Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 29-Jun-2018 | Report No: PIDISDSA25147
The proposed Development Objective is to increase access to, and quality of, water and sanitation services in selected areas, and develop the Borrower’s sectoral institutions and participating EPS management capacity to provide efficient water and sanitation services.

Components

Improving Governance of Water Supply and Sanitation Service Providers
Improving and Expanding Water Supply and Sanitation Services in the Participating EPS
General Project Administration

PROJECT FINANCING DATA (US$, Millions)

| SUMMAR Y |
|-----------------|---------|
| Total Project Cost | 200.00 |
| Total Financing | 200.00 |
| of which IBRD/IDA | 70.00 |
| Financing Gap | 0.00 |

DETAILS

World Bank Group Financing
B. Introduction and Context

Country Context

1. Peru has a population of over 31 million people, of which 79 percent live in urban areas and 21 percent in rural areas. The population is expected to reach 39 million by 2040. Despite recent slowdowns in the global economy, it remains one of the strongest economies in Latin America. Peru posted a gross national income of nearly US$6 billion in 2016 and an annual gross domestic product (GDP) growth rate of 4.2 percent (2017). The country’s steady economic growth is predominantly due to the abundance of natural resources, high commodity prices for mining products in the global market, prudent macroeconomic policies, and strong investments.

2. The effects of this strong growth on employment and incomes have helped over 9 million Peruvians escape poverty between 2004 and 2015. The poverty incidence rate fell from 58 percent to 22 percent, and extreme poverty dropped from 16 percent to 4 percent during this period, but raised 1 percent in 2016. The country’s Gini index has also seen a steady decline from 0.49 to 0.44 during the same period. Despite this positive economic picture, inequality is rising. Rapid urbanization poses an additional challenge as the poor who migrate to cities generally settle in marginal peri-urban areas lacking access to basic social services, including water and sanitation. Access rates for the 21 percent of the population that makes up the urban poor are lower than the national average by nearly 20 percent for water and 42 for sewerage.

3. On the external front, the main challenges that could affect economic growth include the decline in commodity prices, which is closely related to the global economic slowdown, and a possible period of financial volatility associated with anticipated higher interest rates in the United States.

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1 World Bank data: [http://data.worldbank.org/country/peru](http://data.worldbank.org/country/peru). However, GDP growth slowed down in 2014 due to adverse external conditions, a decline in domestic confidence, and reduced investments, although its growth rate remained above the regional average (2.4 percent versus 0.8 percent, respectively).


3 INEI (Instituto Nacional de Estadística e Informática). 2014. Perfil de la Pobreza. INEI, Peru. [https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1306/cap06.pdf](https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1306/cap06.pdf).
Domestically, GDP estimates are vulnerable to the impact of El Niño on the real economy. The scope of public transfers is limited to buffering a slowdown or volatility in the economy, which implies that nearly a third of the population remains vulnerable to shocks and could fall back into poverty due to impacts on their labor incomes. In 2017, severe flooding and landslides due to the El Niño phenomenon devastated the Peruvian piedmont and resulted in the death of nearly 200 people, the displacement of an estimated 700,000 others, and roughly US$3.12 billion in damages to critical infrastructure, translating into 1.6 percent of GDP. The Government of Peru (GoP) has established a dedicated agency under the Presidency of the Council of Ministers to focus reconstruction financing and efforts on rebuilding more resilient infrastructure including water supply and sanitation (WSS) systems that have been affected.

4. **Water plays a critical role in the growth of the Peruvian economy.** In addition to supporting human development through providing access to basic services as an essential contribution to increasing health and eradicating poverty, the performance of WSS services has been found to be closely correlated to stimulating business competitiveness and thus economic growth. Moreover, continuity and quality of WSS services have a direct impact on the operational capacity (increased sales) and production efficiency of commercial and small- and medium-scale industrial sectors.

### Sectoral and Institutional Context

5. **Throughout the last decade, Peru has made steady progress in increasing WSS coverage, meeting the Millennium Development Goals targets in 2015.** National coverage rates for WSS in 2015 were 87 percent for access to improved water sources and 76 to improved sanitation—compared to 60 percent coverage for water supply and 49 for improved sanitation in 1993. Although the coverage rates have increased, they are still below the regional averages, where, in 2015, 95 percent of the population had access to improved water supply and 83 percent had access to improved sanitation.

