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Report No: ICR00004012

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IDA-43350 & IDA-52700)

ON A

CREDIT

IN THE AMOUNT OF SDR 19.8 MILLION (IDA-43350) AND SDR 6.7 MILLION
(IDA-52700)
(US\$40 MILLION EQUIVALENT)

TO THE

REPUBLIC OF HONDURAS

FOR A

WATER AND SANITATION SECTOR MODERNIZATION PROJECT

June 5, 2017

Water Global Practice (GWADR)
Latin America and the Caribbean Region

CURRENCY EQUIVALENTS

At Appraisal (May 17, 2007)

Currency Unit = SDR

SDR0.65876 = US\$1.00

US\$1.51801 = SDR1.00

At Closure (December 30, 2016)

Currency Unit = SDR

SDR1.00 = US\$1.34433

US\$1.00 = SDR0.74387

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
AMDC	Tegucigalpa, <i>Alcaldía Municipal del Distrito Central</i>
AMHON	Honduras Municipalities Association
APL	Adaptable Program Loan
CAS	Country Assistance Strategy
CATS	Services Transfer Support Consultants (<i>Consultorías de Apoyo a la Transferencia de los Servicios</i>)
COMAS	Water and Sanitation Municipal Committees
CONASA	National Council for Water and Sanitation (<i>Consejo Nacional de Agua Potable y Saneamiento</i>)
CQ	Consultant's Qualifications
CSO	Civil Society Organizations
Framework Law	Drinking Water and Sanitation Sector Framework Law 2003
EIRR	Economic Internal Rate of Return
ENHPM	National Household Survey (<i>Encuesta Nacional de Hogares de Propósitos Múltiples</i>)
ERSAPS	Water and Sanitation Regulator (<i>Ente Regulador de los Servicios de Agua Potable y Saneamiento</i>)
FAD	Fund for Development Help (<i>Fondo de Ayuda al Desarrollo</i>)
FHIS	Honduran Fund for Social Investment (<i>Fondo Hondureña de Inversión Social</i>)
FIRR	Financial Internal Rate of Return
FM	Financial Management
FMA	Financial Management Assessment
FMAR	Financial Management Assessment Report
GDP	Gross Domestic Product
GIC	Inter-institutional Coordination Group

GoH	Government of Honduras
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IDB	Inter-American Development Bank
IFR	Interim Financial Report
INE	National Statistics Institute (<i>Instituto Nacional de Estadísticas</i>)
IPRF	Involuntary Resettlement Policy Framework
IPSAS	International Public Sector Accounting Standard
IRM	Immediate Response Mechanism
ISA	International Standards on Auditing
JMP	Joint Monitoring Program
Lps	Lempiras
M&E	Monitoring and evaluation
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MTR	Mid Term Review
NDP	Nordic Development Fund
NGO	Non-governmental organization
NPV	Net present value
NRW	Non revenue water
O&M	Operation and maintenance
OBA	Output Based Aid
PAHO	Pan-American Health Organization
PBC	Performance Based Contract
PDO	Project Development Objective
PEMAPS	Strategic Plan for Modernization of the Potable Water and Sanitation Sector (<i>Plan Estratégico de Modernización del Sector de Agua Potable y Saneamiento</i>)
PHRD	Policy and Human Resources Development Fund (Trust Fund)
PIR	Rural Infrastructure Project
PIU	Project Implementation Unit
PLANASA	National Plan for Water and Sanitation
PNAPS	National Water and Sanitation Plan
PPIAF	Public Private Infrastructure Advisory Facility
PPP	Public private partnership
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
RMS	Results Management System
SANAA	National Autonomous Water and Sewer Service (<i>Servicio Autónomo Nacional de Acueductos y Alcantarillados</i>)
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SEFIN	Secretariat of Finance
SIL	Specific Investment Loan

SOE	Statement of Expenditure
SWAp	Sector Wide Approach
TA	Technical Assistance
TOR	Terms of Reference
UAP	Project Administration Unit
UEPEX	External Loans Execution Unit (<i>Unidad Ejecutoras de Préstamos Externos</i>)
UNDP	United Nations Development Programme
USCL	Supervision and Control Unit (<i>Unidad de Supervision y Control</i>)
USD	United States Dollar
WSS	Water supply and sanitation

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HONDURAS
Water and Sanitation Sector Modernization Project

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Data Sheet

A. Basic Information			
Country:	Honduras	Project Name:	HN Water and Sanitation Sector Modernization Project
Project ID:	P103881	L/C/TF Number(s):	IDA-43350, IDA-52700
ICR Date:	June 5, 2017	ICR Type:	Core ICR
Lending Instrument:	SIL	Borrower:	GOVERNMENT OF HONDURAS
Original Total Commitment:	SDR 19.80M	Disbursed Amount:	SDR 26.47M
Revised Amount:	SDR 26.50M		
Environmental Category: B			
Implementing Agencies: Finance Secretariat (SEFIN)			
Cofinanciers and Other External Partners: NA			

B. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	03/08/2007	Effectiveness:	02/22/2008	02/22/2008
Appraisal:	05/04/2007	Restructuring(s):		11/09/2010 05/14/2013 10/06/2016
Approval:	06/21/2007	Mid-term Review:	05/31/2011	05/31/2011
		Closing:	12/31/2013	12/31/2016

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Moderately Satisfactory
Risk to Development Outcome:	Substantial
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	Ratings	Borrower	Ratings
Quality at Entry:	Moderately Satisfactory	Government:	Moderately Satisfactory
Quality of Supervision:	Moderately Satisfactory	Implementing Agency/Agencies:	Moderately Satisfactory
Overall Bank Performance:	Moderately Satisfactory	Overall Borrower Performance:	Moderately Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Moderately Satisfactory		

D. Sector and Theme Codes		
	Original	Actual
Major Sector/Sector		
Public Administration/Central Government	7	7
Public Administration/Sub-National Government	12	12
Sanitation	8	8
Wastewater Treatment and Disposal	26	26
Water supply	47	47

Theme Code (as % of total Bank financing)		
Public Sector Development/Public Private Partnerships	10	10
Public Sector Management/Public Administration	49	49
Public Sector Management/Public Administration/Administrative and Civil Service Reform	23	23
Public Sector Management/Public Administration/Municipal Institution Building	49	49

Human Development and Gender/Labor Market Policy Programs	7	7
Human Development and Gender/Labor Market Policy Programs/Labor Market Institutions	7	7
Human Development and Gender/Labor Market Policy Programs/Active Labor Market Programs	7	7
Urban and Rural Development/Urban Development	14	14
Urban and Rural Development/Urban Development/Urban Infrastructure and Service Delivery	14	14

E. Bank Staff		
Positions	At ICR	At Approval
Vice President:	Jorge Familiar	Pamela Cox
Country Director:	J. Humberto Lopez	Jane Armitage
Practice Manager/Manager:	David Michaud	John Henry Stein
Project Team Leader:	Marco Antonio Agüero	Gustavo Saltiel
ICR Team Leader:	Chloë Viola	
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F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)

The project development objectives are: (a) to improve the sustainability, efficiency, and the reliability of the Recipient's WSS services in eligible municipalities; and (b) to improve the performance of the Recipient's national WSS sector institutions in the exercise of their respective roles in conformity with the WSS Sector Framework Law.

Revised Project Development Objectives (as approved by original approving authority)

The revised project development objective is to support the Recipient to improve: (a) the sustainability, efficiency and reliability of its WSS services in Eligible Municipalities; (b) the performance of its national WSS sector institutions in the exercise of their respective roles in accordance with the WSS Sector Framework Law; and (c) its capacity to respond promptly and effectively in an Eligible Emergency.

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from	Formally Revised Target Values	Actual Value Achieved at

		approval documents)		Completion or Target Years
Indicator 1	7 of the WSS utilities reach cost recovery (ratio total revenue / total operative cost equal to one).			
Value	4	5	7	8
Date	01/01/2008	12/31/2013	12/31/2016	11/11/2016
Comments	This indicator was 114% achieved. The PROMOSAS' providers, with the support of a technical assistance firm, reduced operations costs, improved commercial management, strengthened financial management and adjusted tariffs to reach cost-recovery.			
Indicator 2 (dropped)	5 of the WSS utilities reach a ratio of revenues per volumetric unit of water produced of at least 80%			
Value	TBD via Baseline Survey	5	NA	NA
Date	06/21/2007	12/31/2013	NA	NA
Comments	This indicator was dropped in the Project's first restructuring—it was not considered to adequately reflect the actual activities financed under the Project. None of the WSS utilities had reached the ratio at the time the indicator was dropped.			
Indicator 3	At least 5 of the WSS utilities increase their service continuity rating by one category defined by ERSAPS's performance indicators			
Value	0	5	NA	4
Date	12/01/2008	12/31/2013	NA	11/11/2016
Comments	<p>This indicator was 80% achieved.*</p> <p>The following Project activities, combined with sectorization strategies, helped utilities improve continuity: a) well perforations; b) rehabilitation of existing wells; c) rehabilitation of water plants; and d) the provision of a water tanks to the utilities.</p> <p>This indicator, which was restructured November 2010, was originally worded as: "At least 5 of the WSS utilities increase service continuity (hours of service per day) by 6 hours of more." The indicator was revised in an effort to support and adopt ERSAPS' indicators for the sector. ERSAPS' service continuity ratings are as follows: Category A (from 18 to 24 hours of service per day); Category B (from 12 to less than 18 hours of service per day); Category C (from 6 to less than 12 hours of service per day); and Category D (less than 6 hours of service per day).</p> <p><i>* Unfortunately, the indicator was ill-conceived as Aguas de Puerto Cortés was Category A to begin with, so it was not possible to increase its service continuity rating, though it did increase the hours of service.</i></p>			
Indicator 4	At least 50% of the SANAA systems financed under the Project are transferred to the municipalities.			
Value	27%	90%	50%	100%
Date	01/01/2008	12/31/2013	12/31/2013	11/11/2016
Comments	This indicator was exceeded. The target for this indicator was adjusted in the first restructuring. All three SANAA systems (Siguatepeque, Comayagua, and Danlí) were transferred to the Municipalities.			
Indicator 5 (moved to intermediate level)	At least 6 design proposals of autonomous service providers approved by ERSAPS.			

Value	2	6	NA	NA
Date	01/01/2008	12/31/2013	NA	NA
Comments	While this indicator was 150% achieved, it was moved from the PDO-level to the intermediate level in the Project's first restructuring. ERSAPS approved 9 design proposals.			
Indicator 6	CONASA issues the new financial policy of the sector.			
Value	No	Yes		Yes
Date	01/01/2008	12/31/2013		11/11/2016
Comments	This indicator was achieved. CONASA issued the Financial Policy for the Water and Sanitation Sector in November 2015. CONASA's new financial policy aims to ensure that there are adequate funds to achieve sector goals. In addition to outlining sources of funding, it clarifies the roles and responsibilities of the sector actors. The center piece of the policy is a National Fund for WSS that service providers/municipalities can apply to for financing.			
Indicator 7	At least 50% of municipal service providers (non-SANAA WSS systems that are operated directly by municipalities) supported by the Project are converted into <i>autonomous</i> municipal service providers.			
Value	100		50	100
Date	05/14/2013		12/31/2016	11/11/2016
Comments	This indicator was exceeded. This indicator was included to reflect the addition of new municipalities as part of the Additional Financing. The target was exceeded as 100% of the municipal providers were converted into autonomous providers			
Indicator 8	Number of water service providers the Project is supporting			
Value	7		9	9
Date	05/14/2013		12/31/2016	11/11/2016
Comments	This indicator was achieved. Core indicator added in the May 2013 restructuring. The Project supported the creation of 9 autonomous municipal service providers, following the Sector Framework through a combination of technical assistance and investments for infrastructure.			
Indicator 9	Time taken to disburse funds requested by Government for an eligible emergency (weeks)			
Value	NA		4 weeks	NA
Date	05/14/2013		12/31/2016	11/11/2016
Comments	Not applicable. This indicator was included during the second restructuring to reflect the Project's new IRM component. This component was never triggered.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Intermediate Results Component 1: Support to medium-sized municipalities to create autonomous service providers and invest in efficiency, rehabilitation, and expansion of service.				
Indicator 1 (dropped)	At least 7 municipalities have signaled their intention to create an autonomous service provider in the spirit of the Ley Marco by a letter to the implementing agency in order to enter this component.			

Value	2	7		
Date	02/22/2008	12/31/2013		
Comments	This indicator was dropped during the first restructuring—it was considered to be subject to different interpretations and to not adequately reflect the actual activities financed under the Project.			
Indicator 2	At least 10,000 additional people in urban areas (covering semi-urban or small urban areas) provided with access to improved sanitation under the project.			
Value	0	+10,000	3,700	3,786
Date	02/22/2008	12/31/2013	12/31/2016	11/11/2016
Comments	This core indicator was 102% achieved. The target was revised during the second restructuring to reflect that fact that for most municipalities sanitation was not a priority. New sanitation connections would have required the construction of wastewater treatment plants.			
Indicator 3 (dropped)	Improved customer rating of water supply and sanitation as expressed in increase by TBD percent in population rating service as satisfactory in participating towns.			
Value	0	NA	NA	NA
Date	02/22/2008	12/31/2013	NA	NA
Comments	This indicator was dropped during the first restructuring—it was considered to be subject to different interpretations and to not adequately reflect the actual activities financed under the Project.			
Indicator 4 (dropped)	At least 4 utilities in participating municipalities reach levels of Non-Revenue Water (including apparent losses, real losses and unbilled authorized consumption) by 10 percentage points.			
Value	0	4	NA	NA
Date	02/22/2008	12/31/2013	NA	NA
Comments	This indicator was dropped during the first restructuring—it was considered to be subject to different interpretations and to not adequately reflect the actual activities financed under the Project.			
Indicator 5	Piped household water connections that are benefiting from rehabilitation works undertaken by the Project.			
Value	0		2,000	13,167
Date	11/18/2010		12/31/2016	11/11/2016
Comments	This core indicator was 658% achieved. This provides a counterbalance to the sanitation indicator—which was underachieved in terms of original target—as utilities and municipalities chose to focus primarily on water.			
Indicator 6	At least 9 design proposals of autonomous service providers approved by ERSAPS.			
Value	0	6	9	9
Date	11/18/2010	12/31/2013	12/31/2016	11/11/2016
Comments	This indicator was 100% achieved. ERSAPS approved all the providers' design proposals.			
Indicator 7	6 of the WSS utilities increase by 20% the ratio of revenues per volumetric unit of water produced.			
Value	0	5	6	6
Date	11/18/2010	12/31/2013	12/31/2016	11/11/2016
Comments	This indicator was 100% achieved.			

Indicator 8	People trained to improve hygiene or sanitation practices under the Project			
Value	0	NA	5,000	16,899
Date	05/14/2013	NA	12/31/2016	11/11/2016
Comments	This core indicator —added at the second restructuring—was 338% achieved.			
Indicator 9	People trained to improve hygiene or sanitation practices under the Project, percentage of which female.			
Value	0	NA	3,000	5,536
Date	05/14/2013	NA	12/31/2016	11/11/2016
Comments	This core indicator—added at the second restructuring—was 185% achieved.			
Indicator 10	Percentage of grievances satisfactorily redressed by service providers per year.			
Value	0	NA	75%	77%
Date	05/14/2013	NA	12/31/2016	11/11/2016
Comments	This indicator was 103% achieved. Indicator added at second restructuring in reference to the scaled up accountability activities.			
Indicator 11	At least 6 of the WSS utilities share indicators in the regional benchmarking database of IBNET according to their protocols.			
Value	0	NA	6	6
Date	05/14/2013	NA	12/31/2016	11/11/2016
Comments	This indicator was 100% achieved. Indicator added during the second restructuring to promote the sharing of utilities performance indicators internationally, through the World Bank-supported IBNET (network).			
Component 2: Tegucigalpa Non-Revenue Water Reduction Program				
Indicator 1 (dropped)	NRW (including apparent losses, real losses and unbilled authorized consumption) reduced by 15% points in service area.			
Value	40% TBD via Baseline Survey	25%	NA	NA
Date	02/22/2008	12/31/2013	NA	NA
Comments	This indicator was dropped in the first restructuring—it was considered to be subject to different interpretations and to not adequately reflect the actual activities financed under the Project.			
Indicator 2 (dropped)	Ratio total income/m ³ produced in targeted area increases by 20%.			
Value	0%	20%	NA	NA
Date	02/22/2008	12/31/2013	NA	NA
Comments	This indicator was dropped in first restructuring—it was considered to be subject to different interpretations and to not adequately reflect the actual activities financed under the Project.			
Indicator 3 (dropped)	Number of active connections in service area.			
Value	28,328	NA	37,750	NA
Date	11/09/2010	NA	12/31/2013	NA
Comments	This indicator was dropped during the second restructuring because it did not accurately reflect the indicators and targets of the Tegucigalpa non-revenue water reduction contract.			
Indicator 4	Percentage increase of collection per cubic meter of supplied water to the project area.			
Value	0%, 2.52Lps/m3		20%	25%

Date	11/18/2010		12/31/2016	11/11/2016
Comments	This indicator was 125% achieved.			
Indicator 5	Urban areas covered by the contract increase service continuity by one category			
Value	C		B	B
Date	05/14/2013		12/31/2016	11/11/2016
Comments	This indicator was achieved. This indicator will follow the same ERSAPS categorization for continuity as in PDO indicator N. 2: Category A (from 18 to 24 hours of service per day); Category B (from 12 to less than 18 hours of service per day); Category C (from 6 to less than 12 hours of service per day); and Category D (less than 6 hours of service per day).			
Component 3: National and Regional Institutional Strengthening				
Indicator 1 (dropped)	The three sector agencies (SANAA, CONASA, ERSAPS) have substantially complied in applying the Ley de Transparencia y Acceso a la Información.			
Value	No	Yes	NA	NA
Date	02/22/2008	12/31/2013	NA	NA
Comments	This indicator was dropped during the Project's first restructuring—it was considered to be subject to different interpretations and to not adequately reflect the actual activities financed under the Project.			
Indicator 2	SANAA/Tegucigalpa has complied with legal requirements for transfer to municipality.			
Value	No	Yes	Yes	Yes
Date	02/22/2008	12/31/2013	12/31/2016	11/11/2016
Comments	This indicator was fully achieved. The Municipality has complied with the legal requirements agreed on in the Project.			
Indicator 3	SANAA has at least one regional unit operating under the new model.			
Value	No	Yes	Yes	Yes
Date	11/18/2010	12/31/2013	12/31/2016	11/11/2016
Comments	This indicator was fully achieved. SANAA established a technical assistance and training center in Siguatepeque.			
Indicator 4	Indicators regarding utilities' performance are published by ERSAPS.			
Value	No	Yes	Yes	Yes
Date	11/18/2010	12/31/2013	12/31/2016	11/11/2016
Comments	This indicator was fully achieved. ERSAPS published information on the PROMOSAS utilities' performance on its webpage (http://www.ersaps.hn/)			
Indicator 5	At least 5 utilities have published their financial statements on a website.			
Value	0	5	9	9
Date	11/18/2010	12/31/2013	12/31/2016	11/11/2016
Comments	This indicator was 180% achieved.			
Component 4: Project Management				
Indicator 1	Cumulative percentage of disbursement targeted according to disbursement plan is met.			
Value	0	100%	100%	100%
Date	02/22/2008	12/31/2013	12/31/2016	03/31/2017
Comments	As of April 30, 2017, \$39,986,479 had been disbursed.			
Component 5:				
Indicator 1	IRM established and ready to provide access to financial resources to Honduras in the case of an eligible emergency.			

Value	No		Yes	Yes
Date	05/14/2013		12/31/2016	11/11/2016
Comments	This indicator was fully achieved.			

