

**INTEGRATED SAFEGUARDS DATASHEET
APPRAISAL STAGE**

I. Basic Information

Date prepared/updated: 02/26/2013

Report No.: 107869

1. Basic Project Data

Original Project ID: P103881	Original Project Name: Honduras Water and Sanitation Sector Modernization Project	
Country: Honduras	Project ID: P144357	
Project Name: HN Water and Sanitation Modernization <i>Additional Financing</i>		
Task Team Leader: Lilian Pena P. Weiss		
Estimated Appraisal Date: March 25, 2013	Estimated Board Date: June 18, 2013	
Managing Unit: LCSWS	Lending Instrument: Specific Investment Loan	
Sector: Water supply (47%); Wastewater Treatment and Disposal (26%); Sub-national government administration (12%); Sanitation (8%); Central government administration (7%)		
Theme: Decentralization (29%); Municipal governance and institution building (29%); Administrative and civil service reform (14%); Improving labor markets (14%); City-wide Infrastructure and Service Delivery (14%)		
IBRD Amount (US\$ m.):	0	
IDA Amount (US\$ m.):	10	
GEF Amount (US\$ m.):	0	
PCF Amount (US\$ m.):	0	
Other financing amounts by source:		
<u>BORROWER/RECIPIENT</u>		0.90
		10.90
Environmental Category: B - Partial Assessment		
Simplified Processing	Simple <input type="checkbox"/>	Repeater <input type="checkbox"/>
Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

2. Project Objectives

The Project's 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 to an Eligible Emergency¹.

¹ The Government of Honduras and the Bank agreed in 2012 to include in all new IDA operations an Immediate Response Mechanism (IRM) Component. The IRM is a contingency emergency response, a zero cost component that would allow the country to access funds from credits in case there is a national emergency declared following acceptable procedures. The preparation of the proposed Additional

3. Project Description

The Project will support the following five components (revised from the parent Project in the context of the Additional Financing (AF) to include an Immediate Response Mechanism (IRM) component and adjust the description of activities of Components 1 and 3):

Component 1: Supporting eligible municipalities to create autonomous WSS service providers and invest in efficiency, rehabilitation, and expansion of WSS service delivery

The component supports the implementation of the Sector framework law (“Ley Marco”) in small-medium-size cities through a combination of technical assistance for reforms and investments for infrastructure. Specifically, the Project supports the creation of autonomous municipal service providers, following the Sector Framework. Municipalities with an urban population between 10,000 and 300,000 inhabitants, that intend to transfer their water supply or sanitation services to a municipal service provider as mandated by the Ley Marco are eligible to participate in this component.

This component uses a demand-based stepped approach to support municipalities during all reform steps, in which in Step 1 municipalities receive technical assistance (TA) focused on designing a management model. Once the proposed model has been sent to and reviewed by ERSAPS (the regulator), municipalities qualify for Step 2 assistance including support to provide the service providers with tools (institutional and operational), and to start improving the efficiency of service provision. Once services are transferred, municipalities move to Step 3 and qualify for investments in system rehabilitation and expansion. To date, seven municipalities (including one association of small municipalities) are participating in Component 1.

Sub-component 1A: Technical assistance for transfer preparation This sub-component consists of providing TA to the participating municipalities while they design the necessary details of the new service provider and plan and implement the services transfer process (whether from SANAA or from a municipal department).

Sub-component 1B: Support to equip service provider and improve efficiency Once a municipality has successfully identified and designed a management model, it obtains support in creating the municipal WSS service provider, as planned for in the Ley Marco. This sub-component finances activities such as the rehabilitation or construction of offices and the acquisition of basic management tools. This sub-component also supports rapid efficiency gains, including: (i) technical (such as leak detection, network sectorization, meter installation), and (ii) commercial (billing and collection, reduction of non-revenue water). Municipalities and service providers will be free to propose activities of their choice within a maximum investment amount as long as they are consistent with the Project’s Operations Manual.

Financing of the Project allows for the incorporating of this IRM contingency to the Project, which includes adding a PDO, a zero cost component (component 5), and a PDO level result indicator.

