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Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 21-Jul-2017 | Report No: PIDISDSC21559



BASIC INFORMATION

A. Basic Project Data

Country Honduras	Project ID P163487	Parent Project ID (if any)	Project Name Water and Sanitation Sustainability Program in Honduras (P163487)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date Jan 29, 2018	Estimated Board Date Mar 30, 2018	Practice Area (Lead) Water
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Unidad Administradora de Proyecto UAP del Ministerio de Finanzas	

Proposed Development Objective(s)

The Project Development Objective (PDO) is to support the recipient in increasing and sustaining access to safely managed water and sanitation services in eligible decentralized service providers in collaboration with sector agencies.

Financing (in USD Million)

Financing Source	Amount
Borrower	6.00
International Development Association (IDA)	60.00
Total Project Cost	66.00

Environmental Assessment Category B-Partial Assessment	Concept Review Decision Track II-The review did authorize the preparation to continue
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Other Decision (as needed)

B. Introduction and Context

Country Context

1. Almost 65 percent of Hondurans live in poverty, and about 43 percent live in extreme poverty.¹ One in five children in Honduras suffer from chronic malnutrition.² Honduras' modest rate of GDP growth³ (0.3 points per year³), has been insufficient to significantly improve living standards, especially given the country's accelerated population growth and urbanization. Nearly 54 percent of the population lives in urban areas, and by 2050, 70 percent of the population is expected to live in urban areas. Honduras' urban population growth rate (3.2 percent in 2015) and percentage of urban poor (approximately 53 percent) are among the highest in the region.⁴ Investments in services have not kept up with urban population growth. To date, urban development has largely been unplanned and without regulation or control, leaving many people facing critical shortages in access to housing and public services, including Water Supply and Sanitation (WSS), basic education and health.
2. Over the past two decades, the Government of Honduras (GoH) has pursued a process of decentralization aimed at reducing poverty levels and improving basic services by delegating greater responsibility to local governments. The decentralization process was launched with the passage of the 1990 Municipal Law (*Ley de Municipalidades*), which conferred local service delivery responsibilities and fiscal autonomy to the country's 298 municipal governments and established an initial fiscal transfer of 5 percent of the annual national budget to the municipalities. The fiscal transfer to municipalities is currently at 11 percent.
3. Recent national strategies and plans have focused on implementing the decentralization process and reducing poverty levels. The GoH's long-term National Plan and Country Vision (2010-2038) as well as the current Administration's Strategic Plan (Plan for a Better Life, *Plan para una Vida Mejor*) support the implementation of progressive decentralization processes for basic public services, including water and sanitation. The Plans also support strategic investments to extend access to improved services throughout the country.
4. In addition to facing poverty and critical shortages in basic services, Honduras has been significantly impacted by climatic events. According to the Global Climate Risk Index for 2015 (Germanwatch), Honduras was the country most affected by climate change between 1996 and 2015.⁵ Honduras' accelerated urbanization has increased exposure and vulnerability to natural catastrophic events. On average, Honduras loses 2.6 percent of the national GDP each year as a result of climatic events.⁶ The combination of global climate change and increased climatic variability, are likely to exacerbate exposure to hurricanes, floods, erosion, landslides, and droughts.⁷ To respond to the growing climatic threats, the GoH launched a National Climate Change Strategy in 2010 and a Water, Forest and Land Master Plan for 2017 to 2030. These initiatives inform the Strategy Program for Climate

¹ World Bank, Strategic Country Diagnostic, 2016. Data from 2013.

² *ibid.*

³ According to the Central Bank of Honduras, from 2014 to 2017, the GD has experienced an average growth of 0.3 points per year, GDP in January 2017 is 4.

⁴ "The [Central America urbanization review : making cities work for Central America](https://hubs.worldbank.org/docs/ImageBank/Pages/DocProfile.aspx?nodeid=27272909)" (WB, 2017),

<https://hubs.worldbank.org/docs/ImageBank/Pages/DocProfile.aspx?nodeid=27272909>.

⁵ Hurricane Mitch (1998) resulted in a massive loss of life and assets.

⁶ "The Central America urbanization review: making cities work for Central America" (WB, 2017),

⁷ The climate patterns identified by the Ministry of Environment (Mi Ambiente) suggest that by 2020 there will be about a 6 percent decrease in annual rainfall in the west and south of the country and by 2050, a decrease in rainfall by 20 percent across most of the country.



