

MEMORANDUM

INE/463/2008

DATE: June 12, 2008

TO: Otaviano Canuto
Vice President, VPC/VPC

Roberto Vellutini
Manager INE/INE

FROM: Federico Basañes
Division Chief, INE/WSA



SUBJECT: REGIONAL. Aqua Express Program "AEx". (RG-X1027).

QRR Process: The Project Profile (PP) was distributed for QRR comments on March 25, 2008. The comments received and further actions are documented in the attached QRR Results and Procedure Report.

The document was considered at the Operations Policy Committee meeting on May 9, 2008 and the comments provided by the Committee were incorporated into the document.

Unresolved issues: There are no pending issues

Resolution: I have examined the attached documents and I consider that the received comments were incorporated and address the issues highlighted.

I therefore approve the attached documents and submit them for your information.

Attachments:

- Modified Document
- QRR Results and Procedure Report
- ESR Minutes
- OPC minutes

PROJECT PROFILE

Project name:	Aqua Express Program “AEx” <i>Financing: Water and Sanitation Sector Facility (WSSF)</i> <i>Technical Assistance: Non-reimbursable and Fee-for-service</i>	
Project number:	RG-X1027	
Division chief:	Federico Basaños (INE/WSA)	
Project team:	Sergio Campos, Jefe de Equipo; Corinne Cathala; Hubert Quille; Yvon Mellinger; Henry Moreno; Claudia Cappello; Lilian Pena Pereira; Cynthia Nuques y Diana Bejar; (INE/WSA) and Maria Cristina Landazuri-Levey (LEG/SGO).	
Borrowers and Beneficiaries:	Eligible Borrowing member countries of the Bank or eligible Water and Sanitation Service Providers (with sovereign guarantee) ¹	
Executing agency:	The Bank for the Program and the Water and Sanitation Service Providers for the individual projects	
Financing plan for the WSSF:	IDB: ²	US\$ 2.000,00 million
	Local:	US\$ 1.000,00 million ³
	Total:	US\$ 3.000,00 million
Financing plan for non-reimbursable technical assistance component	IDB:	US\$ 10,00 million ⁴
	Local:	(up to) US\$ 10,00 million ³
	Total:	US\$ 20,00 million

I. Background and Rationale for the Proposal

- 1.1 In May 2007, the Board of Directors approved the Water and Sanitation Initiative (WSI) with the objective of helping countries in the region to achieve universal access to sustainable services. The Initiative has set up benchmarks for the implementation of four special programs: 100 Cities, 3,000 Rural Communities, Water Defenders, and Efficient and Transparent Utilities. The implementation of the Water Initiative also entails the development of Strategic Sector Plans for each country, the establishment of partnerships with other sector stakeholders, and the design of new instruments such as an express credit facility, Aqua Express, to

¹ The eligible Borrowing member countries of the Bank or the eligible Water and Sanitation Services Providers will be identified in each individual project under this Program.

² OC or Blend OC/FSO, to be determined under each individual Project.

³ Estimate amount that eligible Borrower/Beneficiary will provide as counterpart resources of each project.

⁴ The source of this proposed amount will be defined during project preparation. It is expected that the source of funding for the TC will come from the AquaFund.

finance more expeditiously water and sanitation service operators that meet certain efficiency criteria. This proposal addresses the latter component of the WSI.

- 1.2 There are water and sanitation service providers with a good track-record but limited access to long-term financing. Water and sanitation provision requires large investments in order to anticipate future demand. Some public utilities in Latin-American and the Caribbean (LAC) have a demonstrated track-record in undertaking these investments, providing adequate service and being financially sound. However, access to long-term financing consistent with the industry's cost recovery periods (20 - 30 years) is still limited even for the better operators. Local markets do not provide such financing, and local firms cannot easily access international markets. As such, a considerable portion of the required investments will rely on multilateral financing. This financing however, has been traditionally provided through a lengthy and costly process of loan preparation and project execution. The AEx proposes to delegate most of these tasks to operators with a demonstrated capability, including with regards to fiduciary capacity and financial soundness.
- 1.3 The AEx would also provide targeted and selective technical assistance and incentives to expand service coverage towards poor and less commercially viable areas. The beneficiaries of the proposed AEx would be water and sanitation operators that meet certain technical, fiduciary, and financial solvency criteria⁵. In doing so, the AEx will provide expeditiously and efficiently resources required for a timely design and execution of investment projects, including projects in poor areas.