Sub-Component 1 C: Investment for system rehabilitation and expansion As a complement to the efficiency improvements reached under Sub-Component 1B, this sub-component finances investments in infrastructure after the service providers start operating the system. This sub-component enables service providers to expand and improve services. Investments funded under this component can include rehabilitation, connection to and expansion of water supply and sewer networks, on-site sanitation facilities, and wastewater treatment systems. Water supply investments can include coverage extension, rehabilitation of existing networks, tanks and treatment plants, and the development of new water production capacity. Piped sewerage investment can include rehabilitation and expansion of standard, small-bore, and condominial systems. Wastewater treatment investments can include simple treatment systems such as stabilization ponds, artificial wetlands, and communal septic tanks. Investments are limited to an agreed list of facilities and terms of implementation, as per the Project's Operations Manual. Service providers have the freedom to decide which investments they would like to execute within the support from an external TA provider and following the Operations Manual.

Component 2: Tegucigalpa Non-Revenue Water Reduction

The component supports a performance-based service contract with a private company to reduce technical and commercial losses in a limited geographic area of the municipality of the Metropolitan District. This component aims to improve, in the short term, the operative situation of the WSS service provider in Tegucigalpa. By freeing up water production capacity, continuity of service delivery can be improved and water supply services expanded. International experience shows that good financial paybacks are possible with well-designed Non-Revenue Water (NRW) reduction programs. A performance-based service contract provides an efficient means to achieve significant improvements in operational and financial efficiency, thereby creating immediate benefits and fostering a positive dynamic to support further reform. The activities of this component are funded by the PROMOSAS parent Project only, thus the Additional Financing has no funds assigned to this component.

Component 3: Institutional strengthening of national and regional sector institutions

This component provides support for the water sector planning entity (CONASA), the regulating agency (ERSAPS) and the national utility (SANAA) to fulfill their new roles in a timely, efficient and transparent manner. The component has three sub-components: (i) Sub-Component 3A, technical assistance to national institutions; (ii) Sub-component 3B, severance payments; and (iii) Sub-component 3C, preparatory activities for Tegucigalpa transfer².

Component 4: Project management

This component finances the costs of salary, travel, and general operating of the project management unit (UAP, “*Unidad Administradora de Proyectos*”). In addition, this component finances monitoring and evaluation (M&E) activities, audits, and other project management activities on governance and transparency and strengthening of the

² Sub-components 3B and 3C will not receive funds from the Additional Financing. They were already implemented by the parent Project.

implementing agencies through participation in training and study tours, purchase of vehicles and equipment, and upgrading of the working environment.

Component 5: IRM Contingent Component

This component provides support to respond to an eligible emergency. Inclusion of this component builds on the flexibility provided by the World Bank Operational Policy 8.00 that allows using simplified procedures and rapid restructuring of project portfolios to meet crises and emergency needs. Accordingly, implementation arrangements as well as application of fiduciary and safeguard policies, detailed in a specific country-wide IRM Operations Manual, seek to ensure smooth implementation based on rapid and effective disbursement of undisbursed and uncommitted funds.

As described above, the Project has a framework approach, in which specific interventions are defined during implementation based on a stepped approach. Following the experience acquired over almost five years of implementation of the parent Project, the AF is expected to finance the same pattern of activities, including: improvements in WSS networks (replacements of networks and connections, and some extensions), water tanks, rehabilitation and cleaning up of existing wells, transmission lines, rehabilitation of water treatment plants, purchase and installation of macro and micro meters and related goods for non-revenue water programs, etc., within existing WSS schemes.

Also following the Project's framework approach, specific additional municipalities are not defined at present and will be identified and confirmed in the course of Project implementation. The AF is targeting small towns with a population range from 10,000 to 40,000 inhabitants, which require simplified and small-scale WSS systems.

4. Project location and salient physical characteristics relevant to the safeguard analysis

The parent Project is located in seven municipalities in Honduras, with urban populations ranging from 40,000 to 300,000 inhabitants. The AF will strengthen the work on these seven municipalities and will also cover small towns with populations ranging from 10,000 to 40,000 inhabitants; the specific municipalities will be defined during implementation of the AF³.

