

## Draft TC ABSTRACT

### I. Basic project data

▪ Country/Region:	Brasil
▪ TC Name:	Support to the Implementation of the Regulation of Water and Sanitation Sector in Brazil
▪ TC Number:	BR-T1295
▪ Team Leader/Members:	Irene Altafin, Team Leader (WSA/CBR), Yvon Mellinger (WSA/CBR), Fernanda Caribé (CSC/CBR), Yolanda Galaz (INE/WSA)
▪ Type if TC	Client Support
▪ Reference to Request <sup>1</sup> :	IDB docs # 38179388
▪ Date of TC Abstract:	October 18, 2013
▪ Beneficiary:	Associação Brasileira de Engenharia Sanitária e Ambiental, Brazil
▪ Executing Agency and contact name	Associação Brasileira de Engenharia Sanitária e Ambiental / Câmara Temática de Tarifas e Regulação
▪ IDB Funding Requested:	US\$1.000.000
▪ Local counterpart funding, if any:	US\$250,000
▪ Disbursement period	12 months
▪ Required start date:	January 6, 2013
▪ Types of consultants:	Firm and individuals
▪ Prepared by Unit:	INE/WSA
▪ Unit of Disbursement Responsibility:	WSA
▪ Included in Country Strategy (y/n);	Y
▪ TC included in CPD (y/n):	
▪ GCI-9 Sector Priority:	Infrastructure for Competitiveness and Social Welfare

### II. Objective and Justification

- 2.1. The recent regulation of the Water and Sanitation Public Services has brought important advances in the way of economic rationalization and the search for sustainable investments. Federal Laws 11.107/05 and 11.445/07 established, respectively, the general rules of consortia, and national guidelines for WS&S sector. According to the latter, the regulation and inspection shall be performed by an independent entity with administrative and financial autonomy and decision-making and strong technical skills for this purpose. In order to meet the demand of modernization of national policy for the sector, as well as to adapt to the new federal laws were created Sanitation Regulatory agencies in many Brazilian states, specialized agencies formally responsible for economic regulation and supervision of the quality and coverage of sanitation services owned municipal and / or state, as may be delegated by municipal agencies. Given the complexity of regulatory activity and necessity demand recruiting and maintaining a set of highly qualified professionals to run it, preserving the municipal powers and prerogatives. The new regulatory framework for the sector meant a breakthrough in the relationship between providers and members of the sanitation service, state or municipality, as it created a regulatory body with independent decision-making, increasing security for investments and in the near future should bring rationality economic and transparency in tariff design.

<sup>1</sup> A copy of the Letter of Request, Programming/Portfolio Review Mission Aide Memoire or Report requesting the TC should be submitted with the Abstract.

- 2.2. The Câmara Temática de Tarifas e Regulação, directly related to the ABES-Nacional during the 27 National Congress of Sanitary and Environmental Engineering of Goiás in September 2013, conducted a survey of qualitative methodology of multivariate features panels of regulators and regulated companies, and quantitative methodology with questionnaires to 147 industry professionals. Participants were asked about: difficulties to develop the regulatory, administrative, and policy decisions of regulators, difficulties in recruitment and selection of skilled labor in regulation, availability of resources to hire regulatory studies and conduct training programs, contribution regulation of universal service, and impediments to implementation of a subsidy policy. It was found by comparing the results obtained from the surveys with institutions and recent publications in journals indexed four (04) points of convergence between regulators and regulated : 1) There is no uniformity of diagnoses that allow regulators' decisions , 2) There is a lack by the granting authorities the necessary autonomy of the regulator to guarantee its functions; 3) There is difficulty for regulators to exercise economic regulation by lack in depth economic regulation and / or uncertainties in Sanitation Policy , and 4) There is a demand for an indicator system audited for purposes of efficiency parameters . It is unanimous among all respondents understanding of the need for a "neutral place" for the promotion of technical discussions on regulatory issues for better governance and creating a positive agenda.
- 2.3. In view of these issues, ABES proposed a partnership with the IDB for the preparation of an Analysis of Institutional Regulatory Environment Sanitation Sector in Brazil, covering diagnosis and creating a plan of action to promote the strengthening of regulation and effectiveness of mechanisms regulatory recommended in Marco. The IDB's support is crucial to ensuring a diagnosis contextualized, participatory, neutrality as the inclusion of different actors and stakeholders in the sector (Regulators, Companies, Municipal and State Authority, Service Providers, Financial Agents and Investors), and model training for multipliers which will establish effective regulation for the sector.

### III. Description of activities and outputs

- 3.1. The TC will be executed in 12 months and have two components: **Component 1 - Establish a Regulatory Structure for Brazil**
- 3.2. **Activity 1: Regulatory Authority** - Will finance a consultant to conduct an institutional analysis of the current regulatory structure for the Brazilians Agencies, prepare comparative analysis of other Regulatory Models particularly the structure and legal system, and develop recommendations for a new regulatory model for Brazil. This activity will involve extensive stakeholder consultations, including at least four workshops to engage regulators, WS&S companies and districts, municipalities and governments, investors and financial actors in the development and review of recommendations. Output: an agreed regulatory model for Brazil. (Technical Note – Article, Handbook Regulatory).
- 3.3. **Activity 2: State of the Regulation Report** – Will finance the assessment of the Agencies, municipalities and companies issues facing the Policy Instruments for regulation of water and sanitation services (WS&S) in Brazil, taking a comprehensive and prospective examination of these issues, and develop a shared vision for the situation encountered. This activity will involve extensive stakeholder consultations, including at least four workshops to gauge public awareness and discuss shared vision for Regulation. Output: An assessment of the actual regulatory issues of Brazil in lieu of the Policy Instruments for regulation of water and sanitation services (WS&S) in Brazil and the goals set by the water and sanitation wide world provision. (Technical Note – Article, Report Regulatory).