II. Modality

- 2.1 The Aqua-Express will be available to service providers among the IDB borrowing member countries that comply with certain eligibility criteria⁵ (discussed below). It will support projects in the following areas: i) urban water and sanitation including water supply, sewerage, waste-water treatment and drainage, when applicable; ii) rural water and sanitation including feasibility studies, water supply, sewerage, waste-water treatment; and iii) solid waste management including collection, transport, recycling and disposal. It will include two components: i) a Credit facility for investment projects for water and sanitation, and ii) a technical cooperation component.
 - (i) **Water and Sanitation Sector Facility (WSSF)**
- 2.2 This credit facility is proposed to be a US\$2 billion dollars sovereign-guaranteed financing, on each country-specific tranche, accessible to eligible water and sanitation service providers. Resources would be drawn from the Ordinary Capital

⁵ INE/WSA is developing a methodology to measure efficiency and to assess transparency with a Technical Cooperation Program RG-T1527. The implementation of this study will enable the Bank to better appraise and monitor the levels of efficiency and sustainability of service providers.

(OC) or mixed FSO/OC, depending on the Borrower under the single currency facility and the local currency facility.

- 2.3 An amount of US\$ 1.5 billion dollars will be allocated among a first-tier of eligible borrowers that satisfy more stringent criteria such as: adequate service provision, cost recovery, operational efficiency and financial soundness, as well as good corporate structures, fiduciary controls, technical expertise and environmental management, as determined by the Bank during the analysis of each individual operation. For these borrowers, the AEx would be the equivalent of a corporate finance credit line for capital expenditures. This amount is expected to support five to ten companies for individual projects between US\$100 and US\$300 million dollars each.
- 2.4 An amount of US\$ 500 million will be allocated among a second-tier of eligible borrowers with solid institutional capacity⁶ but with certain limitations, some of which would be addressed with these investments, e.g. lacking technical capacity to prepare and undertake large investments and/or be less creditworthy. In this case, financing will be used exclusively to improve the technical and financial performance of the service providers. This includes the reduction of technical losses (mains replacement, macro-metering, network sectoring, etc.) and commercial losses (billing, collection, micro-metering, etc). This amount is expected to support ten to twenty borrowers for individual projects between twenty five and a maximum of fifty million dollars each.
- 2.5 In both cases the Bank will rely on the borrower's capacity to prepare and execute projects under the Program from a technical, financial, socio-economic and environmental point of view⁷. Individual projects financed under the credit facility will automatically qualify to be structured as a Performance Driven Loan (PDL).

(ii) Technical Cooperation

- 2.6 This component will include a non-reimbursable technical cooperation sub-component and, a fee-for-service sub-component. The non-reimbursable technical cooperation (TC) sub-component will finance the preparation of future projects. For first-tier borrowers, it will finance feasibility studies for expansion projects into the rural sector⁸ or low income urban areas, as well as for wastewater treatment. For second-tier borrowers, it will finance project preparation for the eligible investments. The non-reimbursable TC resources will have a cap of 2% of the individual project cost to be executed under this –sub-component. In most cases,

⁶ The institutional capacity will be determined based on the service provider's track record in the execution of a previous project of similar nature e.g. compliance with environmental policies, timely execution, adequate financial reporting, compliance with procurement rules, etc.

⁷ Stand-alone projects rated as category "A" (high safeguard risk according to IDB's policies) will not follow an expedited process and will be analyzed separately.