6. **The relatively high service coverage levels mask a complex reality that is characterized by severe issues in continuity of supply, quality of service, and infrastructure performance.** Both the coverage and quality of services vary widely among socioeconomic levels and geographical (Coastal, Andean, and Amazon) regions. Coverage rates in the Coastal region are relatively higher at 91 percent for water supply and 89 percent for sanitation; compared to the Andean region, which posts 77 percent and 69 percent, respectively; and the Amazon region, which provides the lowest coverage rates at 59 percent and 55 percent, respectively. Urban and rural disparities indicate that access levels in rural areas lag significantly behind those in urban areas. In total, roughly 3.8 million people in Peru lack access to water supply and another 9.7 million have no access to sanitation—60 percent of which live in rural areas.

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5 Joint Monitoring Program (JMP). It should be noted that the GoP has set much higher standards of service than those included under the wider definition of ‘improved services’ of the JMP. For sanitation, the GoP defined coverage in terms of ‘dignified sanitation’, under which certain solutions, generally accepted in other developing country contexts, no longer qualify as coverage in Peru. Hence, according to the GoP data, the actual coverage rates for WSS were 88 percent and 68 percent in 2015.


7. **Despite considerable investments, the quality, efficiency, and reliability of WSS services in Peru are below what could be expected of a high-middle-income country.** The high priority given by the GoP to WSS is reflected in the amount of resources allocated to WSS infrastructure development. Between 2010 and 2015, the GoP spent, on average, US$1.45 billion per year on WSS investments aimed at improving overall access, quality, and efficiency of services, a fivefold increase in comparison to investments in the 1990s and 2000s. This level of investment represents 0.8 percent of GDP and 13 percent of the annual investment budget, which is high for the Latin America and the Caribbean standards. Results, however, are not commensurate with investment and spending levels.

8. **Institutional setup.** WSS policy-setting, enforcement, regulation, technical assistance (TA), and service provision functions are allocated among national and subnational institutions. At the national level, the MVCS oversees policy making and national planning, including prioritization and allocation of public investments at the national level. The Technical Organization for the Administration of WSS Services (Organismo Técnico de la Administración de los Servicios de Saneamiento, OTASS), which is mapped to the MVCS, is the apex institution charged with promoting and executing the national government’s policy on administration and management of public utilities (Empresa Prestadora de Servicios de Saneamiento, EPSs), through TA. The OTASS also has the legal mandate to temporarily intervene in nonperforming EPSs, known as the Temporary Intervention Regime (Régimen de Apoyo Transitorio, RAT), to support their transformation. The National Program for Urban [Water and] Sanitation (Programa Nacional para Saneamiento Urbano, PNSU) and the National Program for Rural [Water and] Sanitation (Programa Nacional para Saneamiento Rural) are the two executing branches of the MVCS specifically tasked to design and implement WSS infrastructure using the national budget (subsidies) and hand over the operation and maintenance (O&M) of such infrastructure to regional or local governments. The National Superintendence of [Water and] Sanitation Services (Superintendencia Nacional de Servicios de Saneamiento, SUNASS) is an independent entity responsible for the economic regulation of WSS services and resolution of customer service complaints to the regulator.

9. **Both regional and local governments are responsible for ensuring that investments in WSS in their jurisdictions are provided efficiently and according to applicable institutional, economic, financial, and policy standards.** WSS services in urban areas are primarily provided by public EPSs, which are incorporated as limited liability stock companies whose shares are owned by regional and local governments. EPSs currently serve over 85 percent of the urban population and roughly 62 percent of the national population. Other service providers include municipalities, through smaller utilities or municipal divisions (which serve 9 percent of the population), and WSS Community Boards (Juntas Administradoras de Servicios de Saneamiento, JASS) in rural areas, which serve 29 percent of the population.

**Sector Challenges**

10. **An unfinished decentralization process that has not delivered expected results in terms of access to sustainable services and overall establishment of efficient, autonomous utilities.** The

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8 MVCS report based on data collected from the Plan Nacional de Saneamiento 2006–2016, Sistema Integrado de Administración Financiera (SIAF), Cuenta General de la República, Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado, Servicio de Agua Potable y Alcantarillado de Lima (SEDAPAL), Agenda de Promoción de la Inversión Privada (PROINVERSION).