Resilience (SPCR), currently being prepared with support from the World Bank (WB) Water Global Practice (GP). These initiatives emphasize the importance of water security and include strategies to build the capacity of local governments to manage water resources and to conserve water for human consumption among other goals.⁸

5. Water sources have not been properly protected or characterized in most of Honduras, including in the municipalities where the National Autonomous Water and Sewer Service (*Servicio Autónomo Nacional de Acueductos y Alcantarillados*, SANAA⁹) manages the urban water systems. Deforestation around the watersheds and contamination of the water sources are pressing issues.¹⁰ The 2009 Water Law proposed a roadmap to integrate water resources management with water supply management, but the proposed actions have yet to be implemented at the municipal level for various reasons, including lack of regulation, and funding.

Sectoral and Institutional Context

6. Over the past two decades, Honduras has made significant progress in closing the coverage gap. In 1990, less than 75 percent of the population had access to improved water and less than 50 percent had access to improved sanitation.⁴ Remarkably, Honduras met the Millennium Development Goals⁵ (MDGs) of reducing the coverage gaps in half by the end of 2012. In 2015, 91 percent of Hondurans had increased access to improved water and 83 percent had access to improved sanitation. While access to WSS services has improved in Honduras, the distribution of these services remains highly unequal and service quality is generally low. As of 2015, nearly a fifth of Hondurans living in extreme poverty did not have access to adequate water and sanitation services relative to only 7 and 12 percent respectively of the non-poor.¹¹ The coverage levels also do not illustrate the disparities between urban and rural areas. In rural areas, access to improved water for Honduras' poorest quintile *dropped by* six percent between 1995 and 2012 while access to sanitation increased by 13 percent. In urban areas, during the same time period, access to improved water and sanitation for the poorest quintile increased by 10 percent and 16 percent respectively.

Relationship to CPF

7. The proposed Project responds to the Governments' effort to put the WSS sector on track to meet the SDGs targets related to the access, quality and sustainability of the water and sanitation services, primarily, in urban and peri urban areas. The Project will also support the World Bank's twin goals of ending extreme poverty by 2030 and promoting shared prosperity. The Project focuses on empowering decentralized municipal service providers to improve the access to, reliability and sustainability of service in several of the poorest municipalities in Honduras, contributing to the World Bank's goal of promoting shared prosperity and reduce poverty. For example, in the municipalities that are pending decentralization (which are eligible for support under Component 1 of the proposed Project), at least 50 percent of the households have at

⁸ Moreover, the GoH launched a new economic development strategy—Honduras 2020. This program guides national economic development over the next five years and focuses on expanding the tourism, textiles, manufacturing of intermediate goods, housing and agro-industrial sectors. Honduras 2020 acknowledges that the well-being of these sectors hinges on solid basic public services, including WSS.

⁹ WSS Characterization of 12 Municipalities with water systems pending to be transferred, World Bank (2017), WPP.

¹⁰ Environmental Assessment Report, GEO Honduras 2014; page 64.

¹¹ Based on EPHPM 2015 data.



least one unmet basic need and at least 10 percent of households have three unmet basic needs or more.¹² Although water coverage has gradually increased in these municipalities, they continue to present lower levels of coverage relative to other urban areas; over 20,000 households in these municipalities lack access to a water grid. Similarly, these municipalities have a higher poverty rate than other urban areas in the country.¹³ The Project will also support several pillars of the Country Partnership Framework (CPF) FY2016 to FY2020,¹⁴ including Pillar 1: Fostering Inclusion, by contributing to the expansion of the social programs, and Pillar 3: Reducing Vulnerability, by boosting resilience to disasters and climate change. In addition, the Bank's 2016 Honduras Systematic Country Diagnostic (SCD) highlights the lack of access to potable water and improved sanitation solutions as key factors that limit inclusion and the equal distribution of wealth.

C. Proposed Development Objective(s)

Note to Task Teams: The PDO has been pre-populated from the datasheet for the first time for your convenience. Please keep it up to date whenever it is changed in the datasheet.

The Project Development Objective (PDO) is to support the recipient in increasing and sustaining access to safely managed water and sanitation services in eligible decentralized service providers in collaboration with sector agencies.

Key Results (From PCN)

- Core Sector Indicator: Number of people (disaggregated by gender) provided with access to improved water sources, by male and female¹⁵.
- Percentage of the beneficiary providers that reach operating cost recovery ratios greater than one.
- Percentage of beneficiary providers that increase service continuity of chlorinated water to seven hours a day.
- Percentage of SANAA systems supported by PROMOSAS II that are transferred to the municipalities.