G. Ratings of Project Performance in ISRs

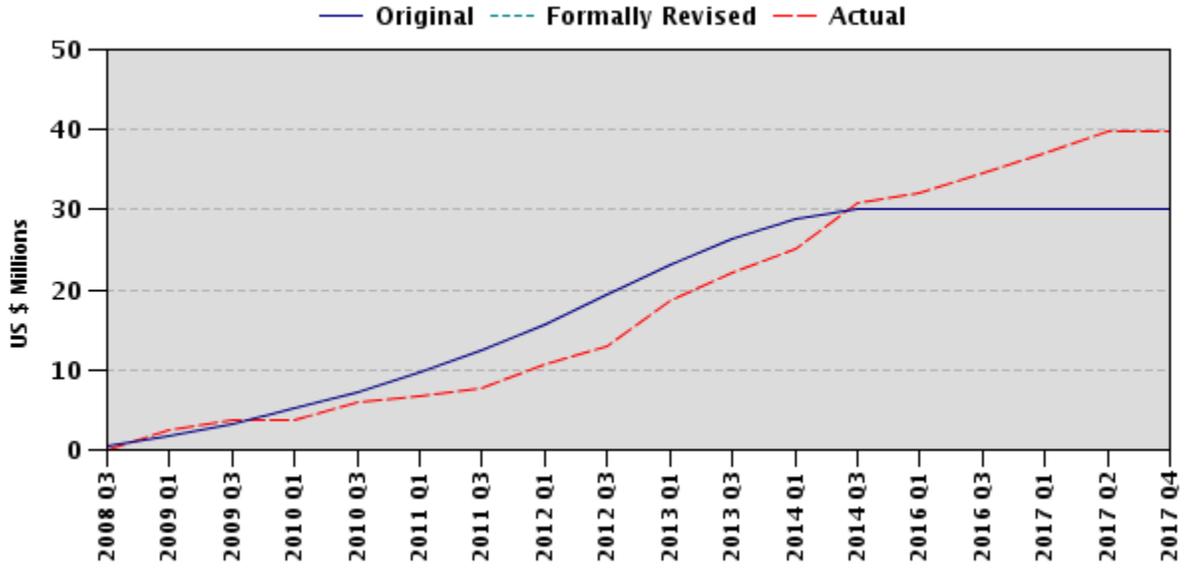
No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	10/26/2007	Satisfactory	Satisfactory	0.00
2	02/06/2008	Satisfactory	Satisfactory	0.00
3	06/11/2008	Satisfactory	Satisfactory	2.50
4	09/30/2008	Satisfactory	Satisfactory	2.56
5	03/09/2009	Satisfactory	Satisfactory	3.67
6	07/22/2009	Satisfactory	Satisfactory	3.71
7	03/30/2010	Satisfactory	Satisfactory	5.97
8	09/07/2010	Satisfactory	Satisfactory	6.30
9	03/13/2011	Satisfactory	Moderately Satisfactory	7.08
10	07/19/2011	Satisfactory	Moderately Satisfactory	8.20
11	02/14/2012	Moderately Satisfactory	Moderately Satisfactory	12.98
12	09/27/2012	Moderately Satisfactory	Moderately Satisfactory	18.54
13	03/08/2013	Moderately Satisfactory	Moderately Satisfactory	22.07
14	08/19/2013	Moderately Satisfactory	Moderately Satisfactory	24.59
15	03/06/2014	Moderately Satisfactory	Moderately Satisfactory	29.25
16	10/11/2014	Moderately Satisfactory	Moderately Satisfactory	31.19
17	03/29/2015	Moderately Satisfactory	Moderately Unsatisfactory	31.19
18	10/12/2015	Moderately Satisfactory	Moderately Unsatisfactory	32.06
19	05/04/2016	Moderately Satisfactory	Moderately Unsatisfactory	34.66
20	06/23/2016	Moderately Satisfactory	Moderately Satisfactory	35.22
21	12/13/2016	Moderately Satisfactory	Moderately Satisfactory	38.84

H. Restructuring (if any)

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
11/18/2010	No	S	S	6.59	The Restructuring was carried out (i) to trigger the Involuntary Resettlement Policy (OP 4.12) and put in place appropriate mechanisms to manage involuntary resettlement issues that may arise during implementation; (ii) to revise monitoring and evaluation (M&E) indicators for the results framework while project development objectives and outcomes remain unchanged; and (iii) to modify the allocations of proceeds
05/14/2013	Yes	MS	MS	22.91	The Restructuring was included as part of a US\$10 million Additional Financing for the Project to finance the costs associated with the financing gaps in Component 1, the scaling up of the Project to incorporate new municipalities and to include additional institutional strengthening activities. The Restructuring aimed to: (i) incorporate an Immediate Response Mechanism component; (ii) trigger OP/BP 7.50, Projects on International Waterways, in the event that municipalities located in trans-boundary basins of Honduras are selected as additional beneficiaries of the Project; (iii) revise the description of Component 1 and 3; (iv) update the Project's results framework; and (v) reallocate Project funds. The closing date was also extended for three years, until December 31, 2016.
10/06/2016		MS	MS	31.54	Reallocation between disbursement categories to enhance funding for additional investments, technical assistance, and supervision

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
					activities to support utilities in achieving targets.

I. Disbursement Profile



1. Project Context, Development Objectives and Design

1.1 Context at Appraisal

1. **In 2007, Honduras—Central America’s second-largest country—had one of the highest incidences of poverty and inequality in the Western Hemisphere.** Honduras was still in the process of recovering from Hurricane Mitch, which struck in 1998 and resulted in a massive loss of life and assets. After the hurricane, Honduras began implementing an ambitious Poverty Reduction Strategy (PRS) to cut extreme poverty in half by 2015. At appraisal, extreme poverty had decreased, but 50 percent of Hondurans were still living under the poverty line.¹

2. **The Government of Honduras’ (GoH) strategy to reduce poverty levels relied on the participation of local governments.** In 1990, the GoH began a process of decentralization with a municipal law that, among other things, (a) conferred local service delivery responsibilities and fiscal autonomy to the country’s 298 local governments and (b) established a fiscal transfer of five percent of the annual budget to municipalities. At the time of appraisal, this process of decentralization in the water supply and sanitation (WSS) sector was just beginning.

3. **The GoH’s decentralization effort included issuing the 2003 Drinking Water and Sanitation Sector Framework Law (the Framework Law).** The Framework Law mandated decentralizing the National Autonomous Water and Sewer Service (*Servicio Autónomo Nacional de Acueductos y Alcantarillados*, SANAA), which managed and provided water supply services to about 30 rural and urban centers.² The Framework Law stipulated the transfer of SANAA’s assets to the municipalities by 2008. In addition, the Law: (i) required municipalities to set up an autonomous service provider (but did not describe or prescribe a management model for this service provider), (ii) established a sector planning body, the National Council for Water and Sanitation (*Consejo Nacional de Agua Potable y Saneamiento*, CONASA), and (iii) established the Water and Sanitation Sector Regulator (*Ente Regulador de los Servicios de Agua Potable y Saneamiento*, ERSAPS), to assist in providing more effective sector governance. After decentralization, and after the transfer of its assets to municipalities, SANAA was intended to become a technical assistance (TA) agency providing support to municipal service providers as well as serving as CONASA’s technical secretariat.

4. **The decision to overhaul the structure of the WSS sector reflected a number of systematic service and governance issues.** In 2001, only 81 percent of Hondurans had access to potable water and only 68 percent had access to sanitation. The Pan-American Health Organization (PAHO) estimated that 23 percent of contagious diseases in Honduras were waterborne. Although water resources were abundant in Honduras, water scarcity was becoming an issue, particularly in large and mid-sized cities, because of rapid urbanization and insufficient investment in WSS. Water service was intermittent and rationed in many cities, with service only two times a week (and in some cases even less in the summer). The WSS sector institutions were locked in a vicious cycle of weak performance incentives, resistance to cost recovery tariffs, insufficient funding, asset deterioration, squandering of financial resources, and political interference.

5. **At appraisal, the GoH was focused on operationalizing the new WSS Framework.** The GoH, with the support of the World Bank and the Public-Private Infrastructure Advisory Facility (PPIAF), had developed a Strategic Plan for Modernization of the Potable Water and Sanitation Sector (PEMAPS) and a National Water and Sanitation Plan (PNAPS) to guide implementation of the Framework Law. While CONASA and ERSAPS had been formed, both were relatively weak institutions. The decentralization and re-engineering of SANAA was progressing slowly, and it was becoming clear that the October 2008 decentralization deadline

¹ Roughly one half of Honduras’ 7.4 million residents lived in rural areas at the time of appraisal (*PROMOSAS Project Appraisal Document*). Poverty was largely concentrated in rural areas - 74% of the poor and 86% of the extreme poor lived in rural areas (FY2006-2010 World Bank Country Assistance Strategy).

² Municipalities provided sanitation services—and in some cases water supply services—through direct municipal provision.

stipulated in the Framework Law was not going to be met. A central issue was the severance payments necessary to dismiss SANAA employees who would no longer be necessary once service was handed over to autonomous municipal service providers. This issue was especially sensitive in Tegucigalpa, where SANAA had 57 percent of its connections.

6. **Rationale for Bank Assistance.** The Bank was well positioned to assist the GoH in its decentralization and institutional strengthening efforts given its global experience supporting WSS sector reform as well as its previous engagement in the Honduran WSS sector; prior to this Project, the Bank had supported: (i) the development and acceptance of the PEMAPS and PNAPS among numerous key sector actors and donors; (ii) an Output-Based Aid (OBA) Water and Sanitation Facility; and (iii) activities to prepare for the transfer of WSS services from SANAA to the Municipality of Tegucigalpa.

7. **Higher-Level Objectives.** The Project also set out to support the Country Assistance Strategy's (CAS) Strategic Objectives. The Project's activities to strengthen WSS service providers would make Honduras more competitive, directly supporting Strategic Objective 1 (Accelerating Equitable Economic Growth and Employment Generation). The Project's activities to foster transparency in public spending, decentralize service provision, and strengthen professional capacity of WSS sector personnel would support Strategic Objective 2 (Strengthen Governance through State Modernization and Participation).³ In addition, autonomous and efficient WSS service providers would be in a better position to reduce water pollution, supporting Strategic Objective 3 (Strengthen Environmental Protection and Risk Management). In addition to supporting the CAS, the Project directly supported the GoH's Poverty Reduction Strategy, which ranked improving WSS services and compliance with the 2003 Framework Law as priorities.

1.2 Original Project Development Objectives (PDO) and Key Indicators

8. The **Project Development Objective (PDO)**, as stated in the Financing Agreement and the main text of the PAD, was: (a) to improve the sustainability, efficiency, and reliability of the Recipient's WSS services in Eligible Municipalities; and (b) to improve the performance of the Recipient's national WSS sector institutions in the exercise of their respective roles in conformity with the WSS Sector Framework Law.

9. In the PAD's Data Sheet the PDO is defined as: To improve the sustainability, efficiency and reliability of Honduras's water supply and sanitation (WSS) services in the participating municipalities through implementing the Strategic Plan to Modernize the WSS sector (PEMAPs). The specific objectives were to: (i) Establish and strengthen municipal service providers and support good governance in WSS services provision through increasing transparency and accountability; (ii) Reinforce the national sector actors (ERSAPS, CONASA, SANAA) to fulfill their new roles a necessity for successful decentralization of the services; and (iii) Reduce non-revenue water in selected areas of Tegucigalpa to provide immediate impact on the service quality.

10. It is not typical for the PDO to be inconsistent between the Data Sheet, the main text of the PAD, and the Financing Agreement. In this case, the ICR team decided to utilize the PDO listed in the Financing Agreement and the main text of the PAD given that the Financing Agreement is a legally binding document.

11. The Project's success meeting each aspect of the PDO was to be measured by the following key outcome indicators:

- The improvement in the sustainability, efficiency, and reliability of the Recipient's WSS services in Eligible Municipalities measured through:

³ This also supported Honduras' 2006 Law of Transparency and Access to Public Information, which obliged public institutions to create effective mechanisms that promote transparency in order to combat corruption and illegal activity in public policy.

- Sustainability—cost recovery level measured as the ratio of total revenues to total operative cost
- Efficiency—revenues per volumetric unit of water produced
- Reliability—hours of service per day
- The improvement in the performance of the Recipient’s national WSS sector institutions in the exercise of their respective roles in conformity with the WSS Sector Framework Law measure through:
 - SANAA—number of systems transferred to the municipalities
 - ERSAPS—number of design proposals of autonomous service providers approved by ERSAPS
 - CONASA—CONASA issues the new financial policy of the sector.

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

12. **The PDO was revised during the 2013 Additional Financing (AF) to reflect the addition of the Immediate Response Mechanism (IRM).** The GoH and the Bank agreed that all IDA operations should include an IRM component to allow Honduras to access uncommitted funds in the event of a national emergency. The PDO (as described in the Financing Agreement) otherwise remained the same. The revised PDO was to: (a) to improve the sustainability, efficiency, and reliability of the Recipient’s WSS services in Eligible Municipalities; (b) to improve the performance of the Recipient’s national WSS sector institutions in the exercise of their respective roles in conformity with the WSS Sector Framework Law; and (c) to improve the Recipient’s capacity to respond promptly and effectively to an eligible emergency.

13. **The 2010 and 2013 Restructurings resulted in adjustments to the Project’s key indicators.** During Project implementation, it was noted that several of the indicators were prone to various interpretations and that others did not adequately reflect the Project’s activities. The Bank and the PIU revised the indicators to better clarify and align the indicators with the Project. In addition, the revised results framework adopted benchmarking indicators developed by the new WSS regulator, ERSAPS (in an effort to strengthen its position), for the WSS sector as a whole and aligned the framework with Bank-wide efforts to use “core sector indicators.” The adjustments to the results framework represented a minor, “adaptive⁴” restructuring. The revised PDO level and intermediate outcome indicators for the Project are presented in the Data Sheet.

1.4 Main Beneficiaries

14. The Project’s main beneficiaries included the residents of approximately six to nine municipalities, with populations between 40,000 and 300,000, who would benefit from improved water service as well as approximately 200,000 residents of Tegucigalpa who would benefit from the NRW activities. In addition, sector institutions, SANAA, ERSAPS, CONASA, and the autonomous municipal service providers, supported by the Project, would benefit from institutional strengthening activities. The AF enabled the scaling up of the Project to reach additional municipalities with populations between 10,000 and 40,000.

1.5 Original Components (as approved in the Financing Agreement)

15. **Part 1 (US\$21.2 Million). Supporting Eligible Municipalities to Create Autonomous WSS Service Providers and to Invest in the Efficiency, Rehabilitation and Expansion of WSS Service Delivery.** A. Provision of technical assistance to Eligible Municipalities to: (1) Identify an appropriate management model for the delegation to autonomous service provider of WSS services; (b) prepare the legal, financial, technical and social instruments required to implement such model; (c) plan the transfer of WSS systems from SANAA to Eligible Municipalities and plan the creation of WSS service providers and related municipal WSS

⁴ Restructuring to retain or improve relevance as external circumstance changed.

oversight and policy-making bodies; (d) plan the efficiency improvement investments under Part 1.B. of the Project; and (e) train the new WSS service providers in their new task; (2) Support their respective WSS service providers created under Part 1.A.1 of the Project to: (a) establish a business plan to enable them to implement their responsibilities under the respective municipal WSS policy; and (b) revise or prepare a master plan to improve efficiency, quality and coverage levels of the WSS service, including a financial and economic analysis; and (3) Design and supervise the investments conducted under Part 1.C of the Project.

16. B. Provision of goods, works, services and training to Eligible Municipalities that have successfully identified and designed a management model under Part 1.A of the Project, to: (1) Transfer the WSS systems from SANAA to Eligible Municipalities, establish the autonomous WSS service provider and related municipal WSS oversight and policy-making bodies, and prepare the delegation of the WSS service to such provider; and (2) Carry out technical and commercial efficiency improvement investments (such as leak detection, network sectorization, meter installation, billing and collection, and reduction of non-revenue water), including design and supervision if required, within the investment ceilings set forth in the Operational Manual.

17. C. Provision of works to Eligible Municipalities that have successfully delegated their WSS services to autonomous service providers, for the expansion and/or rehabilitation of water supply, sanitation and wastewater treatment systems, all in accordance with the requirements and ceilings set forth in the Operational Manual.

18. **Part 2 (US\$4.5 million): Tegucigalpa Non Revenue Water Reduction.** Design, implementation, financing, supervision and evaluation of a performance-based service contract with a private company, acceptable to the Association, to reduce technical and commercial water losses in a limited geographical area of the Recipient's Municipality of the Metropolitan District (AMDC – *Alcaldía Municipal del Distrito Central*, or Tegucigalpa).

19. **Part 3 (US\$7.7 million): Institutional Strengthening of National and Regional WSS Sector Institutions** A. 1. Strengthening of CONASA and SANAA through the provision of consultants' services and goods for: (a) the creation of a specific unit attached directly to CONASA and housed in SANAA, to oversee the implementation of the PEMAPS (the PEMAPS unit); (b) the preparation of the policy and legal instruments to clarify CONASA's and SANAA's respective governance structure, mandate and financing, and the development of a sector financing policy aimed at guaranteeing the long-term sustainability of the sector; (c) a status review and update of the PEMAPS; (d) the development of CONASA's new municipal WSS sector policy-making and planning roles; and (e) the carrying out of a communications strategy to support good governance and transparency in the Project. 2. Strengthening of ERSAPS through the provision of consultants' services and goods to: (a) support the definition and implementation of new municipal WSS oversight unites; and (b) enhance its capacity to gauge WSS services management models. 3. Supporting donor coordination activities in the Recipient's WSS sector.

20. B. 1. Financing of severance payments for SANAA staff laid off in the course of decentralization of WSS services to the Eligible Municipalities. 2. Carrying out of a study on future staffing of SANAA, including: (a) the design of a broader retrenchment program that combines disciplinary staff reductions, addresses payroll fraud, and determines future retrenchment needs; and (b) data gathering on alternative employment found by staff affected by the current retrenchments, and on changes in staff employment totals in SANAA and other service providers.

21. C. Supporting preparatory activities for the transfer of the WSS service delivery from SANAA to the Recipient's Municipality of the Metropolitan District (*AMDC- Alcaldía Municipal del Distrito Central*, or Tegucigalpa), including activities such as updating inventories, installing consumer and asset management systems, and planning the transfer process.

22. **Part 4 (US\$1.6 million): Project Management.** A. Provision of technical assistance, equipment, training, travel and general operating costs, as necessary, to operate and strengthen the UAP to enable it to effectively implement, monitor and evaluate the Project. B. Provision of audit services for purposes of Section II.B.3 of Schedule 2 to this Agreement. C. Carrying out of

Project management activities to guarantee compliance by each agency and entity involved in the Project with the Recipient’s Transparency Law (Ley de Transparencia y Acceso a la Información Pública, Decree no. 170-2006 dated November 22, 2006) and the Anti-Corruption Guidelines. D. Strengthening of Recipient’s agencies involved in the implementation of the Project through trainings and study tours, purchase of vehicles and equipment and upgrading of working environment.

1.6 Revised Components

23. The 2013 AF/Restructuring included several adjustments to the Project’s components. The most significant adjustments focused on revising the components to reflect the support of the sector framework in a clearer and broader manner. The PAD focused a significant part of the institutional strengthening activities on the implementation of the Strategic Plan for the Modernization of the WSS Sector (PEMAPS), which was intended to be a roadmap for the implementation of the Sector Framework. However, it was not prioritized by the GoH and became outdated. See Annex 8, Table 1 for detail on each adjustment.

24. In addition, a fifth component was added to the Project to reflect an agreement between the GoH and the Bank that all IDA operations include an Immediate Response Mechanism (IRM) “to allow the country to access uncommitted funds in the event of a national emergency.” No funds were allocated to this component, but the inclusion of this component allowed for the use of simplified procedures and rapid restructuring to meet crisis and emergency needs when necessary. The IRM Operational Manual, prepared at a Country-Level, outlined the details of the Mechanism, which was not triggered during project implementation.