9 For instance, the Development Bank of Latin America (Corporación Andina de Fomento, CAF) (2011) has estimated that investments needed to reach universal WSS coverage in Latin America and the Caribbean should be in the order of 0.31 percent of GDP (2010 values).
decentralization of WSS responsibilities was introduced by the GoP through a series of regulations beginning in the early 1990s with the transfer of service provision responsibilities to the regional governments, apart from the WSS utility for metropolitan Lima (SEDAPAL) that remained under the auspices of the national government. This was followed by regulations that outlined sector objectives and created 49 EPSs. However, the devolution of responsibilities to regional and local governments was not accompanied by adequate incentives and capacity building. This gave rise to weaknesses in the policy and institutional frameworks, overlapping planning, and inefficient financing mechanisms, including budgetary allocations at various levels of government and complex administrative norms that continue to hamper improvements in WSS service delivery.

11. Peru’s WSS sector exhibits misaligned incentives that have led governments to prioritize high-visibility infrastructure projects rather than focusing on the quality and sustainability of services. Limited efforts have been made to strengthen policy and institutional frameworks and establish intergovernmental arrangements for municipal WSS services that would foster improved WSS sector performance. Low tariffs insufficient to cover utility O&M expenses have sent incorrect pricing signals to consumers, leading to inefficient water usage. This misalignment of incentives has also contributed to inadequate human resource capacities and a neglect of consumer preferences due to the lack of accountability and transparency mechanisms. Moreover, the focus on funding infrastructure without ensuring meaningful local ownership and accountable management of the systems has resulted in the ‘build-neglect-rebuild’ paradigm.

12. Lack of sustainability of service providers. Apart from SEDAPAL, which serves nearly a third of the country’s population, few EPSs generate sufficient revenues to contribute to investment or debt financing. The MVCS reports that EPSs are 141 percent overindebted and unable to effectively manage their operations. Technical capacity and human resources within these EPSs are a continuing challenge. Low remuneration has contributed to a perverse cycle of difficulty to attract qualified personnel to effectively plan, implement, and manage WSS service delivery.

13. Challenges in WSS service delivery are exacerbated by uncertainty in water security. Although the coastal Pacific watershed, which is characterized by its aridity, accounts for roughly 1.8 percent of the country’s water resources, it is home to 70 percent of the population and produces 80 percent of national GDP. In contrast, the Atlantic watershed to the east of the Andes Mountains, accounts for 97.7 percent of water resources, 26 percent of the population, and 18 percent of GDP. Peru has historically responded to the uneven distribution of water resources by increasing supply to water-scarce coastal areas through costly infrastructure projects, including large dams and inter-basin transfers, with limited attention to measures aiming at increasing the efficiency of water use, controlling the use of groundwater, preventing water pollution, and protecting the water needs of the environment and vulnerable groups. Water spatial variability is compounded by temporal variability resulting in chronic shortages in dry seasons. The Peruvian piedmont and coastline are also prone to floods and mudslides due to high precipitation in degraded upper basins. In general, the frequency and intensity of floods and droughts has increased in some basins due to the continuous deterioration of watersheds and climate change impacts, including glacial retreat and variability in precipitation patterns. Climate variability poses a continuous risk to WSS

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10 Ley de Organización y Funciones del Ministerio de Vivienda, Construcción y Saneamiento No. 574 approved in April 1990.
services, resulting in rationing and intermittent water services during episodes of drought that disrupt services to households and local businesses. Floods present downside risks due to flows of heavily polluted water as well as damage to WSS infrastructure.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)
The proposed Development Objective is to increase access to, and quality of, water and sanitation services in selected areas, and develop the Borrower’s sectoral institutions and participating EPS management capacity to provide efficient water and sanitation services.

Key Results

14. The Project Development Objective (PDO) will be measured against the following indicators:

   (a) People provided with access to improved water sources (number; female)\(^{13}\)
   (b) People provided with access to improved sanitation services (number; female)
   (c) Working ratio reduced in selected utilities\(^{14}\)
   (d) Nonrevenue water reduction achieved in selected utilities\(^{15}\)
   (e) Percentage of population served by service provider regulated by SUNASS

D. Project Description

15. The project consists of three components: (a) Improving Governance of Water Supply and Sanitation Service Providers, (b) Improving and Expanding Water Supply and Sanitation Services, and (c) General Project Administration. The selection of the participating utilities is based on criteria that prioritize the objectives set forth in the new sector policy, as well as their potential to contribute to pillars outlined in the NWSP 2017–2021. The Project Operational Manual (POM) for details on selection criteria for participating EPSs and project interventions.

