

**INTEGRATED SAFEGUARDS DATA SHEET
CONCEPT STAGE**

Report No.: AC2791

Date ISDS Prepared/Updated: 04/03/2007

I. BASIC INFORMATION

A. Basic Project Data

Country: Honduras	Project ID: P103881
Project Name: Honduras Water and Sanitation Program	
Task Team Leader: Gustavo Saltiel	
Estimated Appraisal Date: May 7, 2007	Estimated Board Date: June 21, 2007
Managing Unit: LCSUW	Lending Instrument: Specific Investment Loan
Sector: Water supply (100%)	
Theme: Other public sector governance (P);Decentralization (P)	
IBRD Amount (US\$m.):	0.00
IDA Amount (US\$m.):	20.00
GEF Amount (US\$m.):	0.00
PCF Amount (US\$m.):	0.00
Other financing amounts by source:	
<u>BORROWER/RECIPIENT</u>	<u>10.00</u>
	10.00

B. Project Objectives [from section 2 of PCN]

The proposed project objectives are: (i) to improve the efficiency and reliability of Honduras's water supply and sanitation (WSS) services by implementing the Strategic Plan to Modernize the WSS Sector (PEMAPS) which decentralizes service provision to autonomous operators and rearranges the distribution of certain governance functions to relatively new sector institutions; and (ii) to develop and demonstrate replicable models of successful and sustainable provision of WSS services, by supporting selected municipal service providers in increasing their capacity to improve the quality, access, governance, accountability to consumers and management of WSS?all part of Honduras? poverty reduction development objectives.

C. Project Description [from section 3 of PCN]

The project's objectives will be achieved by financing:

? At the national level, technical assistance to the sector's institutions, as well as support to comply with legal requisites for the transfer of systems from the national utility to the municipalities.

? In selected pilot municipalities, the design and installation of autonomous operators, efficiency improvements (billing and collection, leak detection, metering etc.) and investments.

Lending instrument proposed

The proposed operation would be structured as a Sector Wide Approach (SWAp) with specific activities located within the context of the broadly accepted Strategic Plan for Modernization of the Water and Sanitation Sector (PEMAPS) developed by GOH with World Bank and PPIAF support.

Institutional Arrangements

It is proposed that the Honduran Social Investment Fund (?Fondo Hondure?o de Inversi?n Social,? FHIS) be responsible for implementation of Component 3 (the component with environmental implications) including procurement, disbursement, accounting, financial reporting, auditing, monitoring, and evaluation. Project staff would comprise a mix of FHIS staff as well as employees from other FHIS offices. Temporary consultants will be hired to oversee project implementation. A qualified management firm in charge of coordinating the required paperwork for design, procurement, and supervision will, under FHIS supervision, handle the more detailed implementation of major works. This implementation scheme has proven successful for other infrastructure projects in Honduras.

Although the flow of funds arrangement has not yet been finalized, it is envisaged that the Bank would give FHIS the credit and FHIS in turn would, together with Secretary of Finance, then pass the funds on to the municipalities as grants. The Government has expressed interest in developing a financing mechanism built around the concept of matching grants, by which the national subsidies are "matched" or ?mixed? with municipal funds in amounts based on poverty levels as well as project type. Such a system has been in place for many years in the water sector in Mexico. The Government favors this mechanism since significant poverty alleviation funds from debt forgiveness programs (the Heavily Indebted Poor Countries Initiative [HIPC] and the Multilateral Debt Relief Initiative [MDRI]) are already being distributed to municipalities as transfers.

Project Components

The proposed operation would assist the Government of Honduras in implementing the decentralization of WSS and helping municipalities provide improved services through activities at the national, regional and municipal level. Institutional strengthening actions will help fortify and establish the (some recently created) national sector actors (Component 1). At municipal level, the project will seek to support and encourage the municipalities to adopt autonomous operator models by providing a combination of free technical assistance for creating the operators, short-term efficiency improvement measures (Component 2), and performance-based investment funding (Component 3) once the operator is established.

The following figure presents the flow of the project in a typical municipality; each component is described in more detail in subsequent paragraphs.

[This application does not support the graphics for this figure so the figure is reinterpreted here]

Step 1. Municipality agrees on the transfer of services: Municipality and operator prepare for the transfer of the services.

Step 2. Operator starts operating: Operator improves efficiency and consolidates operation.

Step 3. Operator has proven track record: Operator is well established and tackles structural issues.

