

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REGIONAL

STRENGTHENING WATER AND SANITATION OPERATORS' MANAGEMENT TO IMPROVE INFRASTRUCTURE SUSTAINABILITY

(RG-T4957)

PROJECT DOCUMENT

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REGIONAL STRENGTHENING WATER AND SANITATION OPERATORS’ MANAGEMENT TO IMPROVE INFRASTRUCTURE SUSTAINABILITY RG-T4957		
PROJECT SUMMARY		
Operation Type:	Technical Cooperation	
Sector:	WATER AND SANITATION	
Subsector:	WATER SUPPLY URBAN	
TC Taxonomy:	Research and Dissemination	
Project Number under the Operational Support Taxonomy:	N/A	
Technical Responsible Unit:	INE/WSA-Water & Sanitation	
Unit with Disbursement Responsibility (UDR):	INE/WSA-Water & Sanitation	
Executing Agency:	Inter-American Development Bank	
PROJECT OBJECTIVE		
The general objective of this technical cooperation is to contribute to improved management of public W&S operators across LAC to improve the sustainability, resilience, and effectiveness of infrastructure investments. The specific objectives are: (i) to develop a practical, evidence-based methodology for identifying, prioritizing, designing, and monitoring strategic actions to improve the management of water and sanitation (W&S) utilities; and (ii) to promote the adoption and application of this methodology among utilities and sector stakeholders through targeted dissemination, capacity building, and knowledge products.		
FINANCIAL INFORMATION		
Financing Type	Fund	Amount in US\$
TCN - Nonreimbursable	P3D - OC SDP Pillar 3 - Sustainable, Resilient, and Inclusive Infrastructure	500,000
Total IDB Financing		500,000
Counterpart Financing		0
Total Project Budget		500,000
Donors:	N/A	
Disbursement Period:	40 months	
Execution Period:	40 months	
ADDITIONAL FINANCIAL INFORMATION		
N/A		

I. JUSTIFICATION AND OBJECTIVE

- 1.1 **Diagnostic assessment.** Water and Sanitation (W&S) public operators in Latin America and the Caribbean (LAC) have a significant margin for improving their operational and financial performance. Key areas for enhancement include, among others: (i) high levels non-revenue water around 45-50% mostly due to network leakage;¹ (ii) low levels of metering (averaging 79%²); (iii) high operating costs (power can represent up to 40%) due to deficient electromechanical equipment; (iv) insufficient labor productivity;³ and (v) tariffs set below cost-recovery levels, combined with poorly targeted subsidies, create structural financing gaps.⁴ This is aggravated by a lack of technical and financial planning, technology gaps, outdated cadasters, high turnover among management staff, insufficient numbers of qualified professional staff, low salaries, and poor training. Therefore, significant opportunities remain to design and implement targeted interventions in public W&S operators that strengthen operational efficiency and institutional performance. By addressing key performance gaps, utilities can improve cost recovery, optimize resource utilization, and enhance overall financial sustainability. These improvements, in turn, strengthen creditworthiness, increase investor confidence, and expand access to both commercial and concessional financing, enabling utilities to mobilize the resources required to modernize infrastructure and support long-term sector development.
- 1.2 The TC will address this gap through: (i) the development of a practical methodology to identify, prioritize, design, and monitor strategic actions that improve operator performance; and (ii) promotion and dissemination to accelerate uptake by utilities and sector counterparts.
- 1.3 Lessons learned (for example, from the use of *AquaRating*⁵ tool under the COMPASS⁶ program in Colombia) indicate that W&S operators achieve better results when performance improvement is managed through multiple, complementary implementation cycles supported by regular monitoring and feedback. This approach allows utilities to combine short-term actions that generate rapid and visible improvements with longer-term reforms that require more significant investments, institutional changes, and implementation effort. Considering these lessons learned, the methodology to be developed will incorporate agile diagnostic and prioritization, and will support the implementation

¹ Ferro and Lentini (2013). An IDB analysis of companies in the Caribbean found that NRW ranged from 23% to 75%, with an average of 46% (IDB, 2021).