⁸ The Operation Regulation will include a set of guidelines for the development of rural projects. These guidelines include: modes of governance, subsidy schemas, tariff setting, billing and collection, and socio-economic evaluation methodologies, etc.

the execution of the TC will be simultaneous to the execution of the investments financed under each individual project; therefore, financing of the projects developed with the TC resources may be eligible for future financing.

- 2.7 This component will also include a fee-for-service sub-component through which the Bank will provide technical assistance in certain areas such as carbon financing, energy efficiency, procurement and project preparation services. The program's operating regulations will include guidelines to determine the pricing of this mechanism based on the Program for Advisory Services approved for Chile (GN-2134-1).

III. Process

- 3.1 *Approval Process.* For the first first-tier of eligible borrowers it is proposed that each individual project under the Program be approved by the Board with a simplified procedure. For the second tier of eligible borrowers it is proposed that the Board authorizes the President to approve individual project for up to a maximum of US\$50 million.

- 3.2 *Eligibility criteria.* Specific criteria for first-tier and second-tier borrowers will be defined during the preparation of this Program based in the following principles:

- a. Track record in executing projects of a similar scope and nature, preferably financed by the Bank or other multilateral institutions.
- b. Creditworthiness based on a stream of revenues that covers operation and maintenance cost as well as capital expenditures.
- c. Adequate internal controls and monitoring systems for compliance with procurement procedures, financial reporting, environmental management systems, and technical standards.
- d. Project viability from a technical (e.g. of a master plan acceptable to the Bank), environmental (e.g. consistent with the IDB policies), financial, and socio-economic point of view.

IV. Safeguards and Fiduciary Screening

- 4.1 The Safeguard Policy Screening and Classification has triggered no directives other than B.13. It is not possible to determine potential environmental impacts.

V. Risks

- 5.1 Financing of certain projects or the capital expenditure of a service provider could use a significant portion of the AEx resources. The Operation Regulations would set limits on the financing of this type of expenditures as a proportion of the total cost of a project.

- 5.2 Incompatibility of procedures and policies between a service provider and the Bank i.e. requirement to perform economic analysis, different parameters to determine

viability, environmental safeguards, procurement rules, etc. The Operation Regulations will address these aspects.

VI. Resources and timetable

- 6.1 INE/WSA has allocated US\$10,000 to develop the AEx's Operations Regulation. The Proposal for Operation Development is expected to be ready for management review by the end of August 2008.

Annexes

- Annex I [Safeguard Policy Filter \(SPF\)](#)
- Annex II [QRR Results and Procedure Report](#)
- Annex III [ESR Minutes](#)
- Annex IV [OPC Minutes](#)
- Annex V [Cronograma de Preparación y Recursos](#)

SAFEGUARD POLICY FILTER REPORT

This Report provides guidance for project teams on safeguard policy triggers and should be attached as an annex to the Project Concept Document (or equivalent) together with the Safeguard Screening Form, and sent to CESI.

1. Save as a Word document. 2. Enter additional information in the spaces provided, where applicable. 3. Save new changes.

PROJECT DETAILS	IDB Sector	Water and Sanitation
	Type of Operation	Conditional Credit Line for Investment Projects (CCLIP)
	Additional Operation Details	
	Country	Regional
	Project Status	New Operation
	Investment Checklist	Infrastructure Water and Sanitation
	Team Leader	Sergio Campos
	Project Title	Water Express
	Project Number	RG-L1023
	Safeguard Specialist(s)	Henry Moreno
	Assessment Date	2008-04-04
	Assessment Number	2008-04042528-2
	Additional Comments	

SAFEGUARD POLICY FILTER RESULTS	Type of Operation	Conditional Credit Line for Investment Projects (CCLIP)	
	Safeguard Policy Items Identified (Yes)	No issues identified	
	Potential Safeguard Policy Items (?)	No potential issues identified	
	Recommended Action	Operation has not triggered any Policy Directives other than B13; please refer to B13 for guidance. No project classification required. Submit Report and PCD (or equivalent) to CESI Secretariat; CESI meeting may be required.	
Additional Comments	<i>Policy Directives can be accessed from the Resources tab on the Toolkit home page.</i>		