   Component 1: Improving Governance of Water Supply and Sanitation Service Providers (US$38.73 million, of which US$16.27 million IBRD financing)

16. This component will contribute to improving the efficiency of the sector by financing activities that will support national-level sector entities, primarily the MVCS, OTASS, and SUNASS, as well as the efficiency of the six selected EPSs. The component comprises the following three subcomponents:

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\(^{13}\) The JMP defines access in the following: safely managed (accessible on premises, available when needed, and free from contamination), basic (collection from an improved source takes not more than 30 minutes), limited (more than 30 minutes to collect water from an improved source), unimproved source, and surface water.

\(^{14}\) Working ratio is understood as the ability to recover operating costs from annual revenue. Calculated by taking the company’s total annual expenses—operating and administrative costs (excluding depreciation and debt-related expenses)—and dividing it by the annual gross income.

\(^{15}\) Nonrevenue water (NRW): net water lost as a share of net water produced.
Subcomponent 1.1: Improving Institutions, Policy, and Regulation of Water Supply and Sanitation Services (US$7.82 million)

17. This subcomponent will support the implementation of policy instruments and regulations geared at: (a) developing a sector-wide management information system (MIS) to facilitate both coordination between sector entities and the regulation of all service providers (EPSs, municipal service providers, and rural water boards); (b) strengthening the systems and capacity of the regulator, SUNASS, including reformulating regulatory and tariff setting instruments;\(^{16}\) (c) developing guidelines or procedures for regulating small EPSs and rural areas and for improved targeting of subsidies to enhance the financial efficiency of the sector; (d) developing a methodology and supporting the implementation of the aggregation of service providers, including defining the minimal scale and size of EPSs and a progressive approach to formally integrate municipal service providers into EPSs; (e) preparing multiannual investment plans—which are the GoP’s primary budgeting tools—for the regions of Arequipa, Ucayali, and Cusco and Lima Province that will serve as planning instruments to define WSS service gaps (across the region and various types of service providers) to adequately introduce economies of scale of infrastructure investments, embed resilience, and prioritize the GoP’s targeting of grant funding; and (f) developing instruments, such as standard contracts and revised procedures, for public-private partnerships (PPPs) in wastewater treatment (WWT).

Subcomponent 1.2: Strengthening of OTASS and PNSU (US$3.89 million)

18. This subcomponent will support OTASS and PNSU to enhance coordination between technical assistance and infrastructure implementation of WSS projects, including: (i) provision of technical assistance (including financing of an ISC firm) to support OTASS in Project implementation; (ii) development of a policy proposal for remuneration and incentive programs to promote voluntary retirement and human resources development in the Participating EPSs, and the development of a communications strategy for OTASS and Service Providers; and (iii) design and implementation of a training program for personnel in PNSU’s regional Citizen Service Centers, and supporting organizational improvements to enhance PNSU’s response in preparing and executing civil works projects.

Subcomponent 1.3: Improving efficiency and sustainability of participating EPS (US$27.02 million)

19. This subcomponent will support a series of management efficiency measures aimed at improving the performance of selected EPSs. Formal participation agreements will be signed between OTASS and each participating EPS, establishing the obligations of the national government and each selected EPSs, which will be included in and enforced through the PMO of these selected EPS, to ensure their implementation.

20. Specifically, this subcomponent will support OTASS to improve the performance of the participating EPSs, including institutional and planning improvements, strategic planning, capacity building, implementation of communication and client orientation programs, operational and commercial improvements, and development and contracting of management contracts, through the following

\(^{16}\) PMOs are instruments used by SUNASS to review and approve tariffs. They consist of detailed plans prepared by each EPS, outlining the investment needs that can be covered by a potential tariff adjustment.
activities: (i) developing of master plans in SEDAPAR, SEDACUSCO and EMAPACOP; (ii) designing and implementing information systems in the Participating EPS; (iii) carrying out of tariff and subsidies studies in the Participating EPS; (iv) improvement and modernization of current commercial systems in the Participating EPS; (v) improvement and modernization of operational and management systems in the Participating EPS; and (iv) designing and implementing a management contract for EMAPACOP.

