



# Project Information Document (PID)

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Concept Stage | Date Prepared/Updated: 17-Feb-2020 | Report No: PIDC28446

**BASIC INFORMATION****A. Basic Project Data**

Country Honduras	Project ID P173125	Parent Project ID (if any)	Project Name Water and Sanitation Sustainability Project in Honduras (P173125)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date Apr 13, 2020	Estimated Board Date Jun 23, 2020	Practice Area (Lead) Water
Financing Instrument Investment Project Financing	Borrower(s) Secretaria de Finanzas de Honduras (SEFIN)	Implementing Agency Honduran Strategic Investment Office (INVEST-H)	

**Proposed Development Objective(s)**

Support the recipient in increasing and sustaining access to safely managed water and sanitation services provided by eligible decentralized municipal service providers.

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	50.00
<b>Total Financing</b>	50.00
<b>of which IBRD/IDA</b>	45.00
<b>Financing Gap</b>	0.00

**DETAILS****World Bank Group Financing**

International Development Association (IDA)	45.00
IDA Credit	45.00

**Non-World Bank Group Financing**

Counterpart Funding	5.00
Municipalities of Borrowing Country	5.00



Environmental and Social Risk Classification

Substantial

Concept Review Decision

Track II-The review did authorize the preparation to continue

## B. Introduction and Context

### Country Context

1. More than two thirds of households in Honduras live in poverty, and about 40 percent live in extreme poverty. Twenty three percent of children under 5 suffers from chronic malnutrition. Honduras' modest rate of GDP growth (0.3 points per year), has been insufficient to significantly improve living standards, especially given the country's accelerated population growth and urbanization. Nearly 54 percent of the population lives in urban areas, and by 2050, 70 percent of the population is expected to live in urban areas. Honduras' urban population growth rate (3.2 percent in 2015) and percentage of urban poor (approximately 53 percent) are among the highest in the region. Investments in services have not kept up with urban population growth. To date, urban development has been largely unplanned and without regulation or control, leaving many people facing critical shortages in access to housing and public services, including Water Supply and Sanitation (WSS), basic education and health.
2. Over the past two decades, the Government of Honduras (GoH) has pursued a process of decentralization aimed at reducing poverty levels and improving basic services by delegating greater responsibility to local governments. The decentralization process was launched with the passage of the 1990 Municipal Law (*Ley de Municipalidades*), which conferred local service delivery responsibilities and fiscal autonomy to the country's 298 municipal governments and established an initial fiscal transfer of 5 percent of the annual national budget to the municipalities. The fiscal transfer to municipalities is currently at 11 percent.
3. According to the Global Climate Risk Index for 2019 (Germanwatch), Honduras is the second country most affected by climate change. On average, Honduras loses 1.8 percent of the national GDP each year as a result of climatic events. Honduras' accelerated urbanization has increased exposure and vulnerability to natural catastrophic events. The combination of global climate change and increased climatic variability, are likely to exacerbate exposure to hurricanes, floods, erosion, landslides, and droughts. To respond to the growing climatic threats, the GoH launched a National Climate Change Strategy in 2010 and a Water, Forest and Land Master Plan for 2017 to 2030. These initiatives inform the Strategy Program for Climate Resilience (SPCR) emphasize the importance of water security, and include strategies to build the capacity of local governments to manage water resources and to conserve water for human consumption, among other goals.
4. Water sources have not been properly protected in most of Honduras, including the municipalities where the National Autonomous Water and Sewer Service (*Servicio Autónomo Nacional de Acueductos y Alcantarillados*, SANAA) use to manage most of the urban water systems. Deforestation around the watersheds and contamination of the water sources are pressing issues. The 2009 Water Law proposed a roadmap to integrate water resources management with water supply management, but the proposed actions have yet to be implemented at the municipal level for various reasons, including lack of regulation and funding.



