus Government grants exclusively on viable and technically sound subprojects .

Component 2: Technical Assistance, Institutional Strengthening and Capacity Building for Autonomous Decentralized Government Municipalities (US\$ 20 million of loan financing). This component would comprise two sub-components:

Technical Assistance for Pre-investment Activities and Works Supervision to finance the preparation of feasibility studies and designs for specific subprojects/investments, including associated environmental and social assessments (also known as “pre-investment” activities), and the supervision of construction activities at the municipal level through the contracting of independent specialized consultants (“fiscalizadores”). This subcomponent will also include capacity building for the management of environmental and social aspects during the construction of the works.

Technical Assistance for WSS Institutional Strengthening and Capacity Building to finance activities to strengthen the existing administrative, technical, financial, commercial, and operational capabilities at the GAD level and bring service providers to reasonable levels of management, operational efficiency and financial viability. Technical assistance for the strengthening of GADs and /or municipal water utilities would be provided through BEDE's existing Technical Assistance Program, the PATGES (Programa de Gestión de Servicios). This Program comprises five phases: (i) Diagnostic and Assessment of Capabilities; (ii) Preparation of an Action Plan (AP); (iii) Implementation of the AP; (iv) Follow up and Monitoring; and (v) Knowledge Management. It finances technical assistance in three main different modalities: (i) Specialized advisory services from different sources, such as de-concentrated BEDE staff at the regional level, consultants hired by BEDE, or the contracting of specialized services and collaboration arrangements with highly performing public such as ETAPA-EP de Cuenca and EPMAPS- Quito; (ii) institutional strengthening events for municipal authorities and water and sanitation services related management and staff; and (iii) knowledge management activities on different topics (water supply sustainability

and use, wastewater disposal, management of environmental and social issues, and others). Activities will include the identification of good practices, preparation of manuals and tools, establishment of communities of practice, and others.

Component 3: Project Management and Administration (US\$ 10 million of loan financing). This component will finance activities associated with overall Project management by BEDE, including Impact Evaluation, project-related audits, monitoring, equipment and training to strengthen implementing entities, as well as individual consultants. It will include support to BEDE related to the management of environmental and social issues and safeguards.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04			x
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10	x		
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37			x
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	220.00	Total Bank Financing:	170.00
Financing Gap:	0.00		
Financing Source		Amount	
Borrower		50.00	
International Bank for Reconstruction and Development		170.00	
Total		220.00	

VI. Contact point

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