Bank-Supported Activities:

Component 1: Strengthening of the national and regional institutions

Component 2: TA for design and implementation of operator; Efficiency improvement funding; Continued efficiency improvement funding

Component 3: Investment funding

Component 1: Institutional strengthening of national and regional sector institutions (Estimated Cost US\$12 million, of which US\$8 million to be Bank financed)

The institutional framework for WSS in Honduras consists of the water sector planning agency (CONASA), a regulating agency (ERSAPS), and a national utility (SANAA). Decentralization and other reforms change or establish the functioning of each of these agencies. This component will provide support for each of these agencies to fulfill their new roles in a timely, efficient and transparent manner. Activities under this component are derived from the PEMAPS.

Decentralization changes the function of SANAA from service provision and top-down control to a facilitating and supporting role. The component will provide assistance to transform the utility SANAA into (a) a technical assistance agency for municipal WSS providers and water boards (juntas de agua); and (b) a technical secretariat for CONASA. This will include setting up regional branches to provide technical assistance. The component will also fund severance payments for staff laid off in the course of decentralization, as well as from the restructuring of SANAA. The component will also include support to CONASA to design the Fondo Hondureño para Agua y Saneamiento (FHAS), a financing mechanism for the sector that was outlined in the PEMAPS (this will be done in a later stage of the APL-1 to take advantage of the experience gained from the project's support to local utilities).

The present capacity of ERSAPS (the regulatory agency) will not suffice to fulfill its role of setting tariffs and "vetting" municipal operators for the larger number of service providers after decentralization. Technical assistance will be provided to strengthen ERSAPS, including support on defining and implementing the new relationship municipal oversight units and ERSAPS in tariff setting.

The component will also support preparatory activities for the transfer of service delivery from SANAA to the Municipality of Tegucigalpa (AMDC). This support will include activities such as updating inventories, installing consumer and asset management systems as well as planning the transfer process.

Finally, this component would also support mechanisms to improve governance in municipal water management, to promote transparency and access to information as well as to ensure civil society and consumer participation throughout the decentralization process. The ultimate goal would be to promote a change in attitude and behavior of both the consumers and the providers so that they engage in participatory processes towards better governance, transparency and accountability in the water sector. This set of activities would include a communication program, awareness and education campaigns, public hearings, citizen report cards, among other proven mechanisms for promoting social accountability and building trust between government and civil society organizations. These activities, although part of Component 1, would be also present in the other components in order to promote a broad-based stakeholder dialogue on the decentralization process in the water sector, the benefits to citizens and to the local governments in terms of public participation, transparency, trust in government and efficiency of the new water management schemes.

Component 2: Efficiency Improvements (Estimated Cost US\$6 million, to be entirely Bank financed)

This component would support, the process of transferring the water and sanitation services from SANAA and/or the municipality itself to autonomous municipal (or regional) operators by focusing on a group of pilot municipalities. These operators could assume other municipal services as well such as solid waste management, street cleaning, etc.

Some of these Municipalities within a particular population range (for example, between 40,000 and 300,000 inhabitants) would be among the first to receive free Technical Assistance to assist them in selecting and designing the management model of their autonomous operator, as well as plan and implement the services transfer process.

Municipalities that form an operating autonomous service provider would then be eligible for further funding for efficiency improvements. Given the importance of showing rapid improvements in service quality to justify the transfer process and possible subsequent tariffs increases, this component would also finance short-term efficiency improvement measures of technical (such as leak detection, network sectorization, meters installation), commercial (billing and collection, reduction of non-revenue water), financial (such as tariffs adaptation) and social natures (hygiene and awareness-raising campaigns, etc.). This component would not finance large-scale coverage expansion but would instead concentrate on rapid efficiency gains.

Component 3: Investments (Estimated Cost US\$12 million of which US\$6 million is to be Bank financed)

As a complement to the efficiency improvements reached under Component 2, Component 3 would finance investments in infrastructure for those operators that develop a successful track record. This component would serve as an incentive for municipalities to create autonomous operators instead of assuming the operation of the services directly. It is expected that not all of the municipalities that enter component 2 would benefit from component 3, hence creating a certain degree of competition.

Component 3 would be designed using a "matching grant" scheme where municipalities or operators must provide co-financing to obtain grants. The percentage of co-financing would depend on factors such as poverty level and type of investment, while the total amount of the program's grant would depend on the size of the operator's customer base and possibly its management model and operative performance.

Investments funded under this component would encompass water and sanitation coverage extension, rehabilitation of existing systems (tanks, treatment plants, network), as well as the development of new water resources and the treatment of wastewater effluents as necessary. Although the operators would have the freedom to decide which investments they would like to execute, any investment would need to be justified as part of a master plan (which, if not already existing, could be financed from loan proceeds).

D. Project location (if known)

Throughout Honduras. Specific locations are not yet known.