- 3.4. **Activity 3: Regulatory Subsidies Studies** – Will finance assessment of a new policy of subsidies to low-income users, based on information and ratings socioeconomic already adopted by CadÚnico and Bolsa Familia for other public services such as energy, considering the recommendations of the studies conducted in agencies and companies. Should indicate by updating the subsistence consumption and geographic aggregation of tariffs (in the case financing via grants focused) and potential funding sources subsidies and groups of municipalities viable for adding tariffs (subsidies geographic), beyond the identification of the municipalities that are self-sustaining (that enable the grouping with others). Output: The innovative subsidies model and a strategy for its implementation. (Technical Note – Article, Handbook Regulatory).
- 3.5. **Activity 4: Regulatory Agenda** – Will finance the establishment of an Agenda between governments, regulators, WS&S companies or departments, industries users, community organizations, civil society to discuss the establishment of the model. This activity will establish a Steering Committee/Unit within ABES to lead and coordinate the monitoring the implementation of actions 3.3 e 3.4 for the Regulation Model. Output: Steering Committee formed and operational. (Technical Note – Article, Handbook Agenda Regulatory for 2 years)
- 3.6. **Component 2 – Strengthen the Regulatory Framework for the WS&S services in Brazil. Activity 1: Program for Leadership Development in Regulation** – Will finance structuring and implementing of an international program with the PURC - Public Utility Research Center and Harvard Kennedy School in conjunctions with University of São Paulo or Fundação Getúlio Vargas, that aimed at training of regulators, service providers and regulated in the grantor purpose of consolidating the regulatory process on tariff issues, institutional and risk analysis through courses Economic Regulation in the various regions of Brazil distributed in 3 groups of 70 professionals in 80 hours of training in the North and Northeast (Belem), Southeast and South (Sao Paulo) and Midwest (Brasília). The counterpart of ABES is with Brazilian instructors with practical experience and proven academic setting and compatible with the objectives of the program, bringing national cases. Output: Program implemented. (Technical Note – Article, Handbooks Regulatory Course of the themes).
- 3.7. **Activity 2: Regulatory pilot project** – Will finance the hiring of experts to develop a pilot project that will improve the model. Output: Regulatory Pilot implemented. (Technical Note)
- 3.8. **Activity 3: Technical workshops** – Will finance the four workshops to share technical expertise and best practices in economic regulation monitoring and modeling, and enforcement and compliance to strength institutional capacity. Output: Three workshops conducted. (Technical Note)
- 3.9. **Activity 4: Performance Indicators** – Will finance the development of specific performance goals and milestones for key regulatory programs to measure progress towards the efficacy of the Risk Analyses Model to ensure accountability and transparency. Output: An agreed set of Indicators will be set to pursue the regulatory program. (Technical Note – Article, Handbook Regulatory Indicators)

#### IV. Budget

Component/ Activity	Description	IDB Funding	Counterpart	Total US\$	Timeframe
C 1, Activity 1	Regulatory Authority	US\$ 150,000	100 hours + workshops	150,000	May 2014
C 1, Activity 2	State of the Regulation Report	US\$ 150,000	100 hours + workshops	150,000	March 2013
C 1, Activity 3	Regulatory Subsidies Study	US\$ 150,000	100 hours	150,000	April 2014
C 1, Activity 4	Regulatory Agenda	US\$ 50,000	100 hours +	50,000	March 2013

			workshops		
C 2, Activity 1	Program for Leadership Development in Regulation	US\$ 300,000	300 hours + infrastructure of course – 8 professors	300,000	April/May/June 2014
C 2, Activity 2	Regulatory Pilot Project	US\$ 50,000	100 hours	50,000	June/November 2014
C 2, Activity 3	Technical workshops	US\$ 50,000	100 hours + workshops	50,000	November/December 2014
C 2, Activity 4	Performance Indicators and Risk Analyses Model	US\$ 100,000	100 hours	100,000	April 2014
TOTAL		US\$1,000,000		1,000,000	

#### **V. Executing agency and execution structure**

- 5.1. The executing agency will be the ABES through the Câmara Temática de Tarifas e Regulação, directly related to the ABES-Nacional. The ABES has acquired the necessary experience to execute the TC acting by mean professionals which required expertise on procurement and project supervision order of a US\$ 13 million IDB loan to SABESP-Companhia de Saneamento Básico de São Paulo for first Tariff Review Process in São Paulo State. The ABES will be responsible to hire the necessary consultants and to supervise the execution of the TC.

#### **VI. Project Risks and issues**

- 6.1. The major risk toward the establishment of effective regulation initiative is institutional. If Agencies do not want to participate in a coordinated way, the major efforts laid down in the strategic plan may fail. The mitigation is to conduct a transparent process of defining the governance structure with a broad participation of stakeholders and representatives of the sector. The TC includes a series of workshops to obtain consensus on the chosen regulatory model.

#### **VII. Environmental and Social Classification**

- 7.1. The TC main objective is to create the regulatory structure and the instruments to unleash the process that would result in the appropriate actions to regulatory efficacy. Presently, the Regulatory frame in Brazil demands innovation to efficacy regulatory. Being the objective of the financing mainly studies and plans, no negative environmental or social impact will be generated. Nevertheless, in the medium run, the TC's results may promote positive social impacts, and in the long term environmental impacts. Following the IDB policies and procedures, the project team proposes the Classification C for the operation.