1.7 Other significant changes

Table 1. Other Significant Changes

RESTRUCTURING	OTHER SIGNIFICANT CHANGES
LEVEL I RESTRUCTURING 11/09/2010	The involuntary resettlement safeguard (OP4.12) was triggered given that municipal authorities and service providers expressed the need to prioritize physical works that could potentially involve easements, construction on either privately-owner or leased land, and land acquisition. At appraisal, only complementary, efficiency enhancement works were foreseen. The M&E indicators were revised (as illustrated in the <i>Data Sheet</i>) in order to better align the indicators with the Project’s investments, to minimize the risk of misinterpretation of the indicators, to incorporate ERSAPS’ indicators for the WSS sector and to incorporate World Bank core indicators. The allocation of proceeds was modified to increase the amount of works and accelerate disbursement. This was in response to the GoH’s request to accelerate disbursement for employment generation.
ADDITIONAL FINANCING AND RESTRUCTURING OF THE PROJECT 05/14/2013	The Project received an Additional Financing of US\$10 million to cover the higher-than-expected costs associated with the creation of WSS service providers and to support the inclusion of new municipalities in the decentralization process. The AF/Restructuring also: (i) Incorporated a component on IRM; (ii) Triggered the International Waterways (OP7.50) Safeguard; (iii) Updated the Project’s results framework (<i>see Data Sheet</i>); (iv) Reallocated funds; and (v) Extended the Project’s closing date by three years (until December 31, 2016).
LEVEL II RESTRUCTURING 10/06/2016	Disbursement categories reallocated to prioritize activities and allow full disbursement before the disbursement deadline, April 30 th , 2017

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

25. **Soundness of background analysis.** The Project directly supported the implementation of the Honduran Water Sector Framework Law. At appraisal, the GoH was actively involved in decentralizing the sector, and the Project incorporated lessons learned from the experience to-date. For instance, at appraisal, an Inter-American Development Bank (IDB) Project supporting the decentralization process was struggling to “win” the commitment of the municipalities. The IDB Project offered loans to the municipalities. Taking this experience into account, the Bank’s Project attempted to make engagement more attractive to the municipalities by offering them grants under a matching scheme. The Project also drew on the Bank’s international experience implementing WSS projects, specifically regional experience that illustrated the importance of policy in dramatically improving service. Although the WSS Framework Law established the roles and responsibilities of key sector institutions (CONASA, ERSAPS and SANAA), the institutions were weak and struggling to fulfill their respective roles. Reflecting this lesson and this reality, the Project included a development objective focused solely on strengthening sector institutions.

26. **Assessment of Project design.** The PDO was strongly aligned with the GoH’s sector priorities and sector agencies’ ongoing activities. The Project took a comprehensive stance to the sector reform, focusing not only on service improvements, but also on building a well-structured and well-governed sector. While the Project was ambitious in supporting the GoH’s plans for major transformations in the sector, the PDO presented feasible, measurable, and grounded objectives. The Project team closely tied each aspect of the PDO to an outcome indicator (*see M&E Design Section for more detail*). The PDO focused on improvements rather than “zero to one” changes.

27. The Project’s components directly supported the achievement of the PDO. The Components included a number of complex activities for which the Bank could add significant value. For Component One (Part 1), which supported the creation of new service providers, the design established a straightforward method to support the creation of decentralized utilities through a phased approach that included tailored, on-the-ground technical assistance (TA). The only eligibility requisite for municipalities to begin the process was population size (the Project focused on municipalities with 40,000 to 300,000 residents), minimizing the risk of municipalities being selected as a political favor. The “stepped approach” required municipalities to achieve certain benchmarks before they could receive financing and provided specific incentives for utilities demonstrating better results, thus promoting competition (given the limited funds available) and transparency (*see Diagram 1, Annex 8: The Stepped Approach*).

28. Recognizing the complexity of the decentralization of SANAA in Tegucigalpa, the Project aimed to improve services and prepare for the handover to the Municipality of Tegucigalpa (rather than focus on the creation of a fully operational municipal provider). Support for the handover of the Tegucigalpa system was critical given that the success of the transfer was considered a “game changer” in the entire decentralization process. The IDB was also actively involved in supporting the transfer of the Tegucigalpa system, financing studies to prepare for the transfer among other activities. The Project’s activities aimed to complement the IDB’s investments.⁵ Component 2 (Part 2) focused on improving the sustainability, reliability, and efficiency of Tegucigalpa’s WSS system by reducing NRW in Tegucigalpa through a performance based contract (PBC), which was innovative for SANAA at the time. Prior efforts

⁵ The Project aimed to provide consistent and complementary technical advice and financial support. The Project’s partnership arrangements included a *Mesa Sectorial* to promote dialogue between the GoH, donors and civil society. In addition, one of the objectives of the PEMAPS was to promote alignment between donors’ investments. At the national level, both the IDB and the World Bank were supporting the Tegucigalpa transfer. The banks agreed that once a decision about the reform in Tegucigalpa was made that they would develop consistent assistance for the process. The Project also focused on municipalities that were not benefitting from the IDB projects to prevent overlap / conflict of interest based on the different financing approaches.

to reduce NRW in Tegucigalpa had not been successful; the Bank aimed to demonstrate that a results-focused approach might produce better outcomes.

29. The sector strengthening activities (Component 3/Part 3) focused on establishing the responsibilities of key sector agencies and strengthening their capacity to successfully carry these out. One shortcoming was the Project's emphasis on the PEMAPS, which was expected to guide the roll out of the WSS Framework Law in a harmonized manner, during initial project preparation. Although the PEMAPS was widely accepted at the time of design, it lost relevance over the course of implementation. The design's inclusion of funds for severance payments reflected a sound understanding of the sector and central challenges to decentralization — without these payments, decentralization is unlikely to have taken place.

30. *Implementation Arrangements.* The Project's comprehensive approach to supporting the sector reform required the involvement of various sector actors. Although theoretically CONASA would have been the logical lead-implementing agency given its high-level policy role, it was agreed that, at appraisal, CONASA did not have the capacity to lead the Project.

31. The Secretariat of Finance (SEFIN) was selected to lead the Project. Although this was a non-traditional choice to lead a WSS project, SEFIN had higher levels of procurement and financial management (FM) capacity than sector institutions and, since it was not a direct beneficiary of any project activities, was better placed to play the role of “honest broker” between sector institutions. SEFIN also had previous experience leading WSS projects with multilateral financing; in 2004, SEFIN had created a Project Administration Unit (UAP) specifically to manage financial resources from the World Bank, the IDB, and other donors. The Project co-financed the salaries and operational recurrent costs of the UAP. The Financing Agreement also established that changes to key staff could only be made if satisfactory to the Bank, promoting consistency in coordination.

32. The implementation arrangements sought to maintain fiduciary processes and standards at a level acceptable to the Bank while employing the technical capacity of existing sector institutions. The UAP was in charge of managing funds for all Project components and led most procurement processes (the design contemplated that municipalities with adequate capacity would engage in procurement as well). The UAP was also responsible for leading technical supervision⁶ of Component 1, 4 and 3B (severance payments). In turn, SANAA was responsible for leading the technical supervision of Component 2 and 3C (preparation for the transfer to Tegucigalpa), and CONASA and ERSAPS for leading the technical supervision of Component 3A (TA). A high-level ad hoc group, the Inter-institutional Coordination Group (GIC)—which included representatives from SEFIN, SANAA, CONASA, the Honduras Municipalities Association (AMHON) and ERSAPS—was expected to monitor project progress and ensure institutional coordination.

33. **Adequacy of the government's commitment.** The GoH's decision to designate SEFIN as the lead implementing agency signaled a high-level of commitment to the Project. In addition, the GoH's Poverty Reduction Strategy illustrated its commitment to sector decentralization. Nevertheless, the commitment of sector institutions to the implementation of the Framework Law, particularly SANAA, was not as clear. The General Manager of SANAA publicly voiced his personal opposition to the Framework Law in 2007, and SANAA's labor unions actively protested and blocked decentralization efforts. Amidst this tension, the GoH and a number of sector institutions reiterated their support for the reform and their commitment to proceed with the reform. A demonstration of commitment to the Project was also required by all key sector agencies in order for PROMOSAS to move forward; a criteria for effectiveness was an inter-institutional agreement signed by SANAA, ERSAPS, CONASA, and SEFIN.

34. **Assessment of risks.** At appraisal, the Project's risks were rated as *Substantial*. The design team identified and proposed adequate mitigation measures for the majority of the relevant risks. For example, the risk that the municipalities would not be interested in participating in the

⁶ Preparing ToRs and bidding documents and reviewing the inputs of consultants among other responsibilities.

Project was mitigated through utilizing attractive financing (grants as opposed to loans). The risk of low implementation capacity at the local level was mitigated by integrating on-the-ground TA in the Project design. Given SANAA's poor track record on NRW, the design employed a PBC to reduce NRW in the metropolitan area of Tegucigalpa. In addition, given that the Project would be implemented through a presidential election cycle, the Project's Financing Agreement included legal clauses against unnecessary changes in the Project's implementation staff. A risk that was not identified was the municipalities' resistance to installing micrometers and eventually raising tariffs. The sustainability of the Project's investments relied on the capacity of the autonomous municipal service providers to charge tariffs that covered their operation, maintenance, and future investment costs. There was, however, significant political resistance to increasing tariffs systematically to ensure cost recovery (*see the Project Outcomes section* for more detail).

35. **Safeguards.** At appraisal, the municipalities benefitting under Component 1 had not yet been selected. The following safeguards were triggered based on the type of work foreseen and the country context: Indigenous Peoples, Environmental Assessment, Natural Habitats, and Physical Cultural Resources Safeguards Policies. Given that the locations of the works had not been identified at appraisal, a broad environmental management and social framework was developed. The Project was classified as Category B according to World Bank Operational Guidelines, and the framework built on the Honduras OBA Water and Sanitation Conceptual Framework. In addition, the GoH developed an Indigenous Peoples/Ethnic Communities Policy Framework. The UAP was responsible for compliance with safeguards. Although the UAP had one environmental and one water engineer on staff, the Project design included the hiring of a specialist responsible for the Project's environmental and social needs.

2.2 Implementation

36. The Project closed with a Moderately Satisfactory Implementation Rating given its achievement of five of its six results level indicators, 15 of its 16 intermediate indicators as well as its almost full disbursement (99.8 percent). The Project overcame an array of extraordinary political obstacles that delayed and complicated implementation progress. Nevertheless, the Project's strong alignment with the Framework Law as well as its holistic approach to sector reform and adaptable, hands-on leadership and supervision resulted in the Project's successful implementation. Table 2 in Annex 8 provides a summary of major events at the project, sector, and national level.

37. **Delays in Reform.** At appraisal, the deadline for the transfer of all water systems from SANAA to the municipalities was October 2008. In 2008, the National Parliament extended the deadline by five years, until October 2013. Although decentralization was still an ongoing process in October 2013, no additional deadlines were established. The extension (and subsequent elimination) of the deadline generated doubt about the GoH's intention of actually carrying out the reform; several alternative visions for the WSS sector began to circulate. The GoH, however, asserted its commitment to the reform, highlighting the decentralization process in the Country Vision (2010-2022) and National Plan (2010-2038).

38. **Tumultuous Political Environment.** During implementation, the Project encountered a number of challenges due to the political environment in Honduras. The most notable was the June 2009 coup, in which then President Manuel Zelaya was detained by the Honduran military and exiled to Costa Rica. In line with OP7.30, the Bank stopped processing withdrawal applications. Without new resources from the Bank, financing for most ongoing contracts stalled. Bank disbursements resumed in December 2009, but the elections and entrance of a new administration further delayed implementation. To stabilize the portfolio, the Task Team reinforced implementation arrangements and ensured that the operational plans for 2010 were consistent with the GoH's fiscal constraints and emergency priorities. Another political challenge that persisted throughout most of implementation was the resistance of SANAA's labor union to activities that threatened to change the status quo. For example, when the SANAA union withdrew support for the Tegucigalpa PBC, SANAA workers declined to read meters although, according to the contract, they were supposed to accompany the contractor in this activity. SANAA's management decided not to counter the union because of upcoming national elections.

Ultimately, the meter readings were neither incorporated into SANAA's commercial system nor used as the basis for customer billing. At the municipal level, the Project's inclusion of funds for severance payments was critical for overcoming labor union resistance and successfully transferring services from SANAA to the autonomous municipal service providers.

39. ***Politicized Tariffs and Resistance to Metering.*** The Project's main political challenge at the municipal level revolved around resistance to increased tariffs and metering. ERSAPS provided guidance on tariff setting, but the municipal governments were responsible for setting the tariff levels. Municipal politicians, especially during election years, were hesitant to raise tariffs, thus limiting the capacity of the autonomous providers to charge cost recovery tariffs. In addition to tariff levels, the installation of micrometers proved to be a political issue in a number of municipalities. In the most drastic cases, meter installation stalled because of the threat of negative repercussions. Hands-on TA, the active involvement of the municipal service providers (including house-to-house visits in some cases) and the decision to rollout micrometer pilot zones helped mitigate resistance to tariff increases and meters.

40. ***Flexible Technical Assistance.*** The structure of the TA was key to the successful implementation of the Project.⁷ At the municipal level, the TA firm worked hand-in-hand with the autonomous municipal service providers to develop and execute annual action plans based on the providers' capacities and needs. The TA contract was also partly performance-based—tying some payments to the utilities' achievements of outcomes. The TA firm was based in the field, permitting consistent dialogue between the providers and the firm. The TA helped build the capacity of the providers' staff, many of who had limited prior experience in the sector, to carry out their roles. The TA also helped ensure that the municipal providers had adequate tools (such as a commercial management systems) and information (such as a basic information on the layout of the systems and the number of connections) necessary to manage the systems. During the ICR field visits, the providers highlighted the TA as a critical component of their overall success, also noting their reliance on the TA and their desire for continued support. The TA, however, was not as appropriate for the small towns that were included in PROMOSAS as part of the AF. These providers had lower capacity and needed substantial preparation and handholding before they would benefit from the level of TA the other providers received. The TA firm neither had the capacity nor the time to fully attend the needs of these small town providers. Another shortcoming of the TA was its propensity to focus solely on creating autonomous municipal providers, downplaying the potential benefits of eventually adopting a corporate model. The PROMOSAS providers did not clearly understand the advantages of corporate models.

41. ***Hands-On Supervision: Mid-Term Review (MTR) and Restructuring.*** The Task Team carried out a comprehensive MTR in June 2011 in which they visited each of the municipalities participating in the Project. Although disbursements were lower than expected, the Project was still on-track to meet its development objectives, and beyond adjustments to the operational manual to ease disbursement requirements for the municipalities, no major adjustments were required at the time. Over the course of implementation, however, the Task Team processed three restructurings, which facilitated implementation and helped maintain the Project's relevance. For instance, during the first restructuring, funds were moved to investments that would quickly generate employment given Honduras' critical unemployment situation. The AF/second restructuring responded to, among other issues, the shortage of funds the autonomous municipal service providers encountered for improving their service efficiency. The third restructuring reallocated funds between disbursement categories to enhance funding for additional investments, TA, and supervision activities to support the providers. In addition to formal restructurings, the Project's flexible design enabled the Project to respond to institutional/beneficiary needs on a

⁷ It is worth noting that the TA was not part of the original project design, but was introduced a year into implementation when it became apparent that this was the only way forward, and much effort went into the design of the TA contract.

case-by-case basis. The inclusion of a clause to limit turnover within the UAP team was also key to the success of the Project as it promoted consistent supervision over the course of implementation.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

42. **M&E design.** The UAP was responsible for coordinating M&E activities. In addition to producing annual monitoring reports, the UAP's social team was responsible for conducting focus groups and organizing baseline surveys. The participating municipalities were responsible for providing data on their autonomous service providers' performance. Although the indicators presented a clear method for measuring the achievement of the PDO, several of the indicators had overly ambitious targets, were subject to misinterpretation, and did not closely align with the Project's investments. For instance, the indicator, "*At least 90 percent of SANAA systems transferred to the municipalities,*" went beyond the scope of the Project, which was focused on facilitating the decentralization process in six to nine municipalities. The indicator "*5 of the participating WSS utilities increase service continuity (hours of service per day) by 6 hours or more*" was very ambitious, especially given that a baseline on service continuity had not yet been established. The disconnection between several indicators and Project activities reflected the fact that the municipalities had not been selected at design.

43. **M&E implementation.** Over the course of implementation, the monitoring indicators were adjusted to better reflect the Project's reach and activities (*see the Data Sheet for more detail*) and to better evaluate the Project's progress. The UAP encountered difficulty ensuring the quality of data from the municipalities. This was in part because the municipalities lacked data on the status of service in their respective areas. A credible baseline for the results framework indicators was not established until 2013. M&E implementation began to improve as the municipal service providers gained greater knowledge and control of their respective systems. The UAP produced annual reports on implementation progress and published and distributed informational bulletins on the Project's progress. In addition, ERSAPS produced reports on service provider performance and published performance indicators on its webpage. The GIC was established, but it lacked leadership and did not actively participate in monitoring project progress or institutional coordination.⁸ The Project closed with a Moderately Satisfactory M&E Rating.

44. **M&E utilization.** The Project's intermediate indicators promoted utilization of the M&E data. For example, in compliance with one indicator, providers posted their financial statements online. In compliance with another indicator, ERSAPS published service providers' performance indicators on the ERSAPS webpage. The allocation of Component 1 funds was linked to the performance of utilities as measured by ERSAPS. This encouraged the providers to report their indicators to ERSAPS and helped providers benchmark their performance against others. In addition to publication at the national level, six of the municipal service providers began sharing their performance information with the international benchmarking database, IBNET. These activities helped promote transparency and compliance with the 2006 Law of Transparency and Access to Public information.

2.4 Safeguard and Fiduciary Compliance

45. **Environmental and Social Safeguards.** The UAP hired an Environmental Specialist and a Social/Communication Specialist on full-time consultancy contracts. These two consultants addressed safeguard policy issues in addition to carrying out other relevant environmental, social, and communication activities. The Project received Satisfactory social and environmental safeguards ratings throughout implementation. The requirements for construction works, granting

⁸ The GIC initiative also established an operative level "GICO" to perform as a deliberative space to discuss technical project issues. The UAP and institutions lost interest in continuing with the GICO, especially during the final stage of the project, as activities in the institutional component were already implemented or the majority committed, and the UAP's efforts were focused on procurement and concluding the pending infrastructure. Rules and roles were not clearly established for either the GIC or the GICO, and participation by institutions was limited.

environmental licenses, and applying environmental contract clauses when appropriate. There were no issues on the ground in regard to civil works.

46. During implementation, the International Resettlement (OP 4.12) and International Waterways (OP 7.50) Safeguards were triggered. Although the Project originally did not foresee any involuntary resettlement, service providers expressed the need to prioritize physical works that could potentially involve easements, construction on either privately-owned or leased land, and land acquisition. An Involuntary Resettlement Policy Framework (IRPF) was prepared and approved by the Bank in 2010.⁹ The potential location of the new beneficiary municipalities led to the triggering of the International Waterways Policy, but an exception to the riparian notification requirement was granted given that the Project's activities would only involve minor additions and rehabilitations and would not adversely affect the quality or quantity of water flows.

47. ***Fiduciary Compliance.*** The positioning of the UAP within SEFIN proved advantageous: the Project finished with a Satisfactory FM rating and a Moderately Satisfactory procurement rating. The most significant financial challenges arose because of events external to the Project, specifically the GoH's austerity measures¹⁰ and the resulting tension of whether there would be adequate financing to fully disburse the AF. The Project encountered greater challenges in managing procurement activities. The 2012 Procurement Post Review revealed several loopholes in the UAP's management of files and administration of contracts. These errors were tied to organizational issues. The Procurement rating was upgraded after the March 2014 procurement post review but was again downgraded in March 2015 given a noted drop in quality control from the UAP. The UAP's procurement management suffered from a high turnover of procurement personnel. Over the course of the Project, the UAP had seven different procurement specialists. The UAP attributed this high turnover to the low salary offered to the specialists. Although the Moderately Satisfactory rating was maintained, the UAP, working closely with the Bank Task Team, had an impressive procurement performance during the final months of operation that resulted in the award and completion of all major contracts.

2.5 Post-completion Operation/Next Phase

48. At the time of the ICR, the World Bank and the GoH were carrying out a pre-identification mission for a potential follow-up project. PROMOSAS established an effective mechanism for transferring service responsibility from SANAA to mid-size municipalities, and the GoH had committed to decentralizing the 13 WSS systems still managed by SANAA in its Country Vision and National Plan (see Relevance section). The follow-up project would build upon PROMOSAS' progress and assist the GoH in achieving its decentralization goals. Moreover, the follow-up project would support sector institutions, which are key to the long-term health of the sector and the success of the decentralization effort, to carryout their roles and responsibilities in line with the WSS Framework Law.

49. The National Plan for Water and Sanitation (PLANASA), which was approved by CONASA in 2014, includes a results framework with performance indicators that are highly relevant to the Project and will permit future M&E of the Project's impact. For example, PLANASA's indicators include "Three regional SANAA offices established to provide TA for providers and municipalities," and "ERSAPS regulates providers with more than 5,000 connections and the latter pay regulation fees," among other indicators.