Component 2: Improving and Expanding Water Supply and Sanitation Services in the participating EPS (US$151.52 million of which US$53.03 million IBRD financing)

21. This component will finance the rehabilitation and expansion of WSS infrastructure of participating EPSs. The proposed activities and efforts will improve efficiency through the reduction of physical water losses, increasing energy efficiency, and putting in place tangible mitigation measures to reduce emissions. Similarly, the expansion of WWT and household connections intends to increase access, and reduce environmental pollution, potential health hazards, and carbon emission. Some infrastructure investments have been identified in the business plans, as well as in the PMOs approved by SUNASS under the tariff review process, or directly by the EPSs as part of their expansion efforts. Investments that will be considered for financing under this project must meet the criteria set forth for the project. Potential investments include, among others, civil works, goods, and consultant services for: (a) the rehabilitation and extension of existing water supply and sewerage networks and household connections; (b) rehabilitation and expansion of existing water and sewerage treatment plants, water storage tanks, and pumping systems; (c) development of new decentralized WSS treatment capacity; (d) the expansion of water and sewerage household connections within areas lacking formal services; and (e) the installation of macro and micro meters.

22. The rehabilitation of infrastructure financed under this component will be closely linked with efficiency measures in Subcomponent 1.3 to optimize NRW reduction and reduce stress on finite water resources. In the case of Cusco, to address broader water security challenges, diversifying water sources to avoid overreliance on sources vulnerable to drought and overexploitation is also envisioned. Decisions about infrastructure to be rehabilitated or expanded under this project will pay attention to vulnerabilities in water supply systems and build resilience to climate change. This component will finance feasibility, detailed engineering designs, and associated social and environmental management (safeguards) implementation. The remaining infrastructure subprojects will be identified (through preparation of the Government prefeasibility studies) during project implementation.

23. At the prefeasibility stage, 10 subprojects (5 from SEDAPAR and 5 from SEDACUSCO) were vetted and have been provisionally included for financing under this project. Of these subprojects, 2 have detailed engineering designs and encompass both expansion and improvements of existing WSS systems. These activities will be closely implemented with activities under Subcomponent 1.3 to ensure communities can affordably connect to both water supply and sanitation services.

Component 3: General Project Administration (US$9.75 million, of which US$0.7 million IBRD financing)

24. This component will support the management and monitoring of activities associated with project implementation and include TA and administrative support to the day-to-day implementation
of procurement and financial management (FM) activities, the environmental and social safeguards monitoring, monitoring and evaluation (M&E), and final project evaluation. It will also finance training, communication, and incremental costs incurred to implement the project.

E. Implementation

Institutional and Implementation Arrangements

25. **Project implementation responsibilities.** The recipient of the loan will be the Republic of Peru, through the Ministry of Economy and Finance (MEF), which will transfer the proceeds to OTASS and MVCS-PNSU, as co-implementing units of the project. The Project Implementation Unit (PIU) under OTASS (OTASS-PIU 2) will implement activities under Components 1 and 3, and PNSU as an existing PIU will create a Functional Unit (FU) within PNSU to implement activities under Component 2, under the supervision of OTASS. OTASS-PIU 2 will have an additional role of overall project coordination and will be responsible for internal and external communications, FM, procurement, and compliance with safeguards policies. OTASS-PIU 2 will interact directly with PNSU-FU and coordinate with OTASS’s directorates, the Coordinating Units (CU) within the Vice Minister of Construction and Sanitation (VMCS), SUNASS, the EPSs, and the World Bank. OTASS will review the status of the performance indicators included in the Results Framework. PNSU has extensive experience in implementing WSS infrastructure and in implementing activities financed by various development partners. OTASS is a relatively new entity\(^\text{17}\) and requires support. To strengthen technical capacity within OTASS-PIU 2 and PNSU-FU, staff will be contracted by the project. Overall coordination has been delegated to OTASS despite its relatively nascent status due, primarily, to OTASS’s legal standing, which provides more financial autonomy, which will facilitate fiduciary implementation and oversight during implementation.