An initial assessment has been carried out to define a list of potential new municipalities that includes several municipalities located in the Lempa River Basin, which is a transboundary basin shared with El Salvador. Considering the framework approach of the Project, it is also possible that municipalities located in other transboundary basins of Honduras could be selected as beneficiaries of the Project⁴. Therefore, considering the

³ A poverty focus criteria was also included in the AF, which establishes that the Project will prioritize municipalities classified as C or D according to the Municipal Development Index (GoH, Department of Information and Statistics).

⁴ The 7 municipalities included in the parent PROMOSAS are not located in transboundary basins and the OP 7.50 was not triggered initially.

type of interventions under Component 1, and the potential location of new beneficiary municipalities, OP 7.50 is now being triggered for the Project.

5. Environmental and Social Safeguards Specialists

Ms Kimberly Vilar (LCSSO)

Ms Tuuli Johanna Bernardini (LCSEN)

6. Safeguard Policies Triggered	Yes	No
Environmental Assessment (OP/BP 4.01)	X	
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	
Indigenous Peoples (OP/BP 4.10)	X	
Involuntary Resettlement (OP/BP 4.12)	X	
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

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

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

a) Environment: The Project is designed to address key challenges for meeting urban users' water needs. The studies, activities and investments financed by the Project and its AF are expected to improve environmental conditions overall by increasing water use efficiency and wastewater treatment. Current environmental conditions, and those associated with the Project, are assessed by an Environmental Social Management Framework (ESMF) aimed at protecting key environmental assets, avoiding and mitigating potential adverse impacts and, importantly, increasing expected positive impacts. The Project is rated as Category B given the small scale of physical investments and due to the fact that no significant environmental impacts are foreseen. Minor potential environmental impacts include:

a. Sub-component 1 C finances small works (as described above) that may result in erosion, deterioration of spring catchments, noise contamination, reduced air quality (e.g. dust, transportation), as well as construction waste. These impacts will be avoided or mitigated as instructed by the ESMF in the design stage and through established guidelines for contractors during the construction phase. Sub-component 1 A, in particular, finances TA to municipal water service providers, including development and implementation of socio-environmental management tools such as contingency plans, water quality monitoring systems, environmental rehabilitation/maintenance of water sources, and training on environmental impact assessment.

- b. Component 2: Similar impacts and management measures are expected for the works-related activities under the leak reduction component. In addition, leak detection has specific environmental implications such as temporary air quality reduction – if smoke is used to detect leaks or illegal connections. There are, however, other more commonly used methods available that involve using leak-detection equipment that identifies the sound of water escaping a pipe. The environmental specialist of the UAP has instructed and supervised the leak detection works with special focus on the proper care for worker health and safety and the use of good environmental practices.
- b) Physical Cultural Property: It is not expected that cultural property would be found in the Project area. However, the ESMF includes a screening process aimed at identifying possible Physical Cultural Resources and at consequently refraining investments in nearby areas. Further, the ESMF includes a "chance find" procedure in case such property is encountered, establishing an immediate cessation of construction activity and reporting to the appropriate authorities.
- c) Social impacts: During the original project, OP 4.10 was triggered from the outset based on the premise that some eligible municipalities were home to indigenous and Afro-Honduran communities (namely the Garinagu or Garifuna community) who met the policy's identification criteria. An Indigenous Peoples Planning Framework was therefore prepared preventatively in case participating municipalities prioritized works involving: (i) an integrated watershed approach to water producing significant efforts involving land use; (ii) construction projects, modification and/or expansion of water systems affecting ancestral lands; or (iii) construction of drainage systems involving any negative impact on family or communal property. However, ultimately, the participating municipalities did not select this type of watershed management activity, and the Municipality of La Ceiba (the cultural capital of the Garifuna community in Honduras) decided against engaging in the reform process, after participating in several introductory meetings that were undertaken to encourage municipal authorities to take part in the program.

For the Additional Financing, the nature and magnitude of the water and sanitation infrastructure proposed will be similar to those of the original Project; it is therefore unlikely that this framework will produce any Indigenous Peoples Plans. However, if needed, an Indigenous Peoples Plan would be prepared during implementation by the UAP, the relevant municipality and community representatives.