⁹ Two families were resettled—one in Puerto Cortes and one in Comayagua

¹⁰ In December 2014, the International Monetary Fund (IMF) approved a US\$113.2 million Stand-By Arrangement and a 75.4 million Stand-By Credit Facility for Honduras. The arrangements focused on maintaining macroeconomic stability and included measures for sustained fiscal consolidation.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

50. **Relevance of Objectives (Rating: Substantial).** The Project’s objectives are aligned with the WSS Framework Law as well as the Government priorities detailed in the Country Vision (2010-2038) and the National Plan (2010-2022). These strategies highlight the GoH’s intention of continuing the decentralization process supported by this Project. For example, Goal 4.3 of the Country Vision is to achieve a decentralization of 40 percent of public investment to the municipal level. In the National Plan, Strategic Pillar 5, Health as a Fundamental Building Block for Improvements in the Quality of Life, contains the following indicator: number of municipalities managing their own water and sanitation systems. The continued relevance of the Project’s decentralization and sector strengthening objectives are also highlighted in PLANASA: its strategic lines of action include “decentralization of services” and “sector institutions and governance.”

51. While the Country Partnership Framework FY2016 to FY2020 does not include specific objectives for the water sector, there are several entry points for the water sector including under Pillar 1: Fostering Inclusion (Objective 1: Expand Coverage of Social Programs) and Pillar 3: Reducing Vulnerability (Objective 6: Boost 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 equal distribution of wealth. The Project remains very relevant for the GoH—it has requested Bank support to design a follow-up operation with the objective of continuing the sector reform and building on the progress made under PROMOSAS.

52. **Relevance of Design and Implementation (Rating: Substantial).** The Project’s design reflected lessons learned from past modernization projects, particularly the importance of a strong institutional and policy structure to sector sustainability. The Project’s components, which were well linked to the PDO, remain highly relevant to Honduras’ consolidation of the sector reform. The Project’s design to support the decentralization of service provision to autonomous municipal providers in mid-sized cities is especially relevant given the Project’s effective support of this process (described in detail in the Achievement of PDOs Section below) as well as the GoH’s plan to continue the process of decentralization. The Project’s design is not as relevant for remote, small-sized cities given their (generally) lower human resource capacity levels.

53. The Project’s approach to institutional strengthening activities also remains highly relevant given the key role the institutions will play in the long-term sustainability of the reform. The Project provided the institutions with the tools necessary to successfully carry out their roles and responsibilities in the sector. The support provided to the institutions under the Project, however, needs to be paired with greater Government commitment in order to be fully effective. While the institutions made significant strides over the course of implementation because of the Project’s needs-based TA approach, the advances could potentially be lost because of a lack of governmental support for the institutions.

54. In regard to the relevance of the results framework, the restructurings, as described in the Monitoring and Evaluation section, were key to strengthening the link between the indicators and the Project’s activities. The restructurings also further aligned the indicators with ERSAPS’ internal indicators, further strengthening the relevance of the indicators post-Project.

3.2 Achievement of Project Development Objectives

Objective 1: *Improve the sustainability, efficiency, and reliability of the Recipient’s WSS services in Eligible Municipalities* (Rating: Substantial)

55. The Project supported the creation of seven autonomous service providers by providing TA to support the formation of the service providers, short-term efficiency improvement measures (including surveys and diagnostics of service provision, installation of meters, and construction of offices) and investment funding (for technical improvements for the WSS system) once services were transferred (see Annex 2 for more detail on the specific investments). The Project

also provided support to two autonomous municipal service providers that were already operating (Puerto Cortés and Choloma). In addition, the Project's investments,¹¹ supported activities to prepare the Municipality of Tegucigalpa for the eventual transfer of the Metropolitan WSS System from SANAA. Table 2 highlights the sustainability, efficiency and reliability improvements the municipal providers¹² made over the course of the Project. The infrastructure works have directly benefited a total of 13,167 families with improved water services and 3,786 families with improved sanitation. Overall, the improvements in the providers indirectly benefitted about 650,000 people (108,000 families)¹³ with improved WSS service.

56. The Project focused on improving the municipal service providers' capacity to deliver sustainable, reliable and efficient service. The Project's sustainability goals focused on improving the financial health of the providers. This was done through improving the providers' capacity to systematically monitor their income and expenses and improving the providers' service efficiency (technical and commercial). The Project surpassed its sustainability outcome indicator by 14 percent; eight of the providers achieved operating cost recovery. The Project's reliability goals focused on improving the continuity of service through improving system infrastructure and strengthening the providers' capacity to operate the systems. While the Project missed its reliability outcome indicator (at least five of the providers increase their service continuity rating by one category defined by ERSAPS' performance indicators) by 20 percent, seven of the nine providers improved or maintained service continuity.¹⁴ The Project's efficiency goal focused on minimizing NRW (physical and non-physical losses) through supporting technical (leak detection, the installation of meters and sectorization) and commercial (billing and collection) activities. The Project fully achieved the associated indicator for this objective: six of the WSS utilities increase by 20% the ratio of revenue per volumetric unit of water produced. In addition, the Project supported a PBC to reduce NRW in a pilot area of Tegucigalpa. The contract, which benefited approximately 200,000 households, resulted in reduced NRW levels, increased service continuity and increased metered consumption. The Project fully achieved the two indicators on the PBC. Table 3 details the impact of the PBC in Tegucigalpa.

57. The Project's support to the transfer of services from national to municipal service provider in Tegucigalpa was unique given that it financed activities to develop the groundwork for future sustainable, reliable, and efficient service. The Project financed consultants to help develop the commercial and financial model for the municipal service provider, conducted various diagnostics on WSS service within the municipality, developed a water balance for the primary distribution system, and assisted in developing a business plan among many other activities (*See Annex 2 for more detail*). The Project met the associated indicator.

¹¹ The Projects efforts to support the transfer were complemented by the Honduras Integrated Urban Water Management in the Greater Tegucigalpa Area Grant (P125903), which as approved by the WB on March 23, 2011, in the amount of US\$400,000 (RETF),.

¹² With the exception of the municipal provider in Tegucigalpa given that the transfer is still ongoing.

¹³ Not including the beneficiaries of the NRW contract in Tegucigalpa.

¹⁴ In addition, Puerto Cortes' progress could not be captured by this indicator as it began and ended in the highest service continuity category, Category A.

Table 2. Autonomous Municipal Service Providers' Performance¹⁵

Autonomous municipal service provider	Sustainability Cost Recovery ¹⁶	Reliability: Continuity Category ¹⁷		Efficiency: Income per M ³ produced (lps/m ³)		
		Before	After	Before	After	% Increase
Aguas de Puerto Cortés S.A. de C.V.	1.01	A (22.34h)	A (23.2h)	3.94	5.08	129%
Aguas de Choloma S.A. de C.V. ¹⁸	1.04	C (7h)	B (13.5h)	3.10	3.27	105%
Aguas de Siguatepeque (transferred from SANAA)	1.68	D (3)	C (7.83)	2.42	4.92	203%
Servicio Aguas de Comayagua (transferred from SANAA)	2.24	B (12.18)	B (12.5)	1.63	2.37	145%
Aguas de la Lima Service provided by the Municipality prior to the Project	1.79	B (16)	B (16)	.63	1.22	94%
Aguas de Danli	1.23	D (3)	C (7.8)	2.71	4.06	150%
Aguas del Valle (Villanueva, San Manuel y Pimienta)	1.43	C (9)	C (7)	4.43	4.95	12%
Aguas de Tutule July 2014 transfer	1.05	B (13)	B (10)	.83	1.66	100%
Aguas de Teupasenti July 2014 transfer	.88	D (3)	C (8)	1.52	2.01	32%

Sources: Technical Assistance Final Report, December 2016 and ERSAPS Presentation on Indicator Achievement, "Cumplimiento de Indicadores del PROMOSAS," October 2016.

Table 3. Results of the Performance-Based Contract

Indicator	Unit	Baseline	Target	Achievement	
				18 month	30 months
Increased Service Continuity	Hours/ 2 days	8.42 ¹⁹	16.84	5.87 ²⁰	13.1
Increased Metered Consumption	Percentage	0%	+30%	+ 80.29%	+125.26%

Source: IWA Task Force on PBC: Tegucigalpa PBC Case Study

Objective 2: Improve the performance of the Recipient's national WSS sector institutions in the exercise of their respective roles in accordance with the WSS Sector Framework Law (Rating: Substantial)

58. The Project met all of its PDO-level indicators related to this objective. The Project used a flexible approach to support key national WSS sector institutions (SANAA, CONASA, and ERSAPS) to fulfill their roles as established in the Framework Law. The Project financed operational costs as well as the development of tools and strategies to strengthen the institutions' performance. The successful achievement of Objective 1 is in part attributable to the roles these sector institutions played in fostering the development of the autonomous municipal service providers.

59. **SANAA.** Aside from the decentralization support described above, the Project supported SANAA in its effort to become the central TA entity for the sector. This included financing the

¹⁵ Most of the "Before" data comes from a 2013 survey carried out by the TA firm and the UAP that was deemed more credible than the original baseline.

¹⁶ Information on cost recovery pre-Project was not available.

¹⁷ The categories were defined by ERSAPS as: Category A (from 18 to 24 hours); Category B (from 12 to less than 18 hours of service per day); Category C (from 6 to less than 12 hours of service per day); and Category D (less than 6 hours of service per day).

¹⁸ Mixed Company formed several years before the Project began. The IBD financed the development of the master plan. Entered at Phase 1B.

¹⁹ This indicator, and its baseline and target were modified to be based on a 2-day cycle given the fact that water is distributed only every other day.

²⁰ For the first two months of this measurement period the contractor had not installed pressure meters and the Supervision Consultant penalized it by assigning an assumed continuity of 0, which dragged the average down.

development of a SANAA regional capacity building and TA center in Siguatepeque as well as pilot TA projects in Villa de San Antonio and Taulabé. The TA center offers classes and workshops to service providers, has laboratories to test water quality, and offers TA for WSS providers in need of assistance. The center, however, still depends on outside financing to operate, and SANAA needs to dedicate more staff and resources to the center in order to meet demand for training courses. In Villa de San Antonio and Taulabé, SANAA staff successfully provided technical support to the providers, assisting in establishing service baselines and diagnostics, applying appropriate laws, and implementing a geographic information system, among other activities. Demand for TA currently exceeds SANAA's capacity, illustrating the need and rationale to further build upon the progress made under this Project. The Project, through the creation of the TA center and the support of the TA pilots, provided SANAA with tangible examples of how to move forward in its new role as a TA entity. Moreover, the demand for SANAA's TA services (both at the center and in the field) validated the need for a TA-focused institution at the central level.

60. **ERSAPS.** The Project supported the development of numerous tools to help ERSAPS fulfill its role as the sector regulator. The Project supported developing and publishing regulations on: the quality of WSS services, attention to inquiries and complaints from users, infractions and sanctions, fees for supervision, inspection and counseling from ERSAPS, and tariffs for urban WSS services. The Project also supported ERSAPS' outreach efforts to build monitoring and regulatory capacity at a local level through financing capacity building activities and equipment for municipal supervision and control units (USCLs, *Unidades de Supervisión y Control*). The USCLs provided a method for on-the-ground monitoring, assisting in collecting performance indicators that ERSAPS—with the support of the Project—published on its webpage and used to develop annual sector performance reports. The Project improved ERSAPS' capacity to fulfill its role as sector regulator, promoting transparency in the sector among other benefits. Nevertheless, additional support from the GoH is needed for ERSAPS to become fully operational (See Risk to Development Outcomes section for more detail).

61. **CONASA.** The Project helped CONASA carry out a number of activities critical to its role as the lead policy institution for the sector. With the support of the Project, CONASA helped municipalities establish Water and Sanitation Municipal Committees (COMAS)²¹ to ensure citizen participation and representation in local water service management. The Project also financed consultancies to support CONASA in developing a WSS sector information system, an organizational structure for SANAA once the decentralization process is complete, and a Sector Financial Policy.²² As with ERSAPS, additional support from the GoH is need for CONASA to maximize use of the tools developed under this Project.

62. The Project achieved its objective of improving sector institutions' performance in their respective roles. Nevertheless, institutional reform is a long-term process and these institutions need significant support from the GoH to maintain the gains made under this Project and to reach their full effectiveness.

3.3 Efficiency (Rating: Substantial)

63. An economic analysis was carried out to evaluate the works implemented under the Project, using actual costs and benefits obtained from the interventions. Annex 3 provides details on the methodology and results of the evaluation compared to those expected at appraisal. Costs and benefits were transformed to 2007 prices to make them comparable with those used at

²¹ The COMAS are an important instrument that enabled citizen participation in the project and in some places (for instance, Danli, Siguatepeque) protected the provider from political interference. In some cases they are an important part of the corporate governance structure of the provider (for instance, in Danli) and in other cases act as facilitators between the provider and the Municipal Board (Corporación Municipal).

²² The centerpiece of the Policy is a National Fund for Water in which financing from various sources would be collected to provide a source of easy-to-access credit for WSS service providers as well as donations for providers with limited financial capacity. The Project financed various workshops to support the rollout of the Policy. At the close of the Project, the Fund was still not operational.

appraisal and to eliminate the impact of currency fluctuation, which was reflected in inflation of 31% and depreciation of 8.7% against the USD on average during the period. During appraisal and the preparation of the AF, a sample of candidate municipalities were evaluated using a cost benefit analysis. Results showed average returns of 33% and 9% respectively. For this ICR, the evaluation considered interventions in five municipalities, whose cost represents 70% of works implemented under Component 1.

64. Results show that interventions in all of the municipalities were worthwhile as the benefits surpassed the costs, positively impacting the economic development of the municipalities. Actual average returns are 22%, lower than the expected return of 33.5% at appraisal.²³ Several reasons explain the lower than expected returns at appraisal: (a) only one of the municipalities evaluated at appraisal was included in the Project;²⁴ (b) health benefits—which were included during appraisal—were not included in this evaluation since the improvement of service did not eliminate intermittence of service; and (c) some of the expected benefits from metering, improvements in billing, and better water usage were not realized as some municipalities could not install meters because of resistance from customers.

65. From a financial point of view, the project shows satisfactory results as incremental revenues were higher than incremental operating costs—providing reassurance for the sustainability of the works implemented. From the utilities’ point of view, results show that all municipalities reached full operating costs and are generating a financial surplus that allows them to partially fund capital investments. At the time of the AF, the Project was extended by three years to ensure completion of both the original and scaled-up activities. The extended time period is part of the cost of the Project’s adaptive approach.

3.4 Justification of Overall Outcome (Rating: Moderately Satisfactory)

66. *Split Evaluation.* Although the Project’s core objectives remained constant throughout implementation, the Board approved two restructurings in which PDO-level indicators and targets were revised. As a result, the ICR team conducted a split evaluation (See Table 5 below). When analyzing the Project against its original outcome indicators, the Project meets four of its six targets. The Project does not meet two of its original outcome indicators: (1) *at least 90 percent of the SANAA systems transferred from the municipalities*, which was revised because it went beyond the reach of the Project and (2) *five of the participating WSS utilities increase service continuity by six hours or more*, which was revised to be in line with ERSAPS’ sector wide indicator on service continuity. The revision of these indicators reflected an M&E design issue rather than a Project performance issue. The split evaluation also considers the Project’s outcome against the outcomes established in the first restructuring. In this scenario, the Project would have met five of the six PDO indicators. None of the PDO-level indicators were dropped in the second restructuring; targets were only made more aggressive to reflect the AF. The Project maintained substantial relevance and efficiency throughout implementation.

67. Although the Project achieved Substantial ratings for Relevance, Efficacy and Efficiency against the revised PDOs, the ICR team proposes rating the overall outcome as Moderately Satisfactory rather than Satisfactory given the Substantial risk to the development outcomes.

Table 5. Split Evaluation

	Against Original PDOs	Against Revised PDOs (2010)	Against Revised PDOs (2013)	Overall
Relevance				

²³ The economic evaluation during AF was conducted only for the interventions to be financed with the US\$ 10M of AF. The average weighted ERR for the AF was 9%. The evaluation was based on actual achievements attained at that time, yet previous interventions were not included, and therefore its results do not represent the whole project. On the other hand, the evaluation at appraisal as well as the evaluation at ICR included interventions financed under the whole project and hence are comparable.

²⁴ During appraisal, the following three municipalities were evaluated: Le Ceiba, Choluteca, and Siguatepeque. Ultimately, however, only Siguatepeque was included in the Project. For this particular municipality, actual returns (29%) were higher than expected at appraisal (24%). The situation among municipalities varies widely—during appraisal, estimated returns ranged from 17% to 61%.

	Relevance of Objectives	Substantial	Substantial	Substantial	
	Relevance of Design & Implementation	Substantial	Substantial	Substantial	
	Efficacy				
	PDO1: <i>Improve the sustainability, efficiency, and reliability of the Recipient's WSS services in Eligible Municipalities</i>	Modest	Substantial	Substantial	
	PDO2: <i>Improve the performance of the Recipient's national WSS sector institutions in the exercise of their respective roles in accordance with the WSS Sector Framework Law.</i>	Modest	Substantial	Substantial	
	Efficiency	Substantial	Substantial	Substantial	
	Rating	MU	S	S	MS
	Rating value	3	5	5	4
	Weight (% disbursed before/after PDO change)	16%	57%	27%	100%
	Weighted value (2x3)	.48	2.85	1.35	4.68
	Final rating (rounded)				5

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

68. In regard to *poverty impacts*, the AF focused on supporting Honduras' poorest municipalities.²⁵ In addition, the Project supported the use of social tariffs to ensure that all households, regardless of income level, could afford WSS services. The Sector Financial Policy also included various mechanisms to ensure poor service providers could access funds. In regard to *social development*, the Project encouraged active citizen participation and engagement through the creation of COMAS, which are made up of the managers of municipal corporations, organized civil society and/or residents, to oversee local policy and planning issues.²⁶ In addition, the GoH promoted the creation of USCLs, which are made up of 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. In addition, the staff at the autonomous municipal service providers developed outreach and communication material to guide their users on water conservation practices and how to read meters among other themes. The Project did not have a strong gender focus. A post-Project analysis of five PROMOSAS I service providers revealed that only 86 out of the providers' 466 employees were female. Women were also underrepresented in decision-making positions. As a result of this underrepresentation, PROMOSAS II will support the development and implementation of a gender strategy focused on promoting greater inclusion.

(b) Institutional Change/Strengthening

69. In regard to *institutional strengthening*, the Project provided training courses, study tours, and TA from international consultants for staff at municipal service providers and sector institutions. The SANAA training center in Siguatepeque will continue to offer training courses after the close of the Project, perpetuating this type of institutional strengthening. The Project also supported activities that focused on training the trainers. An additional, unexpected outcome was the formation of the Associations of Municipal Water Service Providers (AHPSAS). The Association formed during implementation to promote knowledge sharing. Currently 23 of the municipal service providers are involved in the association.²⁷ In regard to *institutional change*,

²⁵ While the AF targeted poor municipalities (C or D as per the Municipal Poverty Index), the original Project did not add a poverty filter. The focus was on modernization, and the majority of the municipalities that participated were not poor in comparison to other municipalities in Honduras.

²⁶ CONASA assists in the initial training and establishment of the COMAS.

²⁷ Some of the results include: (i) 2 water operator's partnerships led by AHPSAS: CONAGUA, Aguas de Medellin, and one international exchange event with SUNASS; (ii) Several local exchange events with national providers, including providers that are

the success of the Project – as seen in improved service quality and efficiency - has validated the decentralization process and has helped to consolidate support for the implementation of the WSS Framework Law.

(c) Other Unintended Outcomes and Impacts (positive or negative)

70. Another positive, unintended outcome was the development of five-year business plans to guide municipal service provider's post-Project. The UAP, ERSAPS and TA helped the providers develop these plans, and the providers, during the ICR field visits, displayed considerable ownership of the plans. The plans included activities aimed at protecting watersheds to ensure continued access to quality water. This is especially important, as the impact of climate change on water resources has become increasingly notable in Honduras.