E. Borrower's Institutional Capacity for Safeguard Policies [from PCN]

No major environmental issues are expected in the implementation of this project, given the small scale of the water supply and sanitation (WSS) investments envisioned in these projects. However, FHIS, the implementing institution and financial intermediary, is benefiting from capacity building measures in safeguards through current Bank projects such as the Rural

Infrastructure Project and Barrio Ciudad. Its procedures for these programs were developed expressly to ensure compliance with World Bank Safeguard policies and involve review of proposed sub-projects by SERNA, the Honduran Secretary of Environment and Natural Resources. This project will use these safeguard policies and procedures as documented in the OBA Conceptual Framework for Social and Environmental Management.

F. Environmental and Social Safeguards Specialists

Ms Nicole Andrea Maywah (LCSUW)

Ms Kimberly Vilar (LCSSO)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies Triggered	Yes	No	TBD
Environmental Assessment (OP/BP 4.01)	X		
<p>As stated above, no major environmental issues are expected in the implementation of this project, given the small scale of the water supply and sanitation (WSS) investments envisioned. FHIS could create a Conceptual Framework for Social and Environmental Management for this Honduras Water and Sanitation Program based on its Honduras OBA National Water Sector Fund Framework (which has similar but smaller scale investments). This Framework for the Honduras Program would outline appropriate environmental screening criteria and procedures for management of any environmental impacts that will be incorporated into the proposed project's Operational Manual.</p> <p>FHIS will ensure that appropriate environmental assessments are carried out for each individual water and sanitation sub-project during project implementation once municipalities have qualified and are selected for financial support from the project. Minor environmental impacts (proper disposal of construction waste, erosion control, protection of spring catchments etc.) will be addressed by appropriate guidelines that will be incorporated into the technical specifications governing the work of construction contractors.</p> <p>If necessary, the Facility will incorporate capacity building measures to support FHIS in doing the necessary environmental reviews. FHIS is currently increasing its capacity through its work on other Bank-funded projects such as Barrio Ciudad and PIR. Additionally, FHIS has an agreement with the Environmental Agency (SERNA) that it (FHIS), SERNA or a contractor could do any necessary environmental reviews or assessments hence augmenting FHIS's capacity.</p>			
Natural Habitats (OP/BP 4.04)		X	
Forests (OP/BP 4.36)		X	
Pest Management (OP 4.09)		X	
Physical Cultural Resources (OP/BP 4.11)	X		
<p>While activities to be carried out under the project are not expected to impact any known cultural heritage sites, technical specifications for works and the Operation Manual will include chance find procedures to be followed in the event that culturally significant materials are discovered during the execution of civil works. FHIS already has World Bank-approved guidelines to develop a Cultural Property Protection Plan and they will take into account the already established Honduran Institute of Archeology and History (Instituto Hondureño de Arqueología e Historia, IHAH) provisions.</p>			

Safeguard Policies Triggered	Yes	No	TBD
Indigenous Peoples (OP/BP 4.10)			X
The Indigenous Peoples Safeguard could be triggered by this Program since works locations are presently undefined. To ensure compliance with this policy, FHIS will develop an Indigenous Peoples Planning Framework (IPPF) which takes into account all existing Honduran policies with respect to indigenous peoples' rights, as well as any additional requirements which may exist beyond Honduran policies as mandated by OP 4.10.			
Involuntary Resettlement (OP/BP 4.12)	X		
While this project is not expected to cause any resettlement, in case there will be any land acquisition, FHIS is preparing an Involuntary Resettlement Framework to be disclosed by Appraisal.			
Safety of Dams (OP/BP 4.37)		X	
Projects on International Waterways (OP/BP 7.50)		X	
Projects in Disputed Areas (OP/BP 7.60)		X	

Environmental Category: B - Partial Assessment

III. SAFEGUARD PREPARATION PLAN

- A. Target date for the Quality Enhancement Review (QER), at which time the PAD-stage ISDS would be prepared: N/A
- B. For simple projects that will not require a QER, the target date for preparing the PAD-stage ISDS: 05/01/2007
- C. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing¹ should be specified in the PAD-stage ISDS.
Conceptual Framework for Environmental and Social Management and Indigenous Peoples Planning Framework studies estimated to start mid-March 2007 and end May 2007

IV. APPROVALS

<i>Signed and submitted by:</i>		
Task Team Leader:	Mr Gustavo Saltiel	03/07/2007
<i>Approved by:</i>		
Regional Safeguards Coordinator:	Mr Reidar Kvam	03/30/2007
Comments:		
Sector Manager:	Mr John Henry Stein	03/07/2007
Comments:		

¹ Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in-country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.