ASSESSOR DETAILS	Name of person who completed screening:	
	Title	
	Date	2008-04-04

Financiamiento Water Express: Línea de crédito para agua y saneamiento RG-X1027 PERFIL DE PROYECTO

Revisión de Calidad y Riesgo (QRR) – Informe de Resultados y Procedimientos

A. PROCESO QRR

El Perfil de Proyecto fue distribuido al QRR solicitando comentarios el 25 de marzo, 2008. Los comentarios recibidos así como acciones posteriores han sido documentados en este Informe de Resultados y Procedimiento. No se realizó una reunión presencial.

B. ASUNTOS NO RESUELTOS

C. COMENTARIOS

Nombre/ Dept.	Tema	Comentarios	Respuestas
FIN Carlos Herrera		With respect to paragraph 2.3, FIN would like the project team to specify the exclusion of IDB debt from debt restructuring mechanisms under this proposal, since the Bank does not restructure sovereign loans.	We will exclude form IDB's debts from debt restructuring as per your comment.
		With respect to paragraph 2.6, a specific commitment fee waiver needs to be requested and approved by the Board. Please note that during 2008, FIN will undertake a review of the Bank's lending charges with the objective of streamlining them; one idea being considered is to use the commitment fee as a deterrent for delays in the disbursement process through the establishment of a commitment fee penalty.	We will request the waiver and proposed a similar structure in order to provide an incentive to meet the agreed outputs and requests for disbursement.
VPC/GC M Peter Sollis		The proposed project is a bold proposal to facilitate access to investment and grant resources on the part of Bank borrowing countries and/or water and sanitation service providers with sovereign guarantee. This boldness is to be welcomed and also raises a number of questions. There are four main comments	
		First , the proposal calls for, and requires, a considerable TC effort. It would be important to indicate how this effort is associated with the proposed AcquaFund. Are the resources identified in the proposal the same as those in this proposed fund? A fuller treatment of the relationship should be provided in the POD.	We will indicate in the PP that the expected source of TC will come from the AquaFund. In addition in, the POD we will further detail the TC's scope and source of funding.
		Second , para 2.8 refers to fee-for-service technical assistance in areas such as carbon financing, energy efficiency etc without explaining how such areas relate to water and sanitation initiative and how such funding would relate to other funds -- either in existence (SECCI) or in the process of establishment (Climate Investment fund). The POD needs a full explanation of these points.	In the POD we will include a scope for the fee-for-service technical assistance and how it relates to the various initiatives within the Bank.
		Third , reference is made in para 2.8 to the guidelines to determine pricing presented in GN-2134, the POD should make a full presentation of what guidelines are to be used in this specific case.	We will include in the POD the guidelines to be used for the pricing. The proposed pricing, however, will be similar to the one approved by the Board in GN-2134.