4. Assessment of Risk to the Development Outcome (Rating: Substantial)

71. The autonomous municipal service providers have, on a whole, reached a stable level of operation and are providing more efficient, reliable, and sustainable service. As mentioned above, the providers developed five-year business plan to guide their development post-Project. The capacity of the providers to implement the business plans, sustain the Project outcomes and continue to improve service quality, however, depends largely on the providers' capacity to bill and collect tariffs at a fair level.²⁸ Many providers improved their financial position drastically after decentralization. This was in part because SANAA was tremendously inefficient. For example, after the 2008 decentralization in Siguatepeque, employees per 1,000 connections went from 5.5 to 2.3 and collection ratios went from 35 to 113 percent. Cost recovery surged from 63 to 123 percent in two years. After these tremendous initial gains, however, cost recovery began to decrease because the Municipality did not increase tariffs for three years.²⁹ To maintain the gains from decentralization, the service providers need political support to keep tariffs at an adequate level. Ideally, ERSAPS and the USCLs would be able to depoliticize tariffs and enforce annual adjustments in rates.

72. The WSS institutions, however, have limited enforcement power and depend heavily on outside financing to operate. For example, at the time of the Project's close, ERSAPS neither had the authority to enforce its regulations nor the financing to carry out its basic functions and to provide consistent support to the USCLs. Fifty percent of ERSAPS' staff was financed by the Project, and few USCLs were operational. The commitment of the GoH to the sector reform is critical for the improvements and tools developed under Project to be maintained. The deadline for decentralizing the remaining systems operated by SANAA has been missed with no consequences, decreasing the urgency for SANAA to fully develop its capacity as a TA agency and limiting the relevance of CONASA and ERSAPS. Until the decentralization process is finalized, SANAA will remain, to a certain extent, the de facto leader of the sector.

73. The planned follow-up project, PROMOSAS II, will mitigate the risks of providers' and institutions' performance backsliding. Nevertheless, the ICR team maintained the risk as Substantial given that the current political environment in Honduras is far more challenging than when the Project launched in 2007.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry (Rating: Moderately Satisfactory)

74. The Bank only had eight months to prepare the Project given a pressing deadline to access available IDA funds. Despite this short preparation period, the Bank conducted a thorough

not part of PROMOSAS; (iii) Representing the sector in the national water council – CONAGUAH, gaining recognition from sector institutions and other sectors as well and (iv) CONAGUAH is led in this case by the ministry of agriculture.

²⁸Tariff reviews will probably be put on hold in the short-term, as local authorities seeking reelection in 2018 are unlikely to raise water tariffs in 2017.

²⁹World Bank, A Public Expenditure Review. *Honduras: Decentralization of Water and Sanitation Services*.

background analysis and aligned the Project with the GoH's sector objectives and priorities. The Project's flexible TA approach at the municipal and national levels revealed an in-depth knowledge of the Honduran WSS sector and was key to the Project's success across the changing priorities of three presidential administrations. The Project was ambitious in its decision to support the GoH's sector reform at the national level, yet solid in its reasoning. As past Bank experience has shown, long-term sustainability is closely linked to the presence of a developed institutional framework. At design, the GoH was attempting to establish the national level WSS institutions and needed further assistance to do so. The Bank had significant value to add in institutional strengthening activities and designed the strengthening components to focus on realistic/manageable, "stepping stone"-type improvements. In addition, the country context at design was quite distinct from the country context at the time of the ICR. At the time of design, Honduras' had a relatively stable democracy, and the GoH was motivated to carryout a transformative institutional modernization project. By Project closing, the political context of the country was far more fragile. Another highlight of the design was the inclusion of the NRW PBC, which was novel for Honduras at the time. Minor design shortcomings included the M&E Results Framework, which proved to have a number of indicators that were subject to misinterpretation. The Bank also underestimated the risk of community resistance to micrometers and overestimated the degree of acceptance of the PEMAPS.

(b) Quality of Supervision (Rating: Moderately Satisfactory)

75. For the first five years of implementation, the Bank Task Team provided consistent and hands-on support to guide the Project. Although three TTLs led this Project during this time period, new TTLs were incorporated in Project supervision before officially taking charge. This created smooth transitions and did not present significant disruptions in terms of implementation. During this time period, the Task Team demonstrated flexibility and adaptability to changing policies and disruptive events. For instance, as the PEMAPS lost relevance, the Task Team adjusted the Project's course. When employment generation became critical in Honduras, the Task Team shifted funds to focus on activities that would help spur employment. When it became clear that the original Project had underestimated the time and cost of improving service quality and continuity, the Team smoothly integrated an AF to advance progress. Although the AF was critical to the success of the Project, it resulted in a design shortcoming—the inclusion of small municipalities in the Project. The decentralization approach supported by the Project was more effective for mid-sized cities than small-sized cities. This shortcoming was exacerbated by a two-year gap in supervision that took place directly after the AF. The TTL in charge of the Project took a hands-off approach to supervision, and Project progress suffered. During this period, the UAP highlighted how the Bank's slow response on procurement processes limited the agility of the Project. Nevertheless, the Project made an impressive recovery during the last 18 months of supervision when Bank management assigned a local TTL as well as a lead sector expert to the Project. The impact of having a local team managing the Project enabled very close supervision that propelled the Project to a Moderately Satisfactory finish. For the majority of the Project, the Task Team was actively involved in supervising the Project. Furthermore, the Task Team effectively coordinated efforts with the WSP on a number of TA focused activities, including the development of the Sector Financial Policy. The Bank team provided effective supervision on safeguards, procurement and FM issues. Overall, the UAP expressed a high-level of satisfaction with Bank supervision support but requested additional environmental and social support from the Bank on sensitive issues, such as the installation of micrometers, in PROMOSAS II.

(c) Justification of Rating for Overall Bank Performance (Rating: Moderately Satisfactory)

76. Given the two ratings above, the ICR team rated overall Bank performance as Moderately Satisfactory.

5.2 Borrower Performance

(a) Government Performance (Rating: Moderately Satisfactory)

77. The GoH's decision to manage the Project from SEFIN, consistent provision of counterpart funds and the approval of PLANASA and the Sector Financial Policy greatly facilitated Project implementation. Although the GoH provided adequate support to the Project, the GoH's delay in establishing deadlines for the decentralization of SANAA as well as limited support for sector institutions, especially in regard to funding for ERSAPS and CONASA, reduced the Project's potential impact on institutional strengthening activities. Nevertheless, the GoH's continuous support for the WSS reform was notable given the changes in presidential administrations, the appearance of new counter-reform proposals, and the resistance of the politically powerful SANAA labor union. Furthermore, the GoH's endorsement of the WSS decentralization process in the Country Vision and National Plans will help consolidate PROMOSAS' achievements.

(b) Implementing Agency or Agencies Performance (Rating: Moderately Satisfactory)

78. The UAP/SEFIN team was the central implementing agency, responsible for the majority of Project activities. At the beginning of the Project, the Task Team noted limited commitment on behalf of the UAP/SEFIN team given their various commitments beyond the Project and limited vested interests in the sector. The UAP, however, was quickly strengthened and coordinated the Project with great care. Staff turnover within the UAP was very low, permitting consistent leadership. On the ICR field visits, it was clear that the UAP had been actively exercising its role as the supervisor and coordinator of Project activities. The UAP was up-to-date on the details of Project progress and also had significant rapport with the various autonomous municipal service providers the ICR team visited. The UAP encountered minor procurement and M&E issues during implementation but successfully improved performance over the course of implementation. Austerity measures limited the capacity of the UAP as well as the motivation of the team. During this period, the GoH confiscated the UAP's vehicles, limiting their capacity to visit the field, and declined the UAP's requests for reimbursement for the costs of using their own vehicles. This limited morale and resulted in a temporary drop in the quality of supervision and coordination.

79. SANAA was responsible for leading implementation of the NRW component and the activities in preparation for the transfer of services in Tegucigalpa. SANAA successfully oversaw the implementation of the PBC. SANAA labor union resistance, however, limited the reach of the activity. In particular, the incorporation of the new meters in the organization's day-to-day operations and the knowledge exchange foreseen between the firm and SANAA staff.

80. CONASA was responsible for leading implementation of Part 3A, which included TA for institutional strengthening at CONASA, ERSAPS and SANAA. CONASA successfully oversaw the development and approval of the sector financial policy, a critical document for the health of the Honduras water sector.

(c) Justification of Rating for Overall Borrower Performance (Rating: Moderately Satisfactory)

81. Given the two ratings above, the ICR team rated overall Borrower as Moderately Satisfactory.

6. Lessons Learned

82. *Designating a non-sector entity to manage implementation in difficult operating environments.* The success of a Project is largely dependent on the effectiveness of the Project Implementation Unit (PIU). Choosing a PIU, however, can be complicated, especially when there are several sector agencies with potentially competing interests, there is a lack of capacity at the sector level and/or the sector is undergoing a reform. In these cases, it is worthwhile to evaluate the possibility of positioning the PIU within a non-sector entity. The success of the PROMOSAS Project was largely tied to the positioning of the PIU/UAP within SEFIN. The UAP was able to act as an "honest broker" between various sector actors, had greater procurement and fiduciary capacity than the sector institutions, and was in a better position to ensure adequate budget

assignments. The Project's inclusion of a clause in the Financing Agreement that established changes to key staff could only be made if satisfactory to the Bank further strengthened the effectiveness of the UAP by promoting continuity in leadership.

83. *Enhancing selection criteria and utilizing competition to motivate reforms.* Establishing selection criteria can help filter participants who are not highly committed to a project and increase the feeling of selectivity/exclusivity for those who are. The TA highlighted two pre-conditions that could have been used with PROMOSAS: (i) the degree to which the providers were measuring water consumption and utilizing meters; and (ii) whether or not tariffs had been adjusted in the last two years. To inspire competition and continued commitment, preconditions such as these could be also used as part of a stepped approach to access additional funding after access to the first phase of funding. In addition to these benefits, pre-conditions and selection criteria can be used to determine the capacity-levels of the participants and to differentiate the Project's approach accordingly. For instance, in the case of PROMOSAS, there were two clear groups of "eligible municipalities," mid-sized cities and small cities, with distinct realities and capacities. The small cities had far lower capacity, most notably in the lack of human resources, to operate and manage the system and were not prepared to implement the same level of activities as the mid-sized cities. They needed far more on-the-ground assistance. A differentiated approach that focused on first building leadership (one of the key determining factors in the success of each PROMOSAS provider) and the small cities' providers' team could have helped the small cities assimilate the subsequent TA more effectively.

84. *Supervising in a client-focused, adaptive and hands-on style.* The gap between Project design and Project implementation is significant as a Project's design includes many projections on the operating environment on the ground. In addition, the reality on the ground is always changing. A strong alignment between the Project and sector laws and long-term strategies as well as a hands-on, client-focused, adaptive approach is key given this reality. In the case of PROMOSAS, the operating environment – between a coup d'état, three different presidential administrations, and the implementation of national austerity measures – was changing rapidly. In addition to the Project's direct support of sector laws and strategies, having a local team on the ground and a flexible approach to TA proved invaluable given these circumstances. The task team was able to provide close supervision and tweak the Project to respond to changing needs as necessary. The extension of the Project from five to nine years was also key to maintaining the high-level reform process in Honduras' ever-changing political environment. The Project supplied an apolitical, steady source of financing for the sector reform.

85. *Implementing NRW PBCs in high-risk countries.* In countries where PBCs are novel, including capacity building on the PBC model is key. Explaining the PBC's conceptual design to all interested parties (potential contractors and supervisors) at the outset of the Project, ideally during a pre-bid meeting, can help improve the quality and quantity of the proposals. A kick-off workshop with all actors, including the contract designers, can also help facilitate implementation. For PROMOSAS, the overall performance-based portion of the PBC was quite limited (15 percent) given the country risk. Nevertheless, a higher amount would probably have better focused the contractor's attention on achieving results. In addition, given their complexity, PBCs require significant implementation time and resources. The proposed duration of PROMOSAS' PBC, 30 months, was too short and the resources assigned (to the engineering phase in particular) were too limited. The time, effort, and financing required to implement PBCs in high-risk countries may not be justifiable for small contracts.³⁰

86. *Overcoming resistance to metering through pilots.* Meters oftentimes invoke images of privatization and high tariffs. Overcoming this image and the associated community resistance to

³⁰ Michaud, David. "NRW Management: The Case of Tegucigalpa." Published in a report by The International Water Association, 2017.

meters is challenging but crucial for both the installation and long-term sustainability of the meters. In addition to providing social outreach campaigns on the use of meters, PROMOSAS autonomous municipal service providers highlighted the utility of beginning micro metering programs in pilot zones, showing the tangible benefits of the meters, and gradually extending metered-areas outwards to cover their entire service area.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies

87. The UAP's closing report on the Project (*See Annex 6*) is aligned with the ICR. The UAP also reviewed the ICR and agreed with the large majority of the report. They highlighted the level of ambition of the initial indicators and the difficulty of establishing an initial baseline. Looking forward to the PROMOSAS II Project, the UAP recommended additional Bank social and environmental supervision, especially for sensitive issues such as the installation of micrometers and the development and implementation of social outreach campaigns. The UAP also recommended more hands-on Bank support for M&E activities. Most of the UAP's comments have been incorporated in the report. The UAP and the ICR teams, however, had different views on the achievement of the PDO-level indicator on continuity *At least 5 of the WSS utilities increase their service continuity rating by one category defined by ERSAPS's performance indicators*. The UAP regards the indicator as achieved given that Puerto Cortes began in Category A and remained in Category A. The ICR team, however, does not concur as the indicator specifies that there must be an increase in rating by one category.

(b) Other partners and stakeholders

No stakeholder workshop was conducted; there were no other co-financiers or partners for this Project.

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	With Additional Financing (2010)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal + AF
Component 1	21.2	30.00	24.20	80.67%
Component 2	4.5	4.5	7.71	171.33%
Component 3	7.7	8.4	8.86	105.48%
Component 4	1.6	3.02	4.06	134.44%
Total Baseline Costs	35.00	45.92	44.83	97.62%
Physical Contingencies	0.00	0.00	0.00	
Price Contingencies	0.00	0.00	0.00	
Total Project Costs	35.00	45.92	44.83	97.62%
Front-end fee PPF	0.00	0.00	.00	
Front-end fee IBRD	0.00	0.00	.00	
Total Financing Required	35.00	45.92	44.83	97.62%

(b) Financing

Source of Funds	Appraisal Estimate (USD Millions)	Revised Estimated* (USD M)	Actual/Latest Estimate (USD M)	Percentage of Appraisal
Borrower	5.00 (3.4 from Municipalities and 1.6 from GoH)	5.13	4.88	100%
International Development Association (IDA)	30.00	40.00	39.95	99.8%
*Revised estimated includes AF				
TOTAL	35.00	45.13	44.83	99.9%

Annex 2. Outputs by Component

	Component	Type of Investment/Outputs
Municipalities	1A	<ul style="list-style-type: none"> Contracting of TA firm Supervision of works Studies: diagnostics, investment plans and designs for each municipality/provider Development of investment and business plans for the service providers
	1B	<ul style="list-style-type: none"> Contracting of small works or water system rehabilitation work Acquisition of tools to manage the water systems Computer equipment, furniture and equipment for the office, work vehicles Tanker trucks for carrying drinking water Acquisition and installation of equipment to disinfect water Acquisition and installation of micro and macro meters Development of communication/outreach material on water conservation and metering
	1C	<ul style="list-style-type: none"> Construction of drinking water lines Construction of storage tanks and pipelines, improvements in the network Construction and rehabilitation of water treatment plants Construction of sewerage systems Construction of offices for water service providers Drilling of and equipment for water wells Detection and repair of leaks in the water network
SANAA	2	<ul style="list-style-type: none"> Execution of a pilot project to reduce NRW in an area that covers 200,000 residents that utilized a performance-based contract. Contracting of a firm to supervise the pilot.
	3A	<ul style="list-style-type: none"> Remodeling of and equipment for the office for the pilot project of TA offices for SANAA in Siguatepeque. Acquisition of office and computer equipment and furniture of the office. As well as vehicles Support for the implementation of workshops
	3B	<ul style="list-style-type: none"> Severance payments for the transfer of SANAA systems to the municipalities of Danli, Siguatepeque and Comayagua
	3C	<ul style="list-style-type: none"> Contracting of consulting firms for the preparation of studies to support the transfer of the Tegucigalpa system from SANAA to the Municipality. Specifically, the Project financed: <ul style="list-style-type: none"> Specialized consulting to the Municipality on the transfer and diagnostic of the system A study to calculate the required severance payments

		<ul style="list-style-type: none"> ○ Audit of EFAs and accounting separation for SANAA in 2010 and 2011 ○ Audit of EFAs and accounting separation for SANAA in 2008 and 2009 ○ Elaboration of a cadaster of SANAA's networks and inventories ○ Audit updating SANAA's furniture, equipment and inventory
ERSAPS	3A	<ul style="list-style-type: none"> ● Contracting of consultants ● Equipment, furniture, computers and vehicles for the offices ● Support for carrying out workshops ● Equipment (computer equipment, lab kits and motorbikes) for carrying out water tests at the 11 municipal control units ● Development and publication of regulations on: the quality of WSS services; attention to inquiries and complaints from users; infractions and sanctions; fees for supervision, inspection and counseling from ERSAPS; and tariffs for urban WSS services. ● Support to ERSAPS' outreach efforts to build monitoring and regulatory capacity at a local level through financing capacity building activities and equipment for USCLs
CONASA	3A	<ul style="list-style-type: none"> ● Contracting of consultants ● Equipment, furniture, computers and vehicles for the offices ● Support for carrying out workshops ● Development and printing of Sector Financial Policy & PLANASA ● Development of an organizational structure for SANAA post-decentralization ● Development and implementation of a WSS Information System (SISAPS) ● Support to CONASA' outreach efforts to build the capacity of COMAS ● Support developing the 2016 Monitoring Country Advances in WSS (MAPAS) Report

Annex 3. Economic and Financial Analysis

A. Economic Analysis

1. The project's objective was to improve the sustainability, efficiency, and reliability of Honduras's water supply and sanitation services in the participating municipalities. To achieve this, the following activities were included in the project: a) support municipalities to create autonomous WSS providers and invest in efficiency, rehabilitation, and expansion of the services; b) reduction of non-revenue water in Tegucigalpa; and c) institutional strengthening of National and Regional WSS entities.

2. The infrastructure works have directly benefited a total of 13,167 families with access to improved water services and 3,786 families with access to improved sanitation. The improvements in the utilities indirectly benefitted 108,000 families with improved WSS service

Methodology Used during Preparation

3. During preparation, economic and financial analyses were conducted for interventions under Subcomponents 1B and 1C (Provision of goods, works, services, and training to Eligible Municipalities), and 2 (Tegucigalpa Non Revenue Water Reduction). A sample of potential participating municipalities were chosen for the evaluation as follows: a) for component 1, three utilities: La Ceiba, Choluteca, and Siguatepeque³¹; and for wastewater on project in La Esperanza; b) for component 2, four water sub-projects in neighborhoods in Tegucigalpa were evaluated.

4. At appraisal, the evaluation used a cost benefit analysis. Benefits were estimated as resource savings for the economy resulting from a better use of water resource by the utility and by the customers. Some connected users were expected to benefit from improvement in service reliability and continuity. No increase in coverage was expected. Specifically, economic benefits measured at appraisal included: a) cost savings in operations, b) reduction in coping costs faced by population due to poor service (price of water purchased to private vendors; cost of time when fetching water from additional sources), and c) value of health savings.

5. Expected returns in water supply interventions varied in a range from 13% to 61%, while the wastewater subproject did not return positive results. The cash-flows were discounted over a 20 year-period using a 12% discount rate. In 2013, an additional financing of US\$10M was prepared. At this time, the economic evaluation was updated with assumptions adjusted to actual numbers from project implementation. The evaluation at AF included only interventions to finance under the additional US\$10M and did not include interventions financed under the original project. Therefore, the results showing 9% return are not comparable to expected returns at appraisal, as the scope of the interventions was different.

Table A3.1. Expected and Actual Returns

	Expected Returns PAD %	Expected Returns AF %
Component 1		
La Ceiba	61%	
Choluteca	17%	

³¹ During implementation, only Siguatepeque benefited from project interventions.