26. **Roles and responsibilities of participating utilities have been outlined in agreements between each EPS and national government (OTASS/PNSU).** Based on capacity assessments each, EPSs that demonstrates adequate capacity will be given greater responsibilities to be managed directly by the EPS and will have higher agreed targets to achieve. Each EPSs will be required to support PNSU in: (i) monitoring of the pertinent Infrastructure Subproject; (ii) provide the agreed counterpart financing for the implementation of the Infrastructure Subprojects; (iii) comply with the provisions of social and environmental safeguards instruments adopted by the Project; (iv) launch and implement communication and awareness campaigns and ensure that contractors are in compliance with the applicable Safeguards procedures; (v) meet the targets for the agreed upon performance indicators at the Participating EPS and locality levels; (vi) submit to OTASS annual reports on the status of each performance indicator; and, (vii) support PNSU and OTASS with supervision activities related to financial management and procurement. OTASS and PNSU will provide hands-on fiduciary support to strengthen the capacity of these EPSs.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

Under the scope of component 1 and 2, the Project will carry out interventions in Arequipa, Barranca, Cusco, Huaral, Huacho, and Pucallpa at the level of the EPS, namely, SEDAPAR in Arequipa, SEMAPA in

\(^{17}\) OTASS was created in 2013 by Law N°30045 and became operational in 2015.
Barranca, SEDACUSCO in Cusco, EMAPA Huacho, EMAPA Huaral, EMAPACOP in Pucallpa, and municipalities. EMAPACOP in Pucallpa was selected because it has the lowest coverage rate (estimated at 52 percent, with a high number of inactive connections) in a region with high rates of poverty and the need for increased social inclusion. The cluster of EMAPA Huacho, EMAPA Huaral and SEMAPA Barranca in the Lima Region was selected because the high degree of fragmentation impeding the achievement of economies of scale.

SEDAPAR in Arequipa was selected because it lacks of regional autonomy to plan, implement, and manage WSS services across its service area, covering the entire Arequipa region. SEDACUSCO in Cusco was selected because of the need to balance the pressures of expansion with management for environment protection and to address water security issues (water quantity and quality) The sub-projects to be considered for inclusion in the program and financing are in the process of selection. Two sub-projects have been identified in Arequipa (SEDAPAR). They are located in Caraveli and Chuquibamba districts.

G. Environmental and Social Safeguards Specialists on the Team

Raul Tolmos, Environmental Safeguards Specialist
Carlos Tomas Perez-Brito, Social Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

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<tr>
<th>Safeguard Policies</th>
<th>Triggered?</th>
<th>Explanation (Optional)</th>
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<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>Yes</td>
<td>This project is classified as environmental category B as per OP/BP 4.01 on environmental assessment, as the investments involve relatively standard works with no likely significant or long-term environmental or social impacts and that can be readily prevented or mitigated with standard measures. The potential negative environmental and social impacts associated with the construction works could include erosion or sedimentation due to earth works, operation of work campsites, noise and dust from equipment and earthworks, spills of oil based products, worker health and safety, storm water runoff into water courses, and traffic risks and nuisances. Since the specific location of many investments and associated works is not known, an Environmental and Social Management Framework (ESMF) was developed. The ESMF was developed in accordance</td>
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with the World Bank Group Environmental, Health and Safety Guidelines on Water and Sanitation and national legislation. Also, during project preparation, as selected investment projects were identified and their location known, the corresponding environmental, health, safety and archeological management instruments (e.g. Environmental Impact Statements-DIAs and their constituent EHS management plans, archeological studies, etc.) were developed by Client as part of the pre-investment process for particular investment as in the case of Chuquibamba and Caraveli in Arequipa. The ESMF and the specific EHS plans and related studies (e.g. archeology, vulnerability and seismic hazards, geology, etc.), as well as their associated preliminary or final environmental licenses will be disclosed before appraisal.