Nombre/ Dept.	Tema	Comentarios	Respuestas
		<p>Fourth, there appears to be an inconsistency between the uses of TC for feasibility and preparation studies (see para 2.7) and the TC approval process (para 3.1) that states that the loan proposal will be the vehicle for approval of the TC components. If this happens would approval be too late in the project cycle? One implication of this inconsistency would appear to be a rethinking of the proposal that the PP should be waived. A second implication is the need to discuss approval procedures with GCM in order to ensure standardization and consistency across sources of TC financing.</p>	<p>We were anticipating two situations in which there would be no inconsistency.</p> <p>a) The WE finances as part of first CCLIP loan feasibility and preparation of studies. The infrastructure attached to it could be financed in the second CCLIP.</p> <p>b) The cost of the feasibility studies incurred by the Borrower is reimbursed. Therefore, the infrastructure attached to it could be financed in the first CCLIP.</p> <p>In regards to the first inconsistency we still consider that a PP will not be necessary if the Regional CCLIP is approved.</p> <p>In regards to the second inconsistency we will contact GCM to ensure consistency.</p>
<p>LEG/SG O Maria Landazu ri-Levey</p>		<p>Por encargo de Maria Eugenia Nepote he revisado el perfil del proyecto correspondiente a la operación de la referencia y a continuación algunas preguntas, comentarios y sugerencias:</p>	
		<p>1. No me queda claro porqué se propone la operación como si se tratara de un "proyecto" un "proyecto regional". En el documento GN-2446-2 se establece que la línea expresa de crédito para agua (water express) sería un instrumento (párrafo 3.7). De la lectura del perfil así como de la lectura de la iniciativa de agua parecería que lo que se propone es la creación de este "instrumento" como sería cualquier otro instrumento que podrían utilizarse para cumplir con el objetivo de la iniciativa.</p>	<p>No se está proponiendo un Proyecto "perse" Este proyecto en el Banco es una línea de crédito condicional regional para el financiamiento de proyectos de infraestructura en Agua y Saneamiento. Muy probablemente todas las empresas que califiquen para el CCLIP ya fueron clientes del Banco.</p> <p>Se decidió no crear un nuevo instrumento en virtud a que los instrumentos que existen se adaptan perfectamente a lo que se busca realizar.</p>
		<p>2. De la lectura del documento parecería que el objeto de tener un instrumento como el planteado es acelerar el proceso para el financiamiento de operadores de agua que cumplan ciertos requisitos. Siendo este el objeto, en mi concepto, lo que se modificaría son procesos internos y en algunos casos políticas del Banco que permitirían la utilización de recursos del Banco mas ágilmente en ciertos casos.</p> <p>Los recursos que podrían acceder los operadores de agua calificados podrían ser cualquiera de las fuentes de financiamiento que tiene el Banco y que se identificarían por país en los planes de negocios sectoriales que se preparen para cada país, de acuerdo con la iniciativa de agua.</p>	<p>No será un instrumento sino una línea de crédito cuyo objetivo es atender en forma rápida a un grupo de operadores eficientes que en la actualidad no tienen acceso a financiamiento principalmente debido a la falta de un mercado de crédito a largo plazo. En términos de procesamiento, en un CCLIP regional, no está claro si se tiene que preparar un PP para cada proyecto debajo de la línea en su primera operación. Asumimos que si por lo cual en el PP del Proyecto "WE" solicitamos su exención (los procedimientos del CCLIP están en revisión). En términos de las políticas para la utilización de los recursos entendemos que serán temas a considerar: el de la comisión de compromiso y el de refinanciamiento de pasivos.</p>