Siguatopeque	24%	
Component 2		
Water (NRW Tegucigalpa)		
PRAAC-EU barrios en desarrollo	20%	
Barrios en desarrollo Tegucigalpa	31%	
La Masica	43%	
La Esperanza	13%	
Wastewater		
La Esperanza	No positive Return	
Total	33.5%	9%

6. A financial analysis was also conducted for eligible sub-projects, with results showing that many of them were expected to be financially unfeasible. The resulting deficit was expected to be covered by the OBA (Output Based Aid) subsidy. Financial benefits were measured based on the income/revenue and expenditure streams of the project. The increase of revenue was expected from: a) increase in volume of water billed to customers, b) increase of revenue collection rate, and c) improvement of the customers' database and cadaster update.

Methodology Used for this ICR

7. The evaluation for this ICR followed the same methodology used during preparation: a cost benefit analysis, now based on *actual* achievements and costs of works and activities implemented. Actual costs and benefits were compared with those foreseen at time of appraisal. Flow of actual benefits and costs were transformed to 2007 prices to make them comparable to those expected. The same discount rate (12 percent) and time period (20 years) were used.

8. Net benefits were estimated as the incremental benefit of two scenarios: *with* and *without* interventions. For the *with* interventions scenario, actual costs and actual benefits were projected per each municipality. For the *without* project scenario, costs and benefits were projected under a business as usual scenario.

9. Benefits resulted from efficiency gains attained from the interventions. Economic benefits were measured as: a) operating costs savings from reductions in non-revenue water and b) customers' benefits resulting from water supply and quality improvement and decrease of rationing. Financial benefits were measured as savings of operating costs and increase of revenues due to improvement of water distribution and billing practices.

10. For this ICR, the evaluation of Component 1 was conducted for five out of nine municipalities that implemented infrastructure works, whose costs represent 70% of total cost of works in Component 1. Not enough information was available to evaluate interventions in SANAA under Component 2.

Costs

11. Expected cost of interventions were US\$45M (US\$35M during appraisal and US\$10M for the Additional Financing). Actual cost of interventions was US\$ 44.8M, differing just 0.4% from expected costs.

Table A3.2: Expected and Actual Costs

	Expected Investment Cost (Million USD)		Actual Investment Costs
	PAD	With AF	Nominal USD Million
1. Supporting eligible municipalities to create autonomous service providers	21.20	21.92	24.20
2. Tegucigalpa Non-Revenue Water Reduction	4.50	8.17	7.71
3. Institutional Strengthening of National and Regional WSS institutions	7.70	7.71	8.86
4. Project Management	1.60	3.02	4.06
Unassigned		4.18	
Total	35.00	45.00	44.83

12. The funds used to pay for investment consisted of: 89% from the World Bank (IDA funds); 6% from the government of Honduras; and 5% from Municipalities.

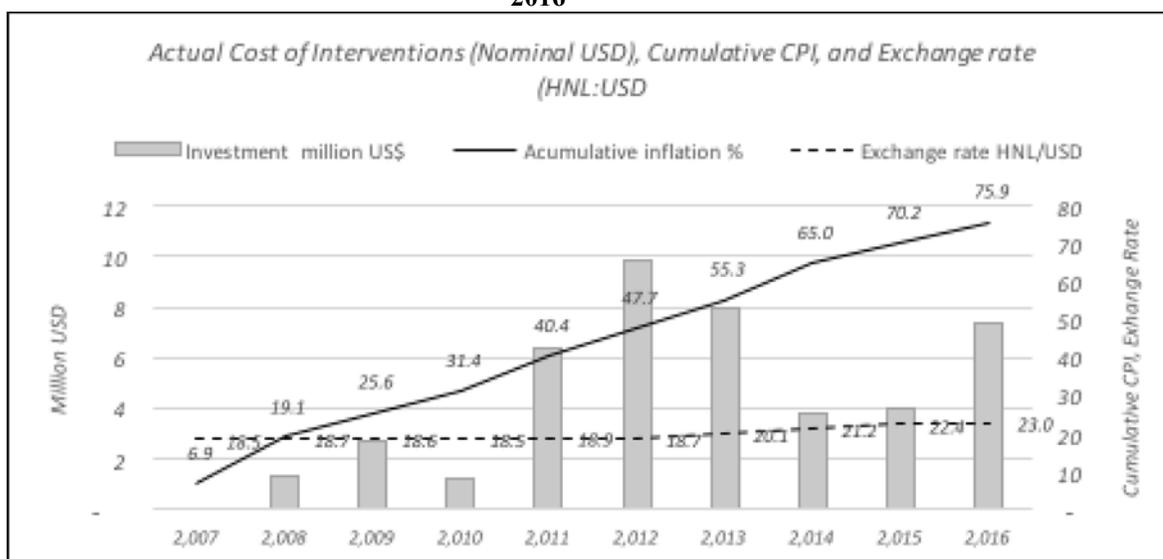
Table A3.3: Composition of funds of Actual Investment

	Actual Cost Million US\$	%
World Bank	39.71	88.6 %
Government of Honduras	3.01	6.3 %
Municipalities	2.11	5.1 %
Total	44.83	100.0%

13. For this evaluation, the investment costs were transformed to 2007 prices to make them comparable with the ones expected at appraisal. To make the transformation, the cost of the activities was broken down per currency and date of occurrence. This allowed for exchange rate fluctuation of the Honduran lempira (Lps) and inflation during the implementation period. Disbursements from the loan were transformed to nominal Lps using the exchange rate at time of disbursement. Then they were transformed to 2007 Lps using 2007 exchange rate. Counterpart funds were transformed to 2007 Lps using the CPI index from the time of appraisal to the date when funds were invested.

14. From the time of preparation in 2007 to the end of the implementation period in 2016, the exchange rate went from Lps 18.45: USD 1.00 to Lps 23.01: USD 1.00; that is, the Honduran Lempira lost 20 percent of its value against the USD. The inflation rate was as high as 70 percent in the same period. Each disbursement and payment was affected differently depending on the time of occurrence. Results show that total cost was affected by an average exchange rate of Lps 20.2: USD 1.00, which corresponded to 8.7% average depreciation; and 31% average inflation.

Figure A3. 1. Actual Costs of Works, Exchange rate and Inflation during the period 2007-2016



15. Comparison of actual cost expressed in nominal Lps to actual costs expressed in 2007 Lps shows 11% difference, explained by 8.7% average depreciation of the local currency against the US dollar, and 31% of average inflation.

Table A3.4: Impact of Currency Fluctuation on the Cost of the Project

	Investment Cost (Million)		Difference %
	Nominal Lps	2007 Lps	
Actual Investment cost			
• World Bank Funds	800.1	730.6	-8.7%
• Counterpart Funds (GoH and Municipalities)	103.2	70.7	-31%
Total	903.3	801.3	-11%

16. The depreciation of the Lempira and the inflation was applied to the cost of all interventions evaluated for this ICR.

Investment per Municipality and Component

17. 54% of total investment went to the municipalities in component 1; 17% to NRW program in Tegucigalpa in component 2; 20% to Institutional Strengthening of National and Regional Entities (SANAA, CONASA, and ERSAPS) in Component 3; and 9% to Project Management in Component 4.

18. Actual investment in the municipalities was US\$ 24M, 87% of which came from World Bank funds, 4% from the GOH; and the remaining 9% from the Municipalities. 48% of the Component 1 went to infrastructure works, 33% to technical assistance, and 19% to efficiency improvement.

19. For this evaluation, the costs of non-work activities (TA and project management) were included as part of the costs of the interventions, given the importance of these activities for attaining the benefits.

Table A3: Actual Investment Cost per Component and Source of Funds

	World Bank	GOH	Municipalities	Total	Share %
Component 1. Promote Medium Size Municipalities	21.03	1.07	2.11	24.20	54%
1.A Technical Assistance	8.22	0.02	0.00	8.24	
1.B Tooling and Efficiency Improvement	3.74	0.11	0.38	4.23	
1.C Investments	9.07	0.93	1.73	11.73	
2. Tegucigalpa Non-Revenue Water Reduction Program	7.71	0.00	0.00	7.71	17%
3. National and Regional Institutional Strengthening	8.09	0.77	0.00	8.86	20%
3.A Technical Assistance	2.16	0.17	0.00	2.33	
3.B Severance Payment	3.95	0.60	0.00	4.55	
3.C Preparation Transfer Tegucigalpa	1.97	0.00	0.00	1.97	
4. Project Management	2.88	1.18	0.00	4.06	9%
<i>Total</i>	<i>39.71</i>	<i>3.01</i>	<i>2.11</i>	<i>44.83</i>	<i>100%</i>

20. Details of investments per municipality from World Bank funds show that the municipalities with the highest investment were Choloma, and Siguatepeque, which received 4.4 and US\$ 3.1M respectively. Comayagua, La Lima, Mancomunidad, and Puerto Cortes received in average US\$ 2.5M.

Table A3.6: Actual Investment Cost per Municipality (WB Funds)
Million US\$

COMPONENT 1	1A	1B	1C	Total
Municipalities:				
• Choloma	1.2	0.8	2.4	4.4
• Comayagua	1.2	0.3	1.1	2.6
• Danli	1.0	0.4	0.4	1.8
• La Lima	0.9	0.3	1.0	2.1
• Mancomunidad	1.1	0.4	0.7	2.1
• Puerto Cortes	1.0	0.3	1.5	2.8
• Siguatepeque	1.2	0.6	1.3	3.1
• Teupsenti	0.6	0.1	0.2	0.9
• Tutule	0.6	0.0	0.6	1.2
TOTAL COMPONENT 1	8.7	3.1	9.2	21.0
COMPONENT 2				
SANAA	7.7	-	-	7.7
TOTAL COMPONENT 2	7.7			7.7
COMPONENT 3	3A	3B	3C	
SANAA	0.6	4.0	2.0	6.5
CONASA	0.5	-	-	0.5
ERSAPS	1.1	-	-	1.1
TOTAL COMPONENT 3	2.2	4.0	2.0	8.2
COMPONENT 4				
Project Management	3.0	-	-	3.0
TOTAL	21.6	7.1	11.2	39.9

21. SANAA received funds to its program of non-revenue water reduction, as well, as to institutional strengthening, in the three areas included in Component 3: technical assistance, severance payments, and preparation to transfer. SANAA received in total US\$14M or 36% of World Bank funds. Other entities beneficiaries of institutional strengthening component were CONASA and ERSAPS.

Sample

22. This evaluation was conducted for interventions under Component 1 in five municipalities: Choloma, Comayagua, Danli, Puerto Cortes, and Siguatepeque—with a total population of about 388,860 inhabitants. Coverage of the water service was close to 100%, yet the service was intermittent and in many cases the water quality was not potable.

Table A3.7: Population and Connections in the municipalities selected in the sample

	Population 2016	Households with water Connections	Households with Sewerage Connections
Municipalities:			
• Choloma	131,935	26,387	21,060
• Comayagua	81,620	16,324	-
• Danli	40,235	8,047	-
• Puerto Cortes	78,180	15,636	5,544
• Siguatepeque	56,890	11,378	6,837
TOTAL	388,860	77,772	33,441

Benefits

23. Benefits from interventions result from efficiency improvement attained at the utility level from activities implemented under the project. Efficiency gains attained were: a) reduction of Non-Revenue-Water (both physical leaks and commercial losses), b) improvement of commercial efficiency (better revenue collection rates, better cadaster of customers, and better billing practices based on actual consumption, and c) improvement of continuity and quality of the services in areas poorly served.

24. Financial benefits were measured from the operator’s perspective as savings of operating financial costs and increased revenues. Cost and revenues were estimated based on actual figures of production, operating costs, billing database, and actual tariffs in each of the utilities. Information was obtained during the implementation period.

25. Economic benefits were measured as: a) savings costs in the operation of the service when physical losses were reduced; and b) reduction of coping costs faced by population due to poor service (mainly price of water purchased to private vendors and price of containers to store water). The magnitude of benefits was different among municipalities depending on specific situation of the service when the project started implementation and actual achievements with the interventions.

26. *Savings of operating cost* was estimated as the volume of water reduced multiplied by the production and operating cost per cubic meter. This estimation was based on utilities’ figures of volume of water produced, water losses, and cost of producing and distributing a cubic meter along the implementation period.

27. Improvement from the project was measured through: a) reduction of unaccounted for water; however, the information of volume of water billed before implementation was uncertain

for some municipalities where meters were non-existent and monthly bills were fixed regardless of consumption. Instead, volume of water was more reliable. All the municipalities but Comayagua reduced the volume of water produced per connection as efficiencies were gained; b) revenue per cubic meter produced increased in all municipalities; and c) continuity of water supplied, measured by hours of service per day increased, though it still has ample room to improve.

28. In all municipalities, intermittence of the service reduced, but was not eliminated. Some utilities do not show much improvement in the average indicator, yet the distribution of water improved and some areas are better served.

Table A3.8: Achievements from the Project

	Volume of water produced per connection (m ³ /year)		Revenue per cubic meter produced (L/m ³ produced)		Continuity of water supplied (hours per day)	
	Before	After	Before	After	Before	After
Municipalities:						
• Choloma	632	541	3.10	3.27	7	13.5
• Comayagua	620	629	1.63	2.37	12.18	12.5
• Danli	626	565	2.71	4.06	3	7.8
• Puerto Cortes	754	668	3.94	5.08	22.34	23.2
• Siguatepeque	423	380	2.42	4.92	3	7.83

29. Important but unquantifiable benefits were not included in the evaluation, such as: scarcity of the water resource, competitive uses, or environmental externalities, and so results may be underestimated.

30. *The customers' benefit* was estimated from savings on coping costs when water quality and continuity improved. The benefit varied among municipalities; a) in some, population had to fetch water from water sources nearby, facing poor water quality, small quantities, and spending time pursuing water, b) in other municipalities, population relied only on the deficient quantity supplied by the utility, facing small quantities, and high price from private vendors. During preparation, it was found that vendors charged US\$ 0.40 for a 19-liter container of water, which roughly equates to US\$ 21/m³.

31. Currently the service is still intermittent in all the municipalities, and so people still must face difficulties to get additional water to supply their needs. The coping costs are still high, yet they have reduced as water supplied increased. Price paid to private vendors is high and it varies from Lps 180/m³ to Lps 50 to 25 per container of 55 gallons, which in terms of cubic meter ranges from Lps 120 to Lps 240, which corresponds to about US\$5 to \$10 per m³.

Table A3.9: Coping costs

Choloma	<ul style="list-style-type: none"> • L.50/container of 55gallons • Water Truck
Comayagua	<ul style="list-style-type: none"> • L.50/container of 55gallons • Water Truck
Danli	<ul style="list-style-type: none"> • Private vendor charging 180 Lps/m³
Puerto Cortes	<ul style="list-style-type: none"> • Stream at 10km
Siguatepeque	<ul style="list-style-type: none"> • L.30/container of 55gallons • Water Truck

32. The socio-economic situation of the population in the municipalities is difficult as their income level is low—they cannot afford to pay for all their water deficit, and the difficulties increase.

33. *Tegucigalpa Non Revenue Water Reduction.* It was designed and implemented under Component 2. The interventions were implemented in a specific area of Tegucigalpa as a case study, under a service contract with a private company to reduce technical and commercial water losses in a limited geographical area of the Municipality Metropolitan District. The achievement with the project was the execution of a pilot project to reduce NRW in an area that covers 200,000 residents that utilized a performance based contract.

34. The interventions targeted a more efficient usage of the water. The utility estimated that water leaks were reduced, and that customers have more control of their bills as their consumption is measured. The actual cost of this intervention was US\$7.7 million; however, its associated benefits could not be measured due to lack of information for the project area.

Results of the Economic Evaluation

35. Results of the economic evaluation show that the interventions in the municipalities were worthwhile as benefits surpassed the costs and returns are 22%, which is higher than the 12% discount rate.

Table A3. 10: Results of the Economic Evaluation

	Present Value of Flows (000 US\$)			IRR
	Costs	Benefit	Net Benefit	
• Choloma	3,754	4,921	1,167	15%
• Comayagua	1,915	2,382	467	15%
• Danli	1,446	3,341	1,895	21%
• Puerto Cortes	2,392	6,566	4,174	30%
• Siguatepeque	1,915	7,388	5,473	29%
TOTAL	11,422	24,599	13,177	22%

36. Current guidelines of the World Bank set lower than 12% discount rate to evaluate social projects. The recommended discount rate is linked to growth rate in the country: 3% per capita growth rate translates into a 6% discount rate, and per capita growth rate of 1%-5% yield discount rates of 2%-10%.

37. This evaluation was complemented with a sensitivity analysis to test the impact on the present value of net benefits under lower discount rates. Results show that the lower the discount rate the higher the benefits. 10% discount rate shows net benefits of US\$ 18M , while 6% shows US\$ 32M.

Table A3. 11: Sensitivity Analysis for Net Benefits under lower Discount Rate

	Present Value of Net Benefits (000 US\$)		
	12%	10%	6%
• Choloma	1,167	2,178	5,147
• Comayagua	467	956	2,423
• Danli	1,895	2,649	4,911
• Puerto Cortes	4,174	5,300	8,575
• Siguatepeque	5,473	7,075	11,813
TOTAL	13,177	18,159	32,869

Comparison between Actual and Expected Returns.

38. Actual returns are higher than expected at Additional Financing (9%), yet lower than expected at Appraisal (33.5%). As it was previously explained, the AF was conducted only for interventions to finance under the additional US\$ 10M and did not evaluate the whole project and so it is not comparable with results from appraisal or from this ICR.

Table A3. 10. Expected Returns at Appraisal

	Appraisal	Additional Financing	Actual Returns
Weighted Average ERR	33.5%	9%	22%

39. Among the reasons that explain lower than expected returns at appraisal can be cited: a) not all the municipalities evaluated at appraisal had interventions under the project. During appraisal three municipalities were evaluated (la Ceiba, Choluteca, and Siguatepeque), yet only Siguatepeque ended up join PROMOSAS. For this specific municipality, actual return is higher (29%) than expected at appraisal (24%). The situation among municipalities varies widely, at appraisal returns varied widely from 17% to 61% depending on the municipality, and consequently no comparison can be made when municipalities are different; b) During appraisal, health benefits were included, however, not included in this evaluation, as service improvement was not enough to eliminate the intermittence and guarantee reliability of water quality and quantity; and c) some of the benefits from metering and improvement of volume billed were not included as in specific municipalities, customers opposed metering.

40. The economic evaluation conducted during preparation of the AF was carried out including only the expected activities planned under the AF, estimating an “incremental ERR” for the additional financing portion, and not including the first phase. This ICR evaluates the works implemented under both phases and, therefore, the results are not comparable.

Table A3.12. Expected and Actual Returns

	Expected Returns PAD %	Expected Returns AF %	Actual Returns AF %
Component 1			
La Ceiba	61%		
Choluteca	17%		
Siguatepeque	24%		29%
Choloma			15%
Comayagua			15%
Danli			21%
Puerto Cortes			30%
Total Component 1			22%
Component 2			
Water (NRW Tegucigalpa)			
PRAAC-EU	20%		
Barrios en desarrollo	31%		
La Masica	43%		
La Esperanza	13%		
Wastewater			

La Esperanza	No positive Return		
Total	33.5%	9%	22%

41. Overall. The efficiency of the Project is rated Substantial, yet the following issues were addressed and included in the overall ratings: a) the information collected during the implementation was not enough to properly estimate the impact of the investments; b) the project took 9.5 years of implementation without adding benefits; c) even though water intermittence reduced, it is still a problem that needs future attention.

B. Financial Analysis

42. The financial evaluation of the project was conducted including actual costs and benefits as they were paid and received from the service operators. Costs consisted of only operating costs. Investment costs were funded by the Government and not by the operators. Benefits consisted of tariffs paid by the customers.

43. Costs and revenues consisted only of flow of incremental costs and revenues generated by the project, that is, those associated with the implemented interventions in their respective areas of influence. Similar to the economic evaluation costs and revenues were transformed to 2007 prices.

44. Results show that incremental revenues are higher than incremental operating costs, which reassures the sustainability of the works.

Financial Analysis of the Operators

45. The financial analysis of the operators differs from the financial analysis of the project in the following ways: a) the information included in the analysis corresponds to the whole operation of the utility and not just to the service provided at the area of the project; b) the figures correspond to the financial results of the whole utility expressed in nominal terms; and c) all programs being implemented by the operator are included.