As for the OP 4.12 on involuntary resettlement, it was triggered during the project's restructuring process and, consequently, PROMOSAS developed and disclosed an Involuntary Resettlement Policy Framework to cover potential impacts associated with the proposed infrastructure. In fact, only one small-scale resettlement plan was prepared, a single case in El Chile, Puerto Cortés. Given this precedent, the need for resettlement is expected to be "minor" during the additional financing stage, particularly in terms of the number of affected people. The type of expected impacts are cases of partial or total acquisition or use of land belonging to a private party and/or possible impact on settlers residing on acquired land. If the policy applies, Involuntary Resettlement Plans will be prepared by the UAP (in coordination with the local resettlement committees in each

municipality) during implementation. Moreover, in the unlikely event that a participating municipality chooses to dedicate their physical investment funds towards the creation of a new protected area(s) or watershed management, the UAP will assess the need to prepare a **Process Framework** according to OP 4.12 to mitigate potential impacts on livelihoods.

d) International Waterways: An assessment of the scaling-up of the Project concluded that some of the potential new municipalities could be located in trans-boundary basins. Given the type of interventions under Component 1 and the potential location of new beneficiary municipalities, OP 7.50, Projects on International Waterways, is triggered (for PROMOSAS and the AF). The Bank team has assessed the Project activities in the context of OP 7.50 and concludes that while OP 7.50 applies to the Project, the Project meets the criteria for the exception to the riparian notification requirement laid out in paragraph 7(a) of said Policy, due to the expected nature of the planned interventions (consisting mainly of rehabilitations or minor additions to existing schemes). This exception was approved by the Bank on March 5, 2013. The exception to notification memo highlights, however, that in the event that the Project's works and activities in municipalities located in any trans-boundary basin should exceed the original scheme, change its nature, or so alter or expand its scope and extent as to make it appear a new or different scheme, a notification process will be carried out in accordance with OP/BP 7.50 procedures.

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

The Project is designed to address current and future challenges related to the supply of water and sanitation to urban users and mitigate possible adverse impacts such as overexploitation of the water source and water pollution. One potential indirect and long term impact is an increase in the probability of land use change in areas surrounding new pipelines. In addition, urban areas with improved water supply and sanitation could experience population growth.

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

Given that sub-projects will differ fundamentally and have diverse locations, consideration of alternatives will be conducted on a sub-project by sub-project basis. The ESMF includes a screening process aimed at identifying, avoiding, reducing and mitigating potential negative impacts on environmental and cultural resources. Specific sub-projects consisting of building new infrastructure on sensitive areas are automatically not considered as eligible for funding under this Project. Specifically in terms of involuntary resettlement, municipalities are encouraged to explore design alternatives that will prevent physical or economic displacement.

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

As part of the preparation of the Additional Financing, the Borrower has updated and disclosed the three relevant safeguards instruments: the Environmental Social Management Framework, the Indigenous Peoples Planning Framework (known in its Spanish version as a Framework for Indigenous and AfroHonduran communities) and the Involuntary Resettlement Policy Framework. The three updated frameworks were approved and disclosed in-country and in the InfoShop by Project appraisal (*March 11, 2013*).

The parent Project has been consistently rated as Satisfactory in terms of compliance with social and environmental safeguards⁵. The Project's implementing agency, SEFIN's UAP, has competent Environmental and Social/Communication Specialists on renewable, full-time consultancy contracts. These two professionals address safeguard policy issues in addition to carrying out other relevant environmental and social/communication activities and supervision.

In terms of environmental policies, the UAP has complied with the environmental management requirements established in the ESMF for the construction works, including application of environmental licenses and environmental contract clauses. Further, the Project has a functional system for environmental monitoring and supervision. The Bank's environmental supervision has also been steady throughout the parent Project implementation and no major concerns have been raised. During the past two years, the Project has taken advantage of the TA contract with an international consulting firm that provides assistance to the newly established service providers. This TA contract also addresses the overall environmental management capacity of the municipal water service providers. The AF provides a specific USD 120,000 budget allocation to continue this work and related investments in the beneficiary municipalities.