² Although most public operators have relatively high metering levels, there are wide variations, with a minimum of 19% and a maximum of 100%.

³ Another outlier among the indicators is the number of employees per 1,000 drinking water connections, for which a reasonable maximum is three. Lentini (2015) found that out of 63 regional operators, the number of employees per 1,000 connections averaged 3.3. The range, however, was between 1 and 7.4 (both figures from Brazil), and numbers were unrelated to the size of the operation. In the Caribbean countries, this figure can be as high as 12 employees per 1,000 connections.

⁴ A majority of LAC countries report average cost recovery below 80 percent, and in some cases below 50 percent (GLAAS, UN-Water Global Analysis and Assessment of Sanitation and Drinking-Water (WHO, 2021).

⁵ [AquaRating](#)

⁶ [Link](#)

of quick-wins, preparation of better-targeted investment operations, and execution of existing operations, through clearer sequencing and adaptive management of institutional actions.

- 1.4 The methodology will be developed through a structured process that includes a literature review of existing diagnostic and institutional strengthening tools and methodologies in the sector, analysis of utility change management cases, and a targeted study to assess the costs and benefits of actions commonly implemented to address key institutional, operational, and governance challenges of W&S utilities. Throughout successive stages of development, the team will seek user feedback (e.g., through user experience testing that involves utilities of varying sizes and maturity levels) to ensure that the approach is relevant, and adaptable to diverse utility contexts.
- 1.5 **Objective.** The general objective of this technical cooperation is to contribute to improved management of public W&S operators across LAC to improve the sustainability, resilience, and effectiveness of infrastructure investments. The specific objectives are: (i) to develop a practical, evidence-based methodology for identifying, prioritizing, designing, and monitoring strategic actions to improve the management of water and sanitation (W&S) utilities; and (ii) to promote the adoption and application of this methodology among utilities and sector stakeholders through targeted dissemination, capacity building, and knowledge products.
- 1.6 **Request.** The Bank has a strong interest in supporting this technical cooperation given the critical role that well-managed water and sanitation utilities play in ensuring the sustainability of W&S infrastructure investments across LAC. By developing and promoting a practical, evidence-based methodology to identify, prioritize, and monitor management improvement actions, this technical cooperation will help utilities strengthen their performance and enhance their capacity to deliver reliable and resilient services. Furthermore, the initiative will facilitate the dissemination of knowledge and build sector-wide capacities, generating replicable approaches and regional public goods that can be scaled across countries and leveraged in future Bank-financed operations.
- 1.7 **Complementarity.** This Technical Cooperation complements ongoing IDB efforts to strengthen water and sanitation utilities, including the AquaRating tool and other initiatives focused on institutional strengthening and performance improvement. While AquaRating provides a structured diagnostic framework, this TC expands and complement the Bank's offering by developing a practical methodology that translates diagnostics into prioritized, actionable improvement plans with clear implementation pathways and measurable financial impacts.
- 1.8 **Strategic Alignment.** This TC is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) and is aligned with the objectives of: (1) *Reducing poverty and inequality*: this TC aims to promote change management and efficient and sustainable business transformation of the public W&S utilities, thereby contributing to improved access and service quality of the W&S service provision to their users, including vulnerable populations; (2) *Addressing climate change*: Strengthening public water and sanitation operators directly enhances their ability to deliver climate resilient services,

as better managed utilities can plan for, adapt to, and recover from extreme weather events that increasingly affect water resources and infrastructure. The methodology developed under the TC will aim to help operators integrate climate considerations into their management practices; and (3) *Bolster sustainable regional growth*: this TC will support public water and sanitation utilities to improve their efficiency, sustainability, innovation and productivity, with the AquaRating standard as well as tools focusing on innovation (focused Analysis on Innovation is already available and additional tools will be developed). The operation is also aligned with the operational focus areas of: (i) *Institutional Capacity, Rule of Law, and Citizen Security*; and (ii) *Sustainable, Resilient, and Inclusive Infrastructure* with an Emphasis on Regional Integration, by fostering the adoption of a common management framework and facilitating the exchange of knowledge and best practices among water and sanitation utilities across LAC region.