<p>| Performance Standards for Private Sector Activities OP/BP 4.03 | No | This policy is not triggered. The World Bank safeguard policies will be applicable to the Project. |
| Natural Habitats OP/BP 4.04 | Yes | This policy is triggered since some investments on water and sanitation will be undertaken in small rural towns where water bodies and catchment areas harbor natural habitats that might be affected by the Project. Appropriate screening criteria were developed as part of the ESMF to ensure that impacts on natural and critical natural habitats are properly evaluated. ESMF articulates that no sub-projects, which involve the significant conversion of natural habitats will be financed by the Project. |
| Forests OP/BP 4.36 | Yes | This policy was initially triggered as investments in Pucallpa were considered during preparation stage, which have been dropped from project scope. The policy still remains triggered because some multiannual investment plans to be prepared by EPSs located in the Peruvian Amazon region, specifically EMAPACOP in Ucayali, might include activities with potential adverse impacts and risks on forest ecosystems (e.g. tropical forest). Appropriate screening criteria were developed as part of the ESMF to ensure impacts on forests are avoided and/or minimized. |</p>
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<th>Policy Area</th>
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<th>Reason</th>
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<tr>
<td>Pest Management OP 4.09</td>
<td>No</td>
<td>This policy is not triggered since the proposed project does not anticipate to finance and/or use pesticides. Minor use of pesticides to control pests in construction areas or in workers’ campsites has been addressed in the ESMF.</td>
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<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td>Yes</td>
<td>This policy is triggered given the national scope of this project and Peru’s widely spread of physical cultural resources. Procedures on how to deal with physical cultural resources including their surveying during sub-project preparation are included in the ESMF. The ESMF has also included chance-find procedure.</td>
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<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td>Yes</td>
<td>The policy is triggered, given the project’s national scope and the presence of indigenous peoples across the country, totaling around 7 million people and comprising 24 percent of the population. Since this is a project with multiple sub-projects around the country, an Indigenous Peoples Planning Framework (IPPF) has been prepared by the client, and has been disclosed. The IPPF will be used to guide implementation of activities to ensure adequate representation and participation of indigenous communities in project activities, and to ensure that specific issues and needs of indigenous people are adequately identified, assessed and taken into consideration. By the time of Project’s appraisal, two subprojects are in an advanced state of design, specifically Chuquibamba and Caraveli water treatments plants located in remote areas in the Arequipa region. After conducting site visits and reviewing consultation process conducted by the client, these plants are not expected to have any potential negative impact on IP population in the area, on the country it will benefit an important number of communities in the area.</td>
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<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td>Yes</td>
<td>Due to the nature of this project with multiple sub-projects around the country that will potentially require acquisition of small plots of land and management of right way for water transmission</td>
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pipelines, the client has prepared a Resettlement Policy Framework (RPF), which has been disclosed.

Regarding the two sub-projects with an advanced stage of design and after conducting site visits and reviewing projects technical documents, it was concluded as follows. Sub-project in Chuquibamba, no resettlement impacts are expected, as the work will be done on municipal land and the water and drain system will run along already existing roads and no access closings are needed. For the sub-project in Caravelí, three private properties will be used for the installation of a new pipeline, therefore an Abbreviated Resettlement Plan (ARP) has been prepared by the client, consulted with three land owners and will be disclosed prior to appraisal. The rest of the pipeline will run along already existing roads and no road or access closings are needed.

In both cases, special attention will be given to the preparation and proper adherence of the Code of Conduct by the contractors, as well as the Grievance Redress Mechanisms (GRM), since both sites are in remote areas.

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<th>Policy</th>
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<th>Details</th>
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<tr>
<td>Safety of Dams OP/BP 4.37</td>
<td>No</td>
<td>This policy is not triggered. The Project will not support the construction or rehabilitation of dams. The potential for sub-projects or project investments to rely on the services of existing dams will be assessed during project preparation.</td>
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<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td>Yes</td>
<td>This policy was triggered as water supply and sewerage infrastructure works are planned within the Vilcanota basin, which is a tributary upstream of the Amazon River Basin, shared between Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, Suriname and Venezuela. Given that Project activities will not adversely change the quantity or quality of water flows to these riparians, they are exempted from the riparians notification requirement.</td>
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<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td>No</td>
<td>This policy is not triggered since the Project will not be implemented in areas under dispute.</td>
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KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

   Potential large scale, significant and/or irreversible environmental impacts are not foreseen for this project. Environmental impacts are the typical ones for this kind of project (e.g. dust, noise, odors, construction waste, hazardous waste, etc.).