In terms of social operational policies, the main lesson learned from the parent Project in terms of borrower capacity was the need to strengthen the detection of cases at the local level and reporting to the UAP, in order to ensure timely preparation of plans, requesting Bank approval before mitigation measures are put in place. During implementation, the local teams will receive the support they need to improve on this point.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Key stakeholders include municipalities, autonomous municipal-level water providers, the water users/community members in both rural and urban areas of the beneficiary municipalities who will be affected or benefited by the works, indigenous and afro-honduran communities, SEFIN (UAP especially), SANAA, FHIS, CONASA, ERSAPS, and Municipal Environmental Offices ("Unidad Municipal de Ambiente, UMA"), the local COMAS (Municipal Committee for Water and Sanitation), USCLs (local Unit for Supervision and Control) and Transparency commissions.

⁵Concise environmental and social safeguards reviews that reflect the contents of the Safeguard Checklist for Additional Financing are available in the Project files on the parent Project's implementation.

The three frameworks have been disclosed on the Honduras Government SEFIN/UAP website (http://www.sefin.gob.hn/?page_id=1405) since 2007 and the restructuring of the parent Project in 2010 respectively, and their updated versions were disclosed on the World Bank InfoShop and in-country on *March 11, 2013*, at the above-mentioned website, prior to the Additional Financing appraisal.

B. Disclosure Requirements Date

Environmental Assessment/Audit/Management Plan/Other:

Was the document disclosed prior to appraisal?	Yes
Date of receipt by the Bank	03/11/2013
Date of "in-country" disclosure	03/11/2013
Date of submission to InfoShop	03/11/2013
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	N/A

Resettlement Action Plan/Framework/Policy Process:

Was the document disclosed prior to appraisal?	Yes
Date of receipt by the Bank	03/11/2013
Date of "in-country" disclosure	03/11/2013
Date of submission to InfoShop	TBC

Indigenous Peoples Plan/Planning Framework:

Was the document disclosed prior to appraisal?	Yes
Date of receipt by the Bank	03/11/2013
Date of "in-country" disclosure	03/11/2013
Date of submission to InfoShop	03/11/2013

Pest Management Plan:

	N/A
Was the document disclosed prior to appraisal?	
Date of receipt by the Bank	
Date of "in-country" disclosure	
Date of submission to InfoShop	

*** If the project triggers the Pest Management and/or Physical Cultural Resources, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.**

If in-country disclosure of any of the above documents is not expected, please explain why:

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

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?	No
If yes, then did the Regional Environment Unit or Sector Manager (SM) review and approve the EA report?	N/A

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?	N/A
OP/BP 4.04 - Natural Habitats	
Would the project result in any significant conversion or degradation of critical natural habitats?	No
If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?	Yes
OP/BP 4.11 - Physical Cultural Resources	
Does the EA include adequate measures related to cultural property?	Yes
Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?	Yes
OP/BP 4.10 - Indigenous Peoples	
Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples?	Yes
If yes, then did the Regional unit responsible for safeguards or Sector Manager review the plan?	No
If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Sector Manager?	N/A
OP/BP 4.12 - Involuntary Resettlement	
Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?	Yes
If yes, then did the Regional unit responsible for safeguards or Sector Manager review the plan?	No
OP 7.50 - Projects on International Waterways	
Have the other riparians been notified of the project?	No
If the project falls under one of the exceptions to the notification requirement, has this been cleared with the Legal Department, and the memo to the RVP prepared and sent?	Yes
Has the RVP approved such an exception?	Yes
The World Bank Policy on Disclosure of Information	
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes
All Safeguard Policies	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes
Have costs related to safeguard policy measures been included in the project cost?	Yes
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal	Yes

documents?

D. Approvals

<i>Signed and submitted by:</i>	<i>Name</i>	<i>Date</i>
Task Team Leader:	Lilian Pena P. Weiss	03/08/2013
Environmental Specialist:	Tuuli Bernardini	03/08/2013
Social Development Specialist	Kimberly Vilar	03/08/2013
Additional Environmental and/or Social Development Specialist(s):		
<i>Approved by:</i>		
Sector Manager:	Wambui Gichuri	03/11/2013
Comments:		