- 1.9 The TC is relevant for the Bank's borrowing member countries and the linkages to the Strategic Objectives of the Country Strategies are shown in the [Link](#).
- 1.10 The TC is aligned with the Ordinary Capital (OC) Strategic Development Program (SDP) P3D - SDP Pillar 3 - Sustainable, Resilient, and Inclusive Infrastructure by strengthening the management capacities of W&S utilities and promoting evidence-based practices that enhance the sustainability, resilience, and effectiveness of infrastructure investments across LAC. TC also aligns with the IDB Infrastructure Strategy Sustainable Infrastructure for Competitiveness and Inclusive Growth (GN-2710-5), in the following manner: The TC improves the sustainability and effectiveness of water and sanitation infrastructure by ensuring that operators have the management capacity needed to operate and maintain assets over time. Through a methodology that guides the design and monitoring of strengthening actions, the TC helps utilities translate infrastructure investments into lasting, high-quality services, particularly for vulnerable populations. Financial improvement of utilities is critical not only for sustainability, but also to enable access to commercial financing beyond public sources. By improving cost recovery, operational efficiency, and financial transparency, utilities can enhance their creditworthiness and become viable counterparts for private capital, blended finance, and PPP arrangements that complement development finance—thereby scaling investment in the sector.

II. COMPONENTS

- 2.1 **Component 1. Development of a methodology to improve the financial and operational management of public W&S operators in LAC.** This component will finance the development of a practical and adaptable methodology to support public water and sanitation utilities in identifying institutional and operational gaps, prioritizing improvement actions, and guiding their implementation and monitoring.
- 2.2 The activities under this component will include: (i) a review of existing diagnostic and management improvement tools and methodologies, including *AquaRating* and similar approaches developed by multilateral institutions; (ii) consultations and interviews with selected utilities across LAC to validate key challenges and priorities; (iii) the design of a structured framework to identify, prioritize, and sequence management improvement actions, incorporating technical, financial, and operational criteria; (iv) the development of tools to estimate the expected impacts of proposed actions, including effects on operational efficiency, financial performance, and service quality; (v) the preparation of guidelines, templates, and analytical instruments to facilitate application of the methodology; and (vi) pilot testing of the methodology in selected utilities⁷, based on their previous application of the *AquaRating* tool, followed by refinement based on lessons learned.
- 2.3 The component will be implemented through the hiring of consulting firms and individual consultants, including a firm for the initial development of the methodology, a project management consultant to support coordination and implementation, and a specialized consultant to refine the methodology and support its uptake.
- 2.4 The expected outputs under this Component are: (i) a comprehensive methodology for the identification, prioritization, design, and monitoring of management improvement actions for W&S utilities (in Spanish and English); and (ii) a set of supporting tools, templates, and pilot applications demonstrating its usability and effectiveness.
- 2.5 **Component 2. Communication, dissemination, and client outreach.** This Component will finance events to foster the exchange of experiences, lessons learned, and good practices. Additionally, this component will include dissemination activities such as marketing and communication activities. This component will include hiring an individual consultant to develop a monograph. Travel costs may only be financed for consultants or invited participants attending dissemination events of this TC.

⁷ The development of specific work in countries will take place once the respective Government's request letter is received. Under no circumstances will any work proceed without first obtaining the Government's no-objection letter, which will be incorporated into the Bank's corresponding systems. The letter from the beneficiary will include that the Bank is the executor of the technical cooperation. The responsibility for securing non-objection letters for Technical Cooperation operations already in execution for new countries identified post-approval or for countries for which letters were not secured before approval (allowed only in exceptional cases) lies with the team leader and the respective approval authority..