## Sectoral and Institutional Context

5. **Sectoral Context.** Over the past two decades, Honduras has made significant progress in closing the coverage gap of water and sanitation services. In 2017, about 95 percent of the population had access to basic access to water and 81 percent had access to basic sanitation, however, the distribution of these services remains highly unequal and service quality is generally low. It is estimated that only 38 percent of the water delivered in urban areas is potable. In addition, severe water restriction programs are imposed during most summers. In cities such as La Ceiba (195,513 inhabitants) or La Paz (46,000 inhabitants), water is only provided about every 14 days. The poor quality of drinking water and intermittent service have a significant impact on health by increasing the likelihood of outbreaks of infectious water-related diseases, especially for children.
6. The coverage levels also do not illustrate the disparities between poor and non-poor areas. As of 2015, nearly one-fifth of Hondurans living in extreme poverty did not have access to adequate water and sanitation services relative to only 7 and 12 percent of the non-poor, respectively.
7. The 2015 Sustainable Development Goals (SDGs) set ambitious targets, including achieving 100 percent access to safe and affordable drinking water and sanitation by 2030. Significant investments are required to achieve universal coverage and to maintain and improve the quality and reliability of service. The 2016 MAPAS Country Report estimated that Honduras needs to invest approximately US\$314 million in the sector annually in order to extend coverage with connections to 97 percent of the country by 2022 and maintain service levels in areas that currently have coverage. The level of required investment far exceeds the GoH's current average expenditure of US\$48 million per year.<sup>1</sup>
8. Honduras' water quality challenges are further complicated by emerging water scarcity issues. Although the country is well above water stress levels, water scarcity has become a pressing issue in major and mid-size cities as a result of a decrease in precipitation, rapid urbanization, and the fact that urban centers are not aligned with the spatial distribution of precipitation. To date, Honduras lacks a National Water Resources Master Plan and river regulation is very limited resulting in unprotected watersheds, high deforestation rates and contamination of the water sources.
9. **Institutional Context.** The GoH's issued the 2003 Drinking Water and Sanitation Sector Framework Law, mandating the decentralization of the National Autonomous Water and Sewer Service (*Servicio Autónomo Nacional de Acueductos y Alcantarillados, SANAA*), which provides water supply services to approximately 2 million inhabitants in 19 municipalities nationwide, and called for the transfer of its assets to the municipalities by 2013. The Law also: (i) requires municipalities to set up a ring-fenced service provider; (ii) established a sector planning body, the National Council for Water and Sanitation (*Consejo Nacional de Agua Potable y Saneamiento, CONASA*) at the central level, and Municipal Council in Water and Sanitation (*Comisión Municipal de Agua y Saneamiento, COMAS*); and (iii) established the Water and Sanitation Sector Regulator (*Ente Regulador de los Servicios de Agua Potable y Saneamiento, ERSAPS*) and Local Supervision and Control Units (*Unidad de Supervision y Control Local, USCL*) of WSS at the local level to assist in providing more effective sector governance.
10. The Framework Law also requires that citizens become involved in the entire service management cycle, therefore, the decentralized water service providers must establish a governing body (Board of Directors) comprised of civil society members and municipal councils. The Law also mandates the formation of the following local platforms: (i) COMAS, comprised of managers of municipal corporations, organized civil society and/or residents, to oversee local policy and planning issues in both urban and rural areas within the municipal territory; and (ii) Local Supervision and Control Units (*Unidad de Supervisión y Control Local, USCL*), which are made up of

<sup>1</sup> MAPAS Country Report 2016, WSS National Council-CONASA.



three members of civil society and one regulation and control expert hired by the municipality, to monitor the quality of water service and compliance with sector regulations. Although 144 municipalities have COMAS (48 percent of municipalities in the country) and 140 municipalities have USCLs (41 percent of municipalities in the country), the organizations require additional tools, training and guidance to effectively monitor urban and rural providers' performance and to carry out the full scope of their responsibilities.

#### Relationship to CPF

11. The proposed Project responds to the Governments' effort to put the WSS sector on track to meet the SDGs targets related to the access, quality and sustainability of the water and sanitation services, primarily in urban areas. The Project focuses on empowering decentralized municipal service providers to improve the access to, reliability and sustainability of service in several municipalities in Honduras, contributing to the World Bank's goal of promoting shared prosperity and reduce poverty. The Project will support several pillars of the Country Partnership Framework (CPF) FY2016 to FY2020, including Pillar 1: Fostering Inclusion, by contributing to the expansion of the social programs, and Pillar 3: Reducing Vulnerability, by boosting resilience to disasters and climate change. In addition, the Bank's 2016 Honduras Systematic Country Diagnostic (SCD) highlights the lack of access to potable water and improved sanitation solutions as key factors that limit inclusion and the equal distribution of wealth.