D. Concept Description

The new project is conceived as a **demand based project** and will be structured as an Investment Project Financing (IPF) Project, comprising an IDA Credit of US\$60 million and potential IDA Guarantee of US\$10 million to be implemented over six years. Selection of the IPF structure was based on the IPF's flexibility and suitability to incorporate financing to support an integrated and resilient water approach in eligible municipalities, including a number of specific investments in water conservation and water governance, operation of WSS systems, TA and capacity enhancement measures for urban and rural providers and the inclusion of vulnerable users and communities. The potential usage of an IDA Guarantee is based on the need to create the correct incentives for private financing in the Project. The IDA Guarantee also directly supports the GoH's WSS Financial Policy. The Project will be co-financed

¹² According to INE (census 2013), in two of these- La Esperanza and Intibucá- over 50 percent of the population is indigenous, a group that often lives in areas with lower access to basic services

¹³ Poverty GP Honduras Water Note, World Bank (2017). Estimates based on data from the National Institute of Statistics' 2013 census.

¹⁴ Report No. 98367, Honduras' CPF

¹⁵ To calculate with gender disaggregation (of male female ratio), a proxy will be calculated based on the official data from the 2013 National Census.



by the GoH through a US\$6 million counterpart contribution and may potentially leverage an additional US\$17 million from other sources.

The Project builds on the advances made under PROMOSAS I in supporting the GoH's decentralization efforts and improving water services. The new Project (PROMOSAS 2.0) takes a three-pronged approach, supporting municipalities that have created ring-fenced municipal service providers in the last 12 months (Component 1), strengthening ring-fenced municipal service providers that have been operating for at least two years (Component 2), and supporting autonomous mixed capital providers that are incorporated in accordance with the Honduran Private Commercial Law to leverage private financing (Component 3). Component 1 represents a continuation of the decentralization methodology developed under PROMOSAS I, while Components 2 and 3 push the boundaries of PROMOSAS I and focus on improving the long-term sustainability and reliability of service provision. Component 3 supports the implementation of the WSS Financial Policy through the development of an adequate environment for private finance in the sector. Component 4 supports national sector agencies in their efforts to fulfill their respective roles and guide municipalities and their service providers. Component 5 supports the Project Administration Unit (UAP) in its efforts to help municipalities/providers reach the eligibility criteria for Component 1, 2, or 3 and to successfully oversee Project implementation. As the new project is conceived as a demand driven project, the eligibility criteria for municipalities to enter the project will be defined during appraisal. Municipalities will be selected before reaching effectiveness.

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SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

There are 23 eligible municipalities as described in the Concept Note. The first 11 were part of PROMOSAS and within the other 12 new municipalities (in process of decentralizing their WSS services), when crossed with the location of towns with presence of indigenous peoples, a Lenca population can be found in the municipalities of La Esperanza, Intibucá, and Cané, in the case of the municipality of Copán Ruinas, a Maya Chortí population.

A. According to the National Institute of Statistics, the municipality of Intibucá has a population of 52,834, and an estimated 30% of the urban population and 50% of the rural population is Lenca. In the town of La Esperanza, there is an estimated population of 10,925 people, with an estimated 36% of the urban population and 32 % of the rural population being Lenca. Intibucá has 22,133 people (41% of the total population) and La Esperanza with 50% of the total population under the line of poverty. The IP population has its own governance structure consisting of a Council of the Elders, the auxiliary mayor of Vara Alta, Board of Directors, and the population. There is sufficient documented evidence on collective attachment to geographically distinct habitats or ancestral territories, as well as various organizational structures with international, national, and local levels. B. According to municipal data, the municipality of Cane, has an estimated Lenca population, of 5,379 inhabitants of which 78% of the total population live in the urban area. Only 1.04% of the land is communal, the sources do not mention the presence of Lenca organizations. C. According to INE, the town of Copán Ruinas has an estimated population of 38,109 people of which 49% are men and 51% are women. 25% of the population self-identifies as Maya Chortí people, it is estimated that most of the population is rural.



During the preparation stage of the project the four municipalities will be evaluated to see if they comply with the 4 criteria for the definition of Indigenous People. The potential impacts include that participation is not considered in the early stage of preparation, nor consultation in the design of the project and thus the population is excluded from the benefits of the project and receives adverse impacts will be evaluated to see if they comply with the 4 criteria for the definition of indigenous population.

B. Borrower's Institutional Capacity for Safeguard Policies

As part of the preparation of PROMOSAS 2.0, conceived as a demand based project, the Borrower will enhance/update the Environmental Social Management Framework, as the project moves forward with the design phase and the team identifies the types of activities to be implemented in the eligible municipalities. Other safeguard instruments as IPPF may be also considered as the project moves into appraisal.

The original Project has been consistently rated as Satisfactory in terms of compliance with social and environmental safeguards. The Project's implementing agency, SEFIN's PIU, contemplates an Environmental Specialist and is expected to hire a Social/Communication specialist on renewable, full-time consultancy contracts. These two professionals will address safeguard policy issues in addition to carrying out other relevant environmental and social/communication activities and supervision.