Nombre/ Dept.	Tema	Comentarios	Respuestas
LEG/SG O Maria Landazu ri-Levey (Cont.)		<p>3. La asignación de recursos que se propone (2 billones de dólares para crear una línea de crédito condicional y 20 millones para asistencia técnica) aunque no se ha identificado la fuente aún en el documento, no parecería adecuada. Si la operación se trata como un "proyecto" hay que recordar la disposición del convenio constitutivo del Banco (Artículo III, Sección 7) por el cual el Banco solo financia proyectos específicos de desarrollo. En este caso, parecería que no hay un proyecto específico que financiar.</p> <p>Si el caso fuera que se quisiera destinar recursos con el fin específico de utilizarlos para una facilidad hasta por un monto señalado, sería necesario revisar los criterios para la asignación de recursos de los ingresos del capital ordinario del Banco (Programas especiales) o los criterios para la asignación del FOE.</p> <p>Sin embargo, parecería que no habría limitación en plantear reglas específicas para el acceso de proyectos concretos que cumplan con ciertos criterios y que permitan un proceso distinto de tramitación del que se ha establecido para cualquier fuente de financiamiento existente del Banco.</p>	<p>En el PP se indicará que la asignación de los 2 billones será "OC". En el caso de los recursos de cooperación técnica, se incluyó una nota de pie haciendo referencia a que el origen de los fondos se determinará durante la preparación del Proyecto. En una versión revisada del PP indicaremos que los recursos de CT serán aquellos que provengan del Aquafund.</p> <p>No será un Proyecto sino una línea de crédito regional. Los programas a financiarse dentro de la línea serán proyectos. En el caso del refinanciamiento de pasivos, se aclarará en el PP que no se refinanciarán pasivos con el BID y este refinanciamiento estará vinculado con el financiamiento de proyectos.</p>
		<p>4. De la lectura del perfil presentado parecería que se afectarían los siguientes procedimientos y políticas cuyo análisis sería necesario hacer a fin de determinar la autoridad que podría aprobar cada uno y que en principio parecerían:</p> <ol style="list-style-type: none"> 1. La política de salvaguardas ambientales para proyectos distintos que los de la categoría "A" pues parecería que se propone un procedimiento distinto de aquel previsto en la política. 2. La utilización de procedimientos de adquisiciones y financieros-administrativos de los países, en los casos que son aceptables. Dependiendo de lo que se está pensando podría ser una excepción a la política de adquisiciones y disposiciones de administración financiera. 3. La dispensa del cargo al Prestatario correspondiente a la comisión de crédito en el caso de que el proyecto se financie como un PDL. 4. El cobro de cuota por la prestación de asistencia técnica que dé el Banco (propio personal). 5. La eliminación de la utilización del perfil de proyecto para proyectos que cumplan los criterios del instrumento. 6. La utilización del procedimiento simplificado para la aprobación por el Directorio Ejecutivo de propuestas de préstamo bajo el instrumento. 	<ol style="list-style-type: none"> 1. No, ver nota de pie #2 2. De acuerdo. 3. De acuerdo. 4. De acuerdo. 5. Por determinar. Entendemos que si se aprueba el CCLIP Regional, las operaciones que forman parte del CCLIP estarían exentas del PP. 6. Por determinar. Entendemos que si se aprueba el CCLIP Regional, salvo por el monto se podría utilizar procedimiento simplificado.
		<p>5. En mi concepto, un documento para presentar esta propuesta debería detallar los criterios para la utilización de estos procedimientos y excepciones a las políticas identificadas. De igual manera deberá justificar dichas excepciones de forma que el Directorio Ejecutivo pueda aprobarlas y modificar, si el del caso, su reglamento para incluir un procedimiento distinto del establecido para la aprobación de operaciones de préstamo. La Administración podría autorizar cualquier modificación al ciclo de proyecto existente.</p>	<p>De acuerdo y en virtud a ello indicamos que el POD se incluirá un reglamento operativo.</p>

MINUTE OF THE ENVIRONMENT AND SOCIAL IMPACT REVIEW (ESR)

ESR 14-08, April 11, 2008

**RG-X1027- Water Express “We” Financing: Conditional credit line for water and sanitation
PP Review**

- 1. Project Classification:** B
- 2. Type of assessment required:** None
- 3. Next action:** Send to ESR the POD with Operations Regulations for Standard Review.
- 4. Agreements reached:**

This operation, titled “Water Express,” fulfills one of the goals of the IDB’s recently approved Water and Sanitation Initiative (WSI), which is to design and implement new instruments to facilitate and expedite the process of accessing long-term financing for the sector by its member countries. The Water Express is just that, an express credit line to finance more expeditiously water and sanitation service operators that have a good track-record but lack full access to long-term financing. The several operations derived from WE will benefit between 10 to 20 borrowers (first and second-tier of borrowers), and project financing may range from US\$5 to 300 million dollars for each one of the projects.

Although it is proposed that certain steps of the IDB Project approval process may be facilitated, or waived, with regards to the Environmental and Social Safeguards Review, it has been agreed that all Plan of Operational Development (POD) developed for the WE operations will be submitted to ESG and standard review procedures will be completed then.