46. The objective of this analysis is to test if the financial burden than the project will bring to the utility will not generate a risk to its viability. The information used for the analysis corresponds to the financial statements of the utilities during the implementation period. For some utilities information was available since 2010 and for others since 2013. For all, but Puerto Cortes, financial results of 2016 were available. Detail of financial results during the period is shown in table A3.14

47. Results show that the project will no generate a liability for the utility and revenues will allow the utilities complying with their financial obligations. All utilities, without exception s present better financial results as consequence of improvement of their capacity to systematically monitor their income and expenses because of the project. The municipalities not only reached full operating cost (Choloma showed 99% cost- recovery level) but presented surplus that allow them to partially fund capital investment.

Table A3.13: Cost Recovery

	Before the project	After implementation of works
Municipalities:		
• Choloma	90% (2013)	99% (2016)
• Comayagua	101% (2010)	128% (2016)
• Danli	68% (2011)	144% (2016)
• Puerto Cortes	101% (2010)	103% (2015)

• Siguatepeque	105% (2013)	153% (2016)
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48. Detail of results of income statement in each of the utilities is presented below.

Table A3. 14: Income Statement

(000 Lps)	2010	2011	2012	2013	2014	2015	2016
• <u>Choloma</u>							
Revenue				108,323	94,155	96,873	106,697
Operating costs				120,031	94,958	101,140	107,479
Net income				(11,708)	(803)	(4,267)	(783)
Cost recovery (%)				90%	99%	96%	99%
• <u>Comayagua</u>							
Revenue	11,824		15,232	16,041	18,672	25,781	25,435
Operating costs (w/o capital expenses)	9,165		9,020	9,745	10,830	8,822	11,451
Net income	2,660		6,212	6,297	7,842	16,959	13,984
Cost recovery (%)	129%		169%	165%	172%	292%	222%
Capital Expenses	2,574		3,585	624	1,274	5,510	8,404
Cost recovery (with capital expenses) (%)	101%		121%	155%	154%	180%	128%
• <u>Danli</u>							
Revenue		2,432	10,383	11,572	17,606	18,202	21,033
Operating costs		3,552	13,275	10,674	13,461	15,526	14,583
Net income		(1,120)	(2,892)	899	4,145	2,676	6,450
Cost recovery (%)		68%	78%	108%	131%	117%	144%
• <u>Puerto Cortes</u>							
Revenue	33,821	42,529	45,360	53,643	52,075	56,524	33,821
Operating costs	33,578	41,876	44,897	53,107	51,703	55,136	33,578
Net income	243	652	463	537	373	1,388	243
Cost recovery (%)	101%	102%	101%	101%	101%	103%	101%
• <u>Siguatepeque</u>							
Revenue				11,533	14,736	24,855	27,746
Operating costs				10,977	13,424	17,296	18,187
Net income				556	1,312	7,559	9,559
Cost recovery (%)				105%	110%	144%	153%

Annex 4. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Rosa Elena Bellido	Language Program Assistant	GSURR	
Diomedes Berroa	Lead Specialist	OPSPF	
Karla Chaman	Sr Communications Officer	EXTCD - HIS	
Ana Consuelo Funez Rosales	Country Program Assistant	LCCHN	
Pilar Elisa Gonzalez Rodriguez	Senior Counsel	LEGLE	
John V. Kellenberg	Manager	CASEE	
Nicole Andrea Maywah	Consultant	GEN01	
Jose Eduardo Mestre	HQ Consultant ST	GWADR	
David Michaud	Practice Manager	GWA03	
Dante Ariel Mossi Reyes	Senior Operations Officer	LCROS	
Fabienne Mroccka	Sr Financial Management Specialist	GGO22	
Gustavo Saltiel	Lead Water and Sanitation Spec	GWA04	
Maria Angelica Sotomayor Araujo	Lead Economist	GSU13	
Miguel Vargas-Ramirez	Sr Water & Sanitation Spec.	GWA03	
Rafael Vera	Consultant	GWA03	
Kimberly Vilar	Senior Social Development Spec	GSU04	
Meike van Ginneken	Practice Manager	GWA06	
Supervision/ICR			
Rosa Elena Bellido	Language Program Assistant	GSURR	
Etel Patricia Bereslawski Aberboj	Lead Procurement Specialist	GGO08	
Diomedes Berroa	Lead Specialist	OPSPF	
Michele Bruni	Consultant	ECSHD - HIS	
Karla Chaman	Sr Communications Officer	EXTCD - HIS	
Yoonhee Kim	Sr Urban Economist	GSU12	
Patricia Lopez Martinez	Senior Infrastructure Finance	GWA03	
Nicole Andrea Maywah	Consultant	GEN01	
David Michaud	Practice Manager	GWA03	
Dante Ariel Mossi Reyes	Senior Operations Officer	LCROS	
Fabienne Mroccka	Sr Financial Management Specia	GGO22	
Beate Gisela Mueller	Procurement Specialist	LCSPT - HIS	
Jose Simon Rezk	Sr Financial Management Specia	GGO22	
Luis Tineo	Lead Operations Officer	GFDRR	
Rafael Vera	Consultant	GWA03	
Kimberly Vilar	Senior Social Development Spec	GSU04	
Meike van Ginneken	Practice Manager	GWA06	
Marco Antonio Agüero	Sr Water and Sanitation Specialist	GWA03	Task Team Leader
Chloë Oliver Viola	Sr Infrastructure Economist	GWA08	ICR Team Leader
Elisabeth Eiseman	Consultant		ICR Author
Luz Maria Gonzalez	Consultant		ICR Economic and Financial Analysis

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY07		231.95
FY08		3.42
Total:		235.37
Supervision/ICR		
FY07		0.00
FY08		131.44
FY09		104.40
FY10		80.69
FY11		108.75
FY12		108.57
FY13		85.10
FY14		119.62
FY15		132.74
FY16		136.21
FY17		173.03
Total:		1,180.55

Annex 5. Stakeholder Workshop Report and Results

No stakeholder workshop was conducted.

Annex 6. Summary of Borrower's ICR and Comments on Draft ICR

Executive Summary

2008-2016 PROMOSAS Report

1. How did PROMOSAS emerge?

To support the implementation of the Sector Framework Law, decentralization and potable water and sanitation services were strengthened in several municipalities of Honduras.

On November 16, 2007, the Republic of Honduras and the International Development Association (IDA) formalized the original contract of Credit AIF-4335-HO, aimed at the implementation of the Potable Water and Sanitation Sector Modernization Project (PROMOSAS, by its Spanish acronym), for the amount of US\$ 30.0 million with matching funds of US\$ 5.0 million dollars.

Subsequently, on July 12, 2013, an Additional Financing Credit Agreement AIF-5270-HO of US\$10.0 million with a matching amount of US\$ 900.0 thousand dollars was signed. Both to be finalized on December 31, 2016.

2. What is PROMOSAS?

PROMOSAS is a project of the Republic of Honduras implemented by the Ministry of Finance through its Project Management Unit.

The project aimed to improve sustainability, efficiency and reliability of the water and sanitation sector in the country by improving the performance of the national institutions of the sector. The PROMOSAS approach was oriented towards the urban areas of the municipalities with populations between 40,000 to 300,000 inhabitants.

To distribute the additional funding, municipalities with urban populations between 10,000 and 40,000 inhabitants, which have poverty levels that are classified as category D or C were identified. PROMOSAS helped to establish water service providers at the municipal level, by combining technical assistance in reform writing and investments, based on a “hands-on” approach.

3. PROMOSAS Project Beneficiary Municipalities



4. The creation of 7 Water and Sanitation Decentralized Units through PROMOSAS

- Teupasenti Unit
- Danli Unit
- Tutule Unit
- Comayagua Unit

- La Lima Unit
- Mancomunado Provider (Villanueva, San Manuel y Pimienta)
- Siguatepeque Unit

- ◇ Two existing water companies benefited: Choloma and Puerto Cortes.
- ◇ Technical assistance, training, tools, and equipment given to 9 Water and Sanitation Suppliers, as well as investments in construction works and buildings.
- ◇ Seven percent of the national population in total benefited from the PROMOSAS Project.

5. PROMOSAS Objectives

PROMOSAS has two objectives:

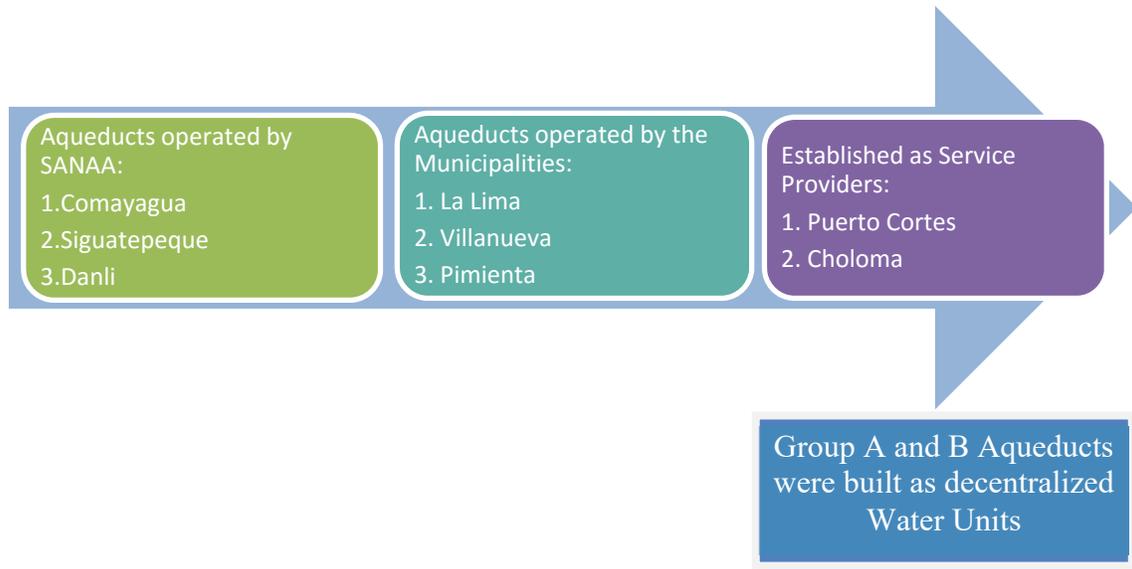
1. To improve the sustainability, efficiency and reliability of water and sanitation sector service providers in beneficiary municipalities.
2. To improve the performance of the water and sanitation national institutions in their respective roles in alignment with the Sector Framework Law.

6. PROMOSAS Components

PROMOSAS has five components:

- | | |
|---|--|
| 1 | ▪ Support for Medium Sized Municipalities |
| 2 | ▪ Program to Reduce Water Usage that does not Generate Revenue |
| 3 | ▪ Institutional Strengthening (SANAA, CONASA, ERSAPS) |
| 4 | ▪ Project Management |
| 5 | ▪ Rapid Response Mechanism |

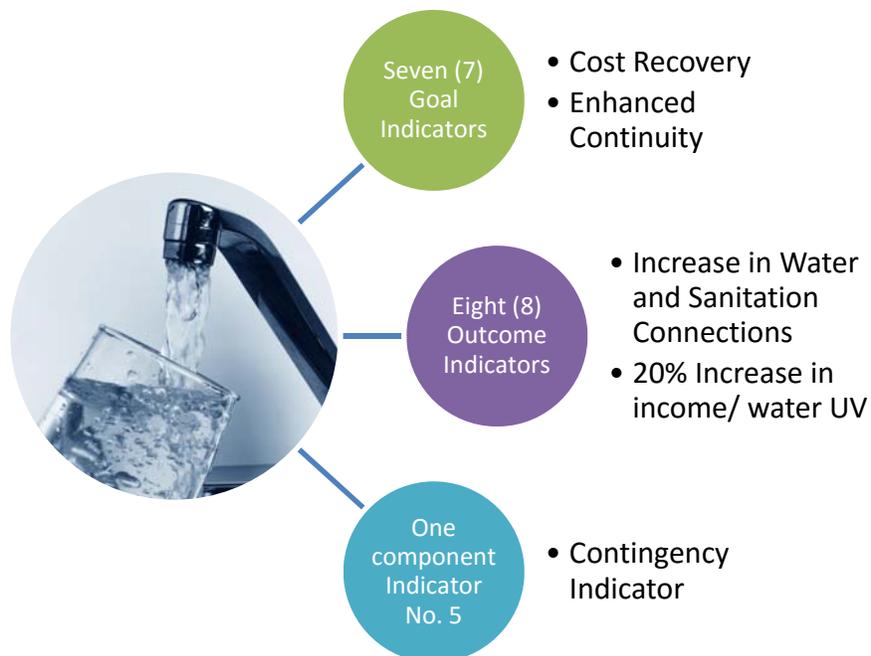
7. Aqueduct Status prior to Implementation



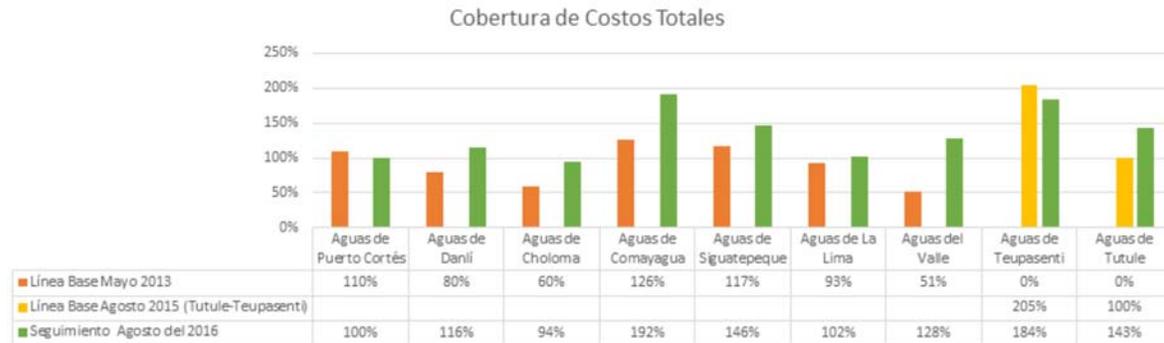
8. Compliance of the Main Outcome Indicators

The PROMOSAS Monitoring and Evaluation System has a matrix of twenty-three (23) indicators that are based on Project Development Objectives (PDO) and organized into four linked components.

The Components are influenced by quantitative and qualitative indicators, which amount to annual cumulative goals that describe the data collection, source, methodology and verification for those responsible.



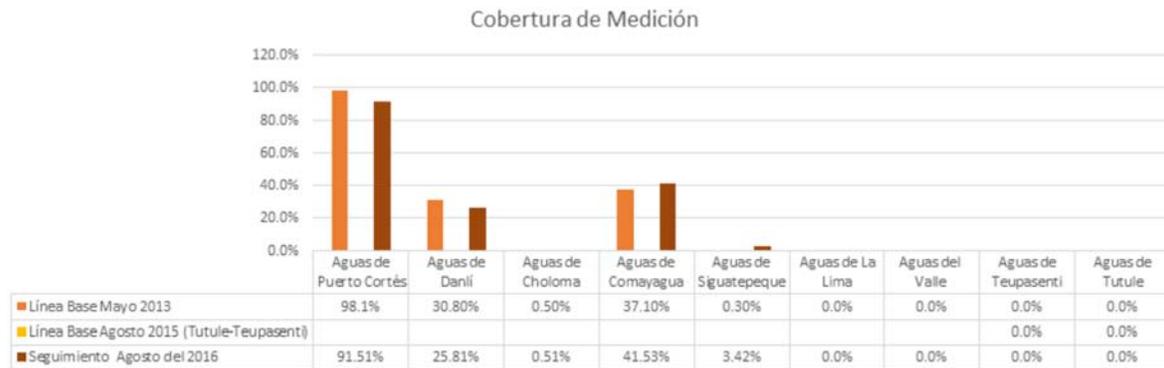
Indicator 1: Here it can be seen how, with the implementation of PROMOSAS, Service Providers from Comayagua, Siguatepeque and La Lima significantly improve their cost recovery.



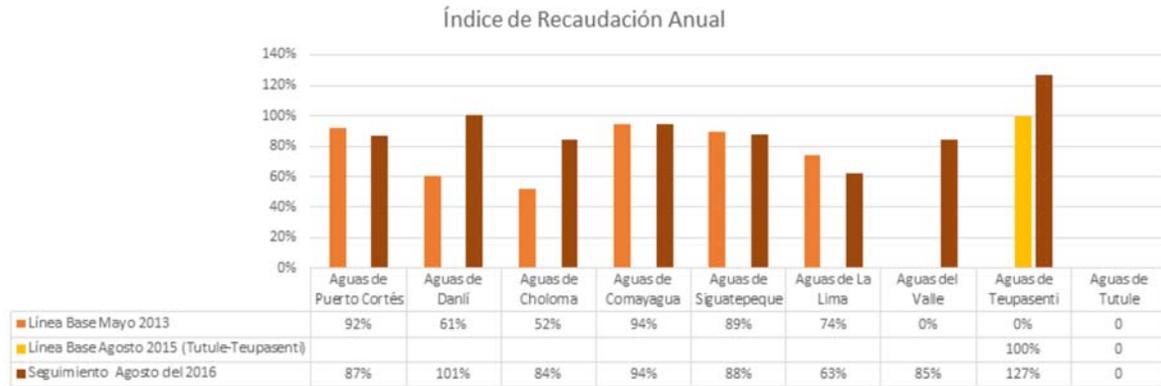
Indicator 2: Service Providers from Danli, Siguatepeque, Teupasenti and Aguas del Valle significantly improved their service hours. The implementation of PROMOSAS has allowed Puerto Cortes and Choloma to ensure sustained quality.



Indicator 3: PROMOSAS invested in Micro and Macro Measurements of all Municipal Providers, achieving improvements in three; Puerto Cortes, Danli, and Comayagua



Indicator 4: It can be observed that the Service Providers in Danli, Choloma, and Aguas del Valle significantly increased their annual collection as a result of PROMOSAS.



9. ANI Program Achievements

The Program to Reduce Water Usage that does not Generate Revenue (ANI by its Spanish acronym), is aimed to improve the operability of the service provider (SANAA). This Program was implemented in the south zone of Tegucigalpa, targeting an approximate population of 200,000 inhabitants.

No.	Project Outcome Indicator	Goal Achieved
1	Increases by one category the continued provision of service in the urban zone covered by the Project	Passed from category C (less than 6 h/d) to Category B (12 h/d)
2	Percentage increase of cubic meters of water supply in the Project zone	Growth from 18% to 25%

Other positive outcomes

- 1 •960 clients reclassified
- 2 •355 unregistered users cancelled
- 3 •16,000 micro water meters read monthly for 10 months
- 4 •Service Continuity increased from 8.4 h/p to 13.8 h/d in pilot zone
- 5 •Increased collection per m³ produced by L.0.81
- 6 •Increased invoicing collection by L.1,802,805
- 7 •9,000 direct services normalized

COMPENSATION PAYMENTS

Compensation payments were made during SANAA employee cuts as a result of the decentralization of water services for the municipalities for the amount of US\$4,552.2 thousand dollars.