#### C. Proposed Development Objective(s)

12. The proposed Project Development Objective is to support the recipient in increasing and sustaining access to safely managed water and sanitation services provided by eligible decentralized municipal service providers.

#### Key Results (From PCN)

13. The achievement of the Project will be measured via the following key results indicators:
  - People provided with access to improved water services, disaggregated by male and female (number)
  - Ring-fenced service providers that reach operating cost recovery ratios greater than one (percentage)
  - Ring-fenced service providers that increase service continuity of chlorinated water (percentage)
  - Ring-fenced service providers regulated by ERSAPS (percentage)

#### D. Concept Description

14. **Component 1. Support in improving the quality of water supply services provision in target municipalities.** This component will support the implementation of the 2003 Water Supply and Sanitation Framework Law, through a combination of technical assistance for reforms, designs, investments, and management of WSS services. At the outset of the Project, each participating municipality and ring-fenced municipal provider must sign a Partnership Agreement with the Secretariat of Finance with support of the Honduras' Strategic Investment Office (INVEST-H). The Partnership Agreement will describe the obligations and commitments that the recipient and each provider will need to comply with in order to remain in the Project.
15. **Component 2. Facilitating institutional strengthening and support of the Water and Sanitation Sector Regulator (ERSAPS).** This Component will support ERSAPS in their efforts to help service providers improve their WSS services by complying with sector rules, regulations, and monitoring the performance of the providers included in



this Project.

- 16. **Component 3. Project Management.** This Component will finance travel, training, consulting services and general operating costs of the Project Implementation Unit (PIU) to support project implementation to create ring-fenced service providers, rapid impact rehabilitation plans and 5-years business plans for water and sanitation services.
- 17. **Component 4. Contingent Emergency Response Component (CERC).** This component will finance immediate response activities and expenditures for eligible emergencies, as defined in the Contingency Emergency Response Operational Manual prepared and adopted by the GoH.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	TBD
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

- 18. The environmental risk classification is considered moderate at this stage. From an environmental perspective, project related risks will stem from minor physical investments to support municipal water supply and sanitation (WSS) systems in small to medium size municipalities to rehabilitate and expand their systems. Civil works will focus primarily on rapid impact rehabilitation, such as replacement of pumps, electrical panels, and defective pipes and valves, etc. Some municipalities may receive additional support for priority infrastructure investments to, inter alia: (i) improve energy efficiency; (ii) reduce non-revenue water losses; (iii) expand and rehabilitate existing WSS system infrastructure; and (iv) develop and implement social outreach, stakeholder engagement and communication plans. Construction phase environmental impacts and risks may include traffic disruptions (for works in road rights-of-way), noise, dust, generation of construction related wastes, etc. Such impacts are expected to be site-specific, limited in scope and duration, and easily mitigated with proven technologies and measures. The project overall intends to reduce existing risks to public health and the environment stemming from inadequate or ineffective WSS systems, including health risks of inadequate water treatment, inadequate protection of upstream catchment areas, as well as pollution of downstream waterways due to inadequate provision and functioning of sanitation services. As such, it is expected that the project overall will contribute towards positive environmental benefits.
- 19. The social risk rating is considered substantial at PCN stage, particularly due to potential risk and impacts inherent to the project and contextual factors. This SRR will be reviewed during project preparation based on further information on, and analysis of, the project activities and location. The project will provide beneficiaries in selected municipalities with increased and sustained access to safely managed water and sanitation services. A more continuous and improved access to potable water is expected to reduce the likelihood of outbreaks of infectious water-related diseases, particularly among children, which probably will have positive repercussions on other aspects of wellbeing. Regarding risks and impacts inherent to project activities, they are expected to be temporary, predictable and medium in magnitude and spatial extent; however, specific locations will only be determined during implementation, based on demand. The project does not envision large infrastructure works or intervention in any highly sensitive area. Furthermore, used to a pre-determined monthly tariff, community members may react negatively to the installation of meters and the establishment of volumetric tariffs by damaging meters or refusing to pay for services. To mitigate this potential social unrest, the Project will support a comprehensive social outreach program during the design and implementation of infrastructure works and other activities involved in the improvement of water and sanitation services.



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