In this expedited process the Bank will have to rely on the borrower’s capacity to prepare and execute projects from a technical, financial, socio-economic and environmental point of view, therefore, it has been decided that the WE will have its Operations Regulations that will establish most of the aspects required to comply with the Bank’s policies, including the Environmental and Social Safeguard policies. ESG may support the development of such a Manual whenever necessary and requested.

Approved _____ **Janine Ferretti, Chair, VPS/ESG**

**Operations Policy Committee
Minutes of the 9 May 2008 meeting**

**D. M. Zelikow, Executive Vice President
H. E. Beteta, Secretary**

Items of Business

1. Regional. Proposal for the Establishment of the Aquafund and project profile of the Water Express Program “WEx” (RG-X1027). Conditional Credit Line for Investment Projects with Sovereign Guarantee (CCLIP) (document OP-79)

Presented by F. Basañes, S. Campos, and C. Cathala (INE/WSA).

Recommendations: See para. 1.3 and 1.4

Committee Members

O. Canuto (VPC), M. Rapoport (VPF), N. Jackson (VPP), L. Profeta (LEG), L. Echebarría (SPD), F. Yñigo (RMG), J. León (PRE/PCY), B. Kaplan and R. Manrique (EVP). Bartholomew (FIN), J. Khokhar (ORP).

1. **Regional. Proposal for the Establishment of the Aquafund and Project Profile of the Water Express Program “WEx” (RG-X1027). Conditional Credit Line for Investment Projects with Sovereign Guarantee (CCLIP) (document OP-79)**
 - 1.1 The Manager of INE had submitted both the Aquafund and WEx proposals for OPC consideration. Issues and proposals raised by INE in relation to the establishment of the Aquafund included:
 - a. *Use of proceeds from ordinary capital for pilot investments and investment projects.* Even when the water sector has very particular characteristics that set it apart from others, under the new technical cooperation (TC) framework and policy, and its 30 percent limit in that regard, pilot and small investment projects would not be eligible for funding. Therefore, the INE team proposed a waiver to the recently approved TC policy to allow the Aquafund to finance pilot and small investment projects.
 - b. *Delegation of authority to INE’s Manager.* INE’s Manager would have final clearance of technical cooperation proposals before final approval.
 - 1.2 With regard to the Water Express Program (WEx), INE had identified the issues and proposals that follow:
 - a. *Borrower and type of instrument.* The team stated that the program had similar characteristics to those of the existing Conditional Credit Line for Investment Projects (CCLIP) instrument. As is the case with the CCLIP, only those individual projects approved by the Board of Executive Directors would count against the Bank’s lending capacity. Unlike the traditional CCLIP, borrowers would be different for every project in the proposed WEx, and would not be known until specific projects were requested.
 - b. *Use of own borrower’s systems.* The individual borrower’s environmental, social, procurement, auditing, financial and economic practices and policies would be followed provided that these were compatible with the respective Bank policies.
 - c. *Debt refinancing.* In addition to financing capital expenditures, the proposed program would fund debt refinancing of eligible companies, excluding IDB debt, a departure from usual sovereign guaranteed lending.
 - d. *Processing of individual operations.* The team proposed to eliminate the requirement of a Project Profile established under the New Project Cycle in effect since October 1, 2007.
 - e. *Commitment fees.* No commitment fee would be charged along with a penalty mechanism in case of untimely execution.