Compensation Payments	Amount in thousands of Dollars
Siguatepeque	965.8
Comayagua	1,797.9
Danli	1,789.2
Total	4,552.2

Preparation Activities for the Transfer to Tegucigalpa: according to the table, support for the preparation activities to transfer the SANAA service provision to the Municipality of Tegucigalpa (AMDC), cost US\$2.0 million dollars:

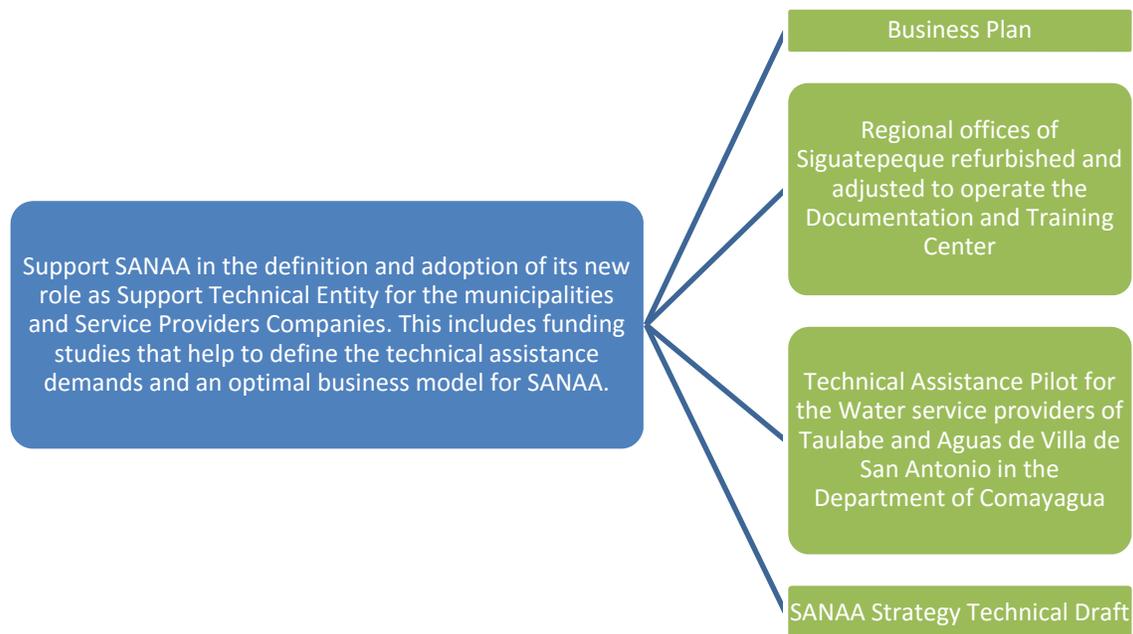
Sub-component 3C: Support for the Transfer to Tegucigalpa	\$2,052.1
Support Consultancy to UGASAM	11.2
Hydraulic Modeling Consultancy AMDC	46.4
Specialized Consulting for AMDC in transfer of the water service	510.8
Study to calculate labor severance payments SANAA/Metro	58.7
Auditing of EFAs and accounting segregation from SANAA 2008 and 2009	59.9
Auditing of EFAs and accounting segregation from SANAA 2010 and 2011	30.0
Elaboration Cadaster SANAA networks	1,209.1
SANAA auditing of inventory of furniture and equipment	126.0

SANAA

The PROMOSAS Project financed the development of a number of support programs for SANAA in its process to adopt its role as Technical Entity for both urban and rural potable water service providers, municipalities and water administration boards. The figure shows the main objective of SANAA and the outcomes obtained.

Main objective

Outcomes



10. ERSAPS: Achievements implemented through PROMOSAS

- 8 Water service providers received their respective Management Model approval report.
- Performance based Indicators of Service Providers published in their web page (www.ersaps.hn), with technical, financial, administrative and water quality improvement data.
- ERSAPS shared the indicators in the “International Network of Comparisons for Water and Sanitation (IBNET)” data base of 6 water beneficiary providers of PROMOSAS.
- The PROMOSAS Project focused on providing ERSAPS technical and financial support, to strengthen both the municipalities and the providers and for them to start operating the APS, Supervision and Control Units (USCL).
- The World Bank developed a pilot program of the virtual platform “usuariosagua.org” to validate the effective use of the platform with the EPS: Waters of Siguatepeque and Water services of Comayagua, activating the virtual spaces for users to make their claim to benefit the users of the potable water and sanitation services at the national level.

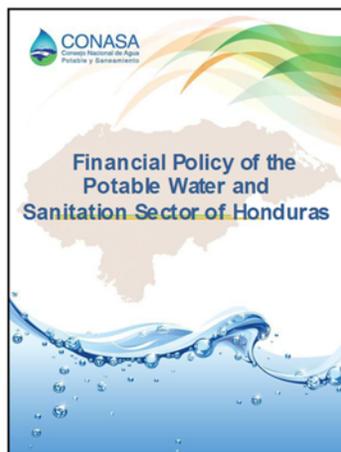
II. CONASA: Main Achievements with PROMOSAS Support

In compliance with indicator No. 5 of the PDO: CONASA issued the new sector financial policy; this indicator is reported as achieved, since the Sector Financial Policy was approved by CONASA's Board in Full, in November 2015.

This Policy is the set of objectives, principles, mechanisms, resources, entities and rules that determine and guide the funding structure of the sector, to achieve the PLANASA objectives, in particular: (i) improve the quality and continuity of water supply; (ii) expand water and sanitation services coverage; (iii) expand and improve the potabilization infrastructure and wastewaters treatment; (iv) enhance the management capacity of service providers; and (v) advance in the institutional development of the sector.

Another CONASA achievement was the approval of the National Plan for Potable Water and Sanitation (PLANASA) in December 2014. Subsequently, the executive version was prepared and disclosed in the AMHON General Assembly.

With the support from PROMOSAS, the executive summary of PLANASA will be published in the second half of October. The extended version of PLANASA is being developed and is hoped to be printed by the end of October.



12. SWOT Analysis of the Water and Sanitation Sector

Hereafter is an outline of the SWOT analysis prepared by the external Consultant responsible of the final PROMOSAS Project evaluation. The consultancy's results are studied in detail through the revision of the Project's strengths and weaknesses; to be considered by the Sector and municipal service providers, in order to guide near future decision-making.

STRENGTHS

- Two international Technical Assistance projects delivered to empower municipal providers.
- Stakeholders in the decentralization process learned that it is a gradual process.
- PROMOSAS left a legacy for a new culture of municipal service supply.
- ERSAPS defined and enhanced new management models for new municipal providers, from deconcentrated units to municipal capital companies and mixed capital models.
- PROMOSAS encouraged municipalities to adopt good practices in technical, commercial and administrative management.
- Providers recognized the importance of updating their cadastre networks, micro measurements, sectorizing and technological monitoring of aqueduct administration.
- Some business management practices, Business Plan, Investment Plan, and activity outsourcing was implemented.
- The increased participation of the communities (COMAS and USCL) in the board of the sanitation service providers, in the development of the sanitation sector.
- Strengthened the Municipal Water and Sanitation Unit (UMAPS), now better prepared for the transfer of water and sanitation services of Tegucigalpa's metropolitan system.
- Associated of Potable Water and Sanitation Service Provider Companies established.

WEAKNESSES

- Municipal water service tariffs are limited by political factors, which affects the financial stability of providers.
- Size of the Municipalities, makes it difficult for them to achieve sustainability beyond operations cost and some maintenance. Currently, many municipalities greatly invest in infrastructure out of urgency without anticipating future needs.
- The low level of average income of users.
- Lack of professionals in small sanitation services providers.
- Lack of timely and good quality technical assistance provided by local institutions.
- Weak organizational processes and information is not reliable or timely.
- Rapid urbanization and climate change continue to affect the availability of hydraulic resources and detriment the quality of water supply.

OPPORTUNITIES

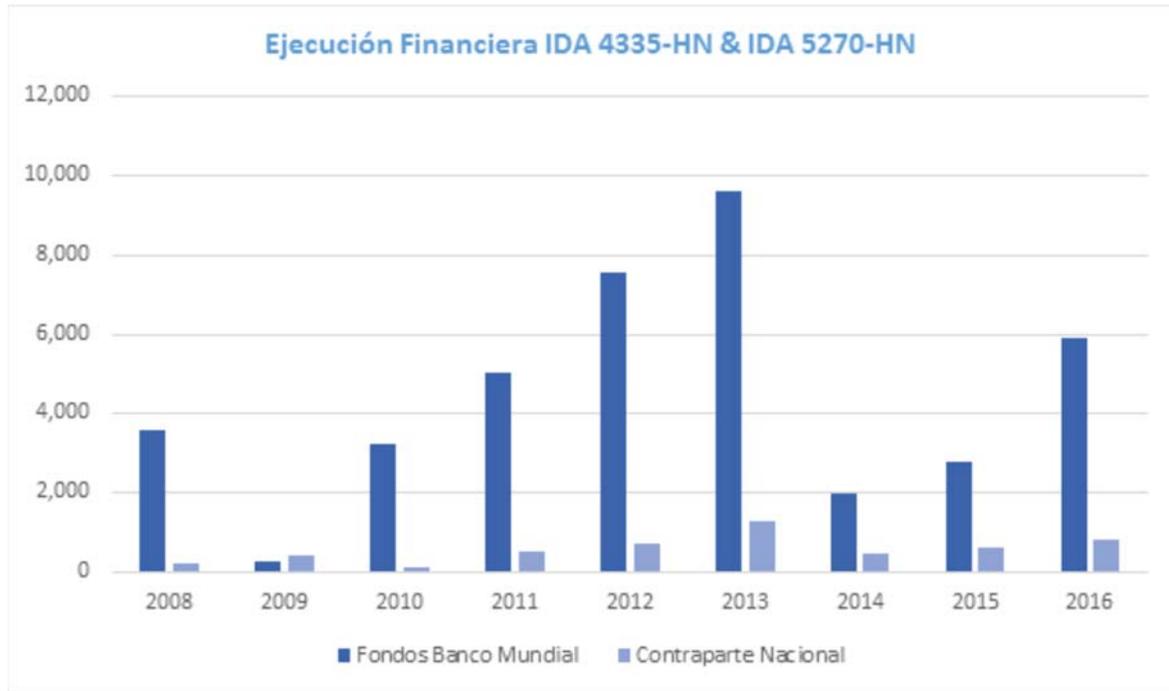
- Continuing decentralization efforts and strengthening municipal providers given that positive and significant impacts in the quality of water supply have been achieved.
- Facilitating future technical assistance support through the PROMOSAS Project outcomes to develop the sector and its sanitation service providers both at the World Bank level and the government level.
- Outsourcing activities and Associating Municipalities to contract services, in view of achieving cost reduction.
- Revising the Sector Law on Water and Sanitation, in order to correct current deficiencies in the system

THREATS

- Eventual lack of positive or negative incentives associated to projects financed by international or national organizations for the water and sanitation sector that guide action and finally promote a culture change in the sector.
- Lack of a climate related risks mitigation plan. New water reservoirs are needed to ensure human consumption and risk.
- Risk of political interference in the management of Sanitation Service Providers, which divert their goals and objectives.

13. PROMOSAS Financial Management

During the project, all the IDA 4335 HN and IDA 5270-HN funds subscribed between the Government of Honduras and the World Bank were fully executed. US\$ 40.0 Million World Bank funds were executed in 9 years, in addition, during this period US\$ 5.1 Million dollars were executed as a national matching contribution, oriented also to strengthen municipal suppliers and the Potable Water and Sanitation Sector.



The external audit certified the reasonableness of the figures of our financial statements. However, beyond this validation, we stress that it is the full execution of the funds agreed, that is, 100% of the funds invested in the Potable Water and Sanitation Sector and the population of 11 beneficiary municipalities of PROMOSAS.

DESCRIPTION	WORLD BANK FUNDS		COUNTERPART FUNDS
	MUNICIPALITIES	COMPONENT	Total
	1	21,025,494.18	3,177,435.42
Siguatepeque		3,079,346.06	595,700.22
Technical Assistance to the Municipalities	1A	1,112,218.91	18,837.48
Support in Tools to service provider	1B	651,062.37	83,826.69
Investment in Rehabilitation and System Expansion	1C	1,316,064.78	493,036.05
Comayagua		2,568,647.09	436,383.55
	1A	1,132,617.34	0.00
	1B	394,387.79	69,204.30
	1C	1,041,641.96	367,179.25
Puerto Cortes		2,765,024.43	551,549.22
	1A	975,819.68	0.00
	1B	351,688.49	72,425.02
	1C	1,437,516.26	479,124.20
Choloma		4,382,075.28	797,173.57
	1A	1,108,612.97	0.00
	1B	867,076.47	109,122.82
	1C	2,406,385.84	688,050.75
Danli		1,815,624.95	156,516.56
	1A	913,682.88	0.00
	1B	497,571.82	65,441.60
	1C	404,370.26	91,074.96
La Lima		2,094,964.61	402,227.83
	1A	790,005.62	0.00
	1B	336,936.52	64,641.10
	1C	968,022.47	337,586.73
Mancomunidad		2,072,678.05	237,884.47
	1A	982,093.31	0.00
	1B	469,703.45	30,950.70
	1C	620,881.29	206,933.77
Tutule		1,309,875.34	0
	1A	596,687.00	0.00
	1B	59,048.51	0.00
	1C	654,139.83	0.00
Teupasenti		937,258.38	0.00
	1A	606,452.26	0.00
	1B	108,389.68	0.00
	1C	222,416.44	0.00

Water that does generate income (ANI)	2	7,712,807.95	0
	3	8,088,982.92	767,866.60
ERSAPS	3A	1,115,152.44	93,980.02
CONASA	3A	519,538.04	31,521.53
SANAA	3A	530,004.13	43,214.62
Labor benefits	3B	3,953,790.70	599,150.43
Transfer support	3C	1,970,497.61	0.00
Management Unit	4	2,879,122.04	1,179,990.58
Total Investment		39,706,407.09	5,125,292.60

Annex 7. Comments of Cofinanciers and Other Partners/Stakeholders

There were no other co-financiers or partners for this Project.

Annex 8. Tables and Figures

Diagram 1. The Stepped Approach (Source: Project Appraisal Document)

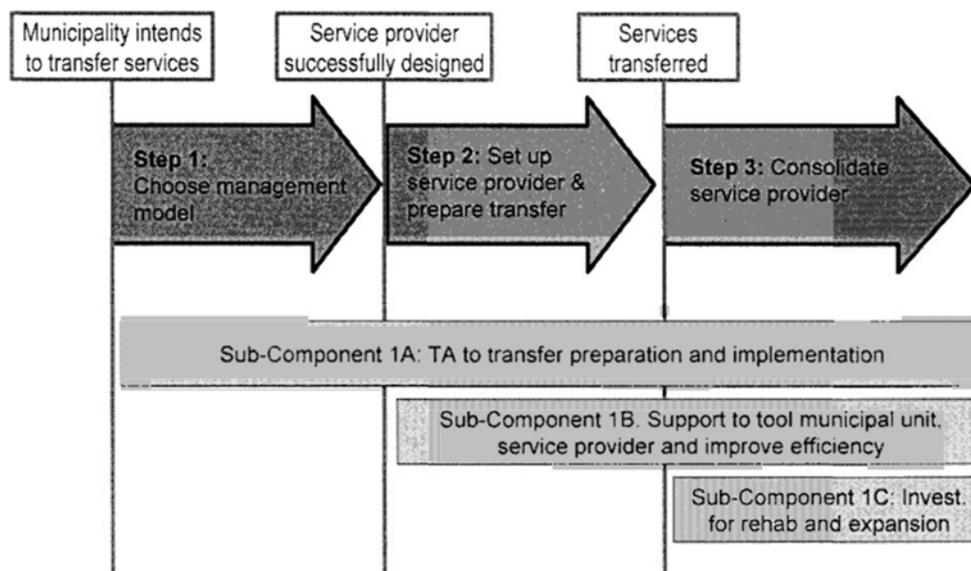


Table 1. Restructured Components

COMPONENT	ORIGINAL	RESTRUCTURED	RATIONALE
PART 1.A.2B	Revise or <i>prepare a master plan</i> to improve efficiency, quality and coverage levels of the WSS service, including a financial and economic analysis	Revise or <i>prepare an action plan</i> to improve efficiency, quality and coverage levels of the WSS service, including a financial and economic analysis	There was no counterpart at the local level to design a comprehensive master plan. To ensure a flexible and responsive approach to on-the-ground developments, the TA focused on developing annual action plans as opposed to overarching master plans
PART 1.A.3	Design and supervise the investments conducted under <i>Part 1.C</i> of the Project.	Design and supervise the investments conducted under <i>Part 1.B.2 and Part 1.C</i> of the Project	Adjusted to reflect the responsibility of the TA to support technical and commercial efficiency investments as well.
PART 3.A.1	Strengthening of CONASA and SANAA through the provision of consultants' services and goods for: (a) the creation of a specific unit attached directly to CONASA and housed in SANAA, to oversee the implementation of the PEMAPS (the PEMAPS unit); (b) the preparation of the policy and legal instruments to clarify CONASA's and SANAA's respective governance structure, mandate and financing, and the development of a sector	Support to CONASA and SANAA to strengthen their institutional capacity to comply with the WSS Sector Framework Law through, inter alia: (a) the development of a sector financing policy for CONASA aimed at guaranteeing the long-term sustainability of the WSS sector; and (b) the piloting of technical assistance activities by SANAA, including providing operational, commercial and managerial	As described in the AF, this activity was "... revised to reflect the support of the sector framework in a clearer and broader manner. The PAD focused a significant part of the institutional strengthening activities for the implementation of the Strategic Plan for the Modernization of the WSS Sector. This document was intended to be a roadmap for the implementation of the Sector Framework. However, it was not prioritized by the

	financing policy aimed at guaranteeing the long-term sustainability of the sector; (c) a status review and update of the PEMAPS; (d) the development of CONASA's new municipal WSS sector policy-making and planning roles; and (e) the carrying out of a communications strategy to support good governance and transparency in the Project.	support to local WSS service providers.”	GoH and became outdated. The Project has since focused its institutional strengthening activities on the direct implementation of the principles of the <i>Ley Marco</i> .”
PART 3.A.3	Supporting donor coordination activities in the Recipient's WSS sector.	<i>Dropped</i>	The Project foresaw co-financing a PEMAPS unit. In 2010, the Government changed its planning scheme, installed a new planning system, framed within the newly approved Country Overview/National Plan Law (Plan de Nación y Vision de País, 2010) which defined a bottom-up planning scheme, dividing the country in regions based on main watersheds. The PEMAPS was then considered outdated, and did not fit anymore in this framework.
PART 3.B.2	Carrying out of a study on future staffing of SANAA, including: (a) the design of a broader retrenchment program that combines disciplinary staff reductions, addresses payroll fraud, and determines future retrenchment needs; and (b) data gathering on alternative employment found by staff affected by the current retrenchments, and on changes in staff employment totals in SANAA and other service providers.	<i>Dropped</i>	Although there was significant resistance from the SANAA Union, the PIU was able to deliver a complete analysis of the staff costs, including the amount of the severances payments legally earned by workers, of the 13 systems still pending to be decentralized. The final calculations were made official by the Ministry of Labor. However, the design of a broader retrenchment program was never carried out.

Table 2. PROMOSAS – Major Events that Impacted Implementation

Year	Project	Sector	National
2007	June —Project Approval		
2008	February —Project Effectiveness	October —SANAA decentralization deadline extended by 5 years	
2009	June —Project funding stopped as a result of Coup		June —Military Coup: then-President Zelaya ousted
	December —Funding flows re-start		November —Presidential Elections
2010	November —First Project restructuring		January —President Lobo takes office November —National Plan (2010-2022) and Country Vision (2010-2038) published

2011	March —IP rating drops to MS because of slow disbursements (23% disbursed) July —PDO rating drops to MS		
2012			
2013	May —Additional Financing & Second Restructuring Approved		
2014			January —President Hernandez takes office IMF austerity measures imposed limiting budget for Project implementation
		December — National Plan for WSS approved	December — GoH signs fiscal consolidation plan with IMF
2015	March —IP rating drops to MU because of budget allocation restraints tied to austerity measures		
		June —President appointed a <i>Junta Interventora</i> at SANAA to oversee the process of transferring services to the municipalities and to finalize the handover of the Municipality of Tegucigalpa (AMDC)	
	October —Third Project restructuring		
		November —Sector Financial Policy approved	
2016	June —IP rating upgraded to MS		
	December —Project closes		
2017	April —Final disbursements		

Annex 9. List of Supporting Documents

Agua Sur, SEINCO & INECON. PROMOSAS Technical Assistance Final Report, March 2017.

Water and Sanitation Program (2013) *A Public Expenditure Review: Decentralization of Water and Sanitation Services*, Washington, DC: The World Bank

World Bank, Aide Memoires, Implementation Status Reports and Restructuring Papers for the Honduras Water and Sanitation Sector Modernization Project. Washington, DC.

World Bank, Financing Agreement for the Honduras Water and Sanitation Sector Modernization Project, Washington, DC.

World Bank, Project Appraisal Document on a Proposed Credit to the Republic of Honduras for a Water and Sanitation Sector Modernization Project, Report No. 39570-HN, May 18, 2007, Washington, DC.

World Bank, Proposed Additional Credit to the Republic of Honduras for the Honduras Water and Sanitation Sector Modernization Project, Report No: 75523-HN, May 14, 2013.

Annex 10. Map