   The overall project impact is expected to be positive due to the improvement in access to water and sanitation services in selected areas and no large scale or significant impacts are expected. Land acquisition for sub-projects will be needed but are minimum and the client has prepared safeguards instruments to manage those impacts, including the Environmental and Social Management Framework, the Resettlement Management Framework and the Indigenous Peoples Planning Framework.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

   The replacement of old water pipelines made of asbestos-cement by new PVC water pipelines might generate hazardous waste composed of old asbestos-cement. In some locations (Arequipa), the new PVC water pipelines will be located in a position parallel to the old asbestos cement water pipelines, so those old pipelines will be left underground in their current location. In case, old asbestos-cement water pipelines were removed during works, certified specialized firms will be responsible for collection and final disposal of this hazardous waste.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

   Component 2 of this component will finance the rehabilitation and expansion of WSS infrastructure of participating EPSs (according to each EPS's business plan). Therefore, most rehabilitation and expansion of infrastructure will involve existing facilities. As explained before, in the case of EPSs located in Arequipa, it has been decided to leave the old asbestos-cement water pipelines leaving underground (buried).

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

   The Borrower has prepared an Indigenous Peoples Planning Framework (IPPF) and a Resettlement Policy Framework (RPF) as part of a broader Environmental and Social Management Framework (ESMF), as well as the corresponding Social and Environment management instruments to respond to the social and environmental safeguards triggered by the Project, including the Abbreviated Resettlement Plan (ARP) for the Caraveli district in Arequipa.

   OTASS will be responsible for overall implementation of safeguards activities in direct coordination with several Empresas Prestadoras de Servicios (EPSs), such as the cases of the two sub-projects in Arequipa, Caraveli and Chuquibamba that will be coordinated with SEDAPAR. Institutional capacity will need to be strengthened. In Peru, there is robust environmental and social legislation, but OTASS is a relatively new entity and will need constant supervision and safeguards support to strengthen its capacity so it can ensure compliance with safeguards instruments. OTASS will hire at minimum a social specialist and an environmental specialist to provide support to the day-to-day project implementation.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies,
with an emphasis on potentially affected people. The Project seeks to engage citizens through the citizen engagement units of the EPSs. Engagement with these units will entail: improvement to grievance redress and feedback channels, strengthening of complaint handling through surveys, citizen report cards, mobile phone hotline, information and communication technology enabled ticketing systems so that complaints are transparently managed; and review of SUNASS’s efforts to strengthen citizen redress systems to enhance its guidelines to service providers to ensure wider stakeholder participation and promote greater accountability. The Project Operation Manual will lay out all citizen engagement mechanisms during the sub-project cycle. The Project will also conducts outreach to the indigenous populations.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

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<th>Date of submission for disclosure</th>
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<td>13-Feb-2018</td>
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For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors

"In country" Disclosure
Peru
20-Feb-2018

Comments

Resettlement Action Plan/Framework/Policy Process

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"In country" Disclosure
Peru
26-Feb-2018

Comments

Indigenous Peoples Development Plan/Framework

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"In country" Disclosure
C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?
Yes
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?
Yes
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?
Yes

OP/BP 4.04 - Natural Habitats

Would the project result in any significant conversion or degradation of critical natural habitats?
No
If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?
NA

OP/BP 4.11 - Physical Cultural Resources

Does the EA include adequate measures related to cultural property?
Yes
Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?
Yes

OP/BP 4.10 - Indigenous Peoples

Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples?
Yes
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?
Yes
If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Practice Manager?
NA
OP/BP 4.12 - Involuntary Resettlement

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared? Yes
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan? Yes

OP/BP 4.36 - Forests

Has the sector-wide analysis of policy and institutional issues and constraints been carried out? No
Does the project design include satisfactory measures to overcome these constraints? NA
Does the project finance commercial harvesting, and if so, does it include provisions for certification system? No

OP 7.50 - Projects on International Waterways

Have the other riparians been notified of the project? No
If the project falls under one of the exceptions to the notification requirement, has this been cleared with the Legal Department, and the memo to the RVP prepared and sent? Yes
Has the RVP approved such an exception? Yes

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure? Yes
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs? Yes
All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

CONTACT POINT

World Bank

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**APPROVAL**

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| Gustavo Saltiel |
|----------------------|----------------|

**Approved By**

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| Practice Manager/Manager: | Rita E. Cestti  
| Country Director: | Boris Enrique Utria  
| | 29-Jun-2018  
| | 29-Jun-2018 |

**Note to Task Teams:** End of system generated content, document is editable from here. *Please delete this note when finalizing the document.*