Recommendations

- 1.3 The Committee made the following observations and recommendations on the establishment of the Aquafund:
- a. *Use of proceeds from ordinary capital for pilot investments and investment projects.* Consistent with the TC policy recently approved by the Board, the Committee noted that investment expenditures financed by the Bank in TC projects should be determined by the requirements of each individual operation. The Committee also noted that any exception to the 30-percent policy limit on investment expenditures financed by the Bank in TC projects would have to thoroughly justify why such expenditures are reasonable and critical to obtain the TC objectives. Provided that donors to the multi-donor Aquafund agree, investment expenditures could be financed in full under that fund.
 - b. *Delegation of authority to VPS/INE's Manager.* Committee members noted the need to maintain the delegations of authority to approve TCs, recently granted by the President. Nevertheless, given its implications for the approach to sector development and knowledge, the Committee requested the team to work with other Departments to ensure technical input from VPS/INE, not only during the review process of individual operations, but also in the design and execution of water sector TCs originated in other Bank Departments.
 - c. *Resource mobilization strategy.* Since potential public and private donors who have expressed an interest in contributing to the fund expect a strong initial commitment from the Bank, ORP and VPC/GCM would work on the design of a co-financing formula for resource mobilization from donors. This formula would incorporate specific ratios for IDB participation over time. The Committee agreed that resources from the Infrafund would be tapped to support water sector initiatives prior to the establishment of the Aquafund.
 - d. *Access by the IIC.* The Committee requested the team to evaluate the experience of the Infrafund in assessing approaches for the IIC to have access to resources from the Aquafund.
- 1.4 For the Water Express Program, the Committee made the following observations and recommendations:
- a. *Borrower and type of instrument.* Following the experience of the PROCIDADES program in Brazil and given the characteristics of the proposal, the Committee requested the team to structure a lending facility rather than a CCLIP, and instructed them to develop specific eligibility criteria for first-tier and second-tier borrowers, including technical, fiduciary, and financial solvency ratios along with operational guidelines and include them in

the Proposal for Operation Development (POD). As in the case of PROCIDADES, the team would seek Board delegation to Management to approve individual operations under the lending facility.

- b. *Use of own borrower's systems.* The Committee requested that individual operations under the WEx lending facility be subject to the Bank's policies and procedures regarding environment, social, procurement, auditing, financial management, among others. On the use of own borrower's systems, the Committee agreed that such determination would follow the current policy and practice to determine, on a case-by-case basis, such use according to the merits of each individual project.
- c. *Debt refinancing.* The Committee agreed that debt refinancing under sovereign guaranteed (SG) operations would not be considered under the WEx. Although specific guidelines existed for debt refinancing for non-sovereign guaranteed operations, Committee members considered that refinancing the debt that water utilities might have with commercial banks or other entities with an SG operation constituted a broader policy issue that required a comprehensive analysis to inform a decision.
- d. *Processing of individual operations.* As the Project Profile is designed to link the proposed project to the country strategy and provide a forum for the early discussion of technical options and risks, including triggering the procedures for implementing the Bank's safeguards policies, and the required budgetary resources and timeline, the Committee requested that this step in the processing of projects be maintained.
- e. *Commitment fees.* The Committee requested that individual operations under this lending facility be subject to a regular commitment fee; and noted that any decision regarding commitment fees would have to be assessed as part of the conceptual framework for new financial instruments, currently under development.

REGIONAL
Aqua Express Program (RG-X1027)
Cronograma de Preparación y Recursos

Ítem	Mayo				Junio				Julio				Agosto			
Preparación del Perfil de Proyecto (PP)	■															
Distribución del PP a QRR / OPC	■															
Aprobación PP							■									
Contratación de Consultor Financiero									■	■						
Preparación de la Propuesta de Desarrollo de la Operación (POD)													■	■		
Distribución del POD a QRR															■	
Aprobación del POD y envío al OPC																■

Presupuesto administrativo para RG-X1027				
Tiempo del Equipo de Proyecto (Staff time)			# días	
Jefe de Equipo (INE/WSA)			15	
Especialista Sectorial (INE/WSA)			5	
Especialista Adquisiciones (INE/WSA)			5	
Especialista de Salvaguardias (ESR/NET)			5	
Abogado (LEG/SGO)			10	
Asistente de Proyecto (INE/WSA)			10	
Subtotal			50	
Misiones del Equipo de Proyecto		viático	ticket	Costo US\$
N/A		N/A	N/A	N/A
Consultores		US\$/día	# días	Costo US\$
Operation Regulation		400	25	\$10,000
<i>Subtotal</i>				\$10,000
TOTAL PRESUPUESTO ADMINISTRATIVO				\$10,000