- 2.6 The expected outputs under this Component are: (i) at least one in-person regional workshop to disseminate the methodology and gather feedback from sector stakeholders; and (ii) a knowledge product (monograph) documenting the methodology, its application, and key lessons learned.
- 2.7 **Expected Results.** If the methodology and accompanying tool are successfully delivered and disseminated, water and sanitation operators will strengthen their capacity to diagnose institutional and operational gaps and to prioritize improvement actions in a more structured, evidence-based manner. Delivery of the regional workshop and related knowledge products will help utilities and sector counterparts apply the methodology effectively, improving the design and execution of institutional strengthening activities in both new and ongoing operations. As more operators adopt the methodology, the region will benefit from improvement in management practices, which will support resilient, inclusive, and climate aware service delivery.
- 2.8 **Beneficiaries.** The principal beneficiaries of this TC are public W&S utilities in the LAC region. By supporting clearer processes, better governance, and improved monitoring of institutional actions, the TC enhances the overall performance and accountability of public service providers.

III. BUDGET

- 3.1 **Budget.** The total funding needed is US\$500,000, which will be financed by the OC SDP P3D fund. No counterpart funding is anticipated for the execution of the planned activities. An estimation of the costs for the activities is included in the following budget:

Budget in US\$		
Components	IDB (OC SDP P3D)	Total
Component 1: Development of the methodology.	425,000	425,000
Component 2: Communication, dissemination, and client outreach.	75,000	75,000
Total	500,000	500,000

IV. EXECUTION STRUCTURE

- 4.1 **The IDB as Executing Agency (Research and Dissemination TC).** This TC is an initiative promoted by the Bank aimed at developing a structured methodology for diagnosing and prioritizing improvements in operator management practices, addressing long standing gaps in institutional strengthening components of WSA operations, and therefore it will be executed by the Inter-American Development Bank (IDB) in accordance with the Bank's Technical Cooperation Policy

(GN-2470-2) and the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4), through the Water and Sanitation Division (INE/WSA). The Bank has extensive experience in development of methodologies for W&S utilities.

- 4.2 **Procurement.** All procurement activities to be executed under this Technical Cooperation have been included in the Procurement Plan (Annex IV) and will be hired in compliance with the applicable Bank policies and regulations as follows: (a) Hiring of individual consultants, as established in the regulation on Complementary Workforce (AM-650); and (b) Contracting of services provided by consulting firms in accordance with the Corporate procurement Policy (GN-2303-33) and its Guidelines.
- 4.3 **Execution and Disbursement Period.** The execution and disbursement period is 40 months. This is consistent with the Procurement Plan.
- 4.4 **Monitoring, Reporting, and Supervision.** Progress will be reported at least annually in the Bank's system (Convergence), including the following information: (i) physical and financial progress of the CT; (ii) products and results obtained; (iii) lessons learned; and (iv) any other information considered relevant.

V. POTENTIAL RISKS

- 5.1 One key risk is the limited adoption of the methodology by utilities due to capacity constraints, competing priorities, or resistance to change. This could affect the overall impact of the TC. To mitigate this risk, the methodology will be designed to be user-friendly, adaptable to different utility contexts, and focused on practical, high-impact actions. In addition, pilot applications and stakeholder engagement activities will be used to ensure relevance and facilitate early buy-in.
- 5.2 Another risk relates to limited data availability and quality at the utility level, which may constrain the ability to perform robust diagnostics and impact assessments. To address this, the development of the methodology will contemplate flexible approaches that allow for the use of surveys results and/or secondary information.
- 5.3 All knowledge products generated under this technical cooperation shall be the property of the Bank and may be made available to the public through a Creative Commons license. However, at the specific request of the beneficiaries and in accordance with the provisions of document AM-331, the intellectual property of such products may also be licensed through specific contractual arrangements to be developed with the advice of the Legal Department.

VI. EXCEPTIONS TO BANK POLICIES

- 6.1 No exceptions to Bank policies are foreseen.

VII. ENVIRONMENTAL AND SOCIAL ASPECTS

- 7.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).
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REQUIRED ANNEXES:

- Annex I: [Results Matrix](#)
- Annex II: [Terms of Reference](#)
- Annex III: [Procurement Plan](#)
- Annex IV: [Gender and Diversity Checklist](#)