In terms of environmental policies, the PIU has complied with the environmental management requirements established in the ESMF for the construction works of PROMOSAS I, including application of environmental licenses and environmental contract clauses. Further, the Projects PIU has a functional system for environmental monitoring and supervision. The Bank's environmental supervision has also been steady throughout the original Project implementation and no major concerns have been raised.

In terms of social operational policies, the main lesson learned from the original Project in terms of borrower capacity was the need to strengthen the detection of cases at the local level and reporting to the PIU, in order to ensure timely preparation of plans, requesting Bank approval before mitigation measures will be put in place. During implementation, the local teams will receive the support they need to improve on this point. In case there is a change in the implementing agency, an assessment on the institutional's capacity will be carried out before appraisal, accordingly, to ensure the compliance with safeguard policies.

C. Environmental and Social Safeguards Specialists on the Team

Gunars H. Platais, Mariela Mena

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The Project is designed to address key challenges for meeting urban users' water needs. The studies, activities and investments financed by the Project are expected to improve environmental conditions overall by increasing water use efficiency. Current



environmental conditions, and those associated with the Project, are going to be assessed by the updated PROMOSAS 1.0 Environmental and 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. The New Project (Promosas 2) is conceived as a demand based project. The PROMOSAS 1.0 ESMF is quite complete and will be updated to reflect the new activities of the PROMOSAS 2.0 project which supports an integrated and resilient water approach in eligible municipalities, including a number of specific investments in water conservation and water governance, operation of WSS systems, TA and capacity enhancement measures for urban and rural providers and the inclusion of vulnerable users and communities. It is worth noting that the existing ESMF has been updated 6 times since its original edition in 2008, mainly adapting it to changes in legislation. This will make for an easy update especially considering that many of the activities are essentially the same. The ESMF does not currently take into consideration the EHS Guidelines nor the sector specific Water and Sanitation guidelines. These will be incorporated into the updated ESMF.

The guidance provided by the ESMF also applies to the activities being supported under TA throughout the project. TA activities will lead to the following: a) building local managerial, financial and operational capacities within the urban water and sanitation providers in eligible municipalities; b) it will provide support to central sector institutions (CONASA, SANAA, ERSAPS) to promote the formulation of local policies that affect water resource use in a positive manner by providing guidance/incentives for its conservation (source) and sustainability of the water services (controlling water loss in pipelines and intra-domicile use, etc.); c) the completion of technical and engineering designs in preparation for the construction of physical infrastructure whose impacts are not expected to be significant; d) the TA will also support capacity building of central institutions and



		<p>WSS providers to design and implement sound social campaign strategies around sensitive issues such as micrometering, tariffs and rational use of water. Even though the expected impact of the TA is by and large positive its preparation will be guided by a concern for minimizing any potential environmental and social implications, risk and impacts. In fact, the TA being considered will be designed to enhance the sustainability of project outcomes. The principles and objectives of the applicable safeguards policies will be integrated into the TA, including the equal distribution of project benefits, as per the interim guidance on safeguards in TA.</p> <p>.</p>
Natural Habitats OP/BP 4.04	Yes	<p>This policy is triggered on a precautionary basis given the project will support water conservation initiatives, focus mainly on urban providers and on the long-term sustainability and reliability of service which entails looking carefully at water sources. This will be done through the support in developing and implementing comprehensive micro-watershed conservation plans that many times are found within or are a part of protected areas and/or natural habitats.</p>
Forests OP/BP 4.36	Yes	<p>This policy is triggered on a precautionary basis given the project activities might have positive impacts on the health and quality of forests, and might affect the rights and welfare of people and their level of dependence upon or interaction with forests. The project could also potentially bring about changes in the management, protection or utilization of natural forests or plantations in upper watersheds as it seeks to provide a sustainable source of water.</p>
Pest Management OP 4.09	No	<p>The project will not support the procurement of pesticides and therefore this policy is not triggered.</p>
Physical Cultural Resources OP/BP 4.11	Yes	<p>The project does not expect to find physical cultural resources but given the nature of civil works including excavation this policy is triggered on a precautionary basis.</p>
Indigenous Peoples OP/BP 4.10	TBD	<p>The project focuses technical assistance in 23 municipalities that may be eligible, according to demand, prior to the project's effectiveness stage. According to official statistics, the country's indigenous population is estimated at 7% of the total population and is dispersed throughout the country, which increases the possibility of intervening in areas where indigenous populations live. For this reason,</p>



		<p>and according to World Bank OP 4.10, the Bank is responsible for carrying out a screening exercise to corroborate whether the policy should be triggered in municipalities where project activities may take place to validate that the only four municipalities where IPs are present are La Esperanza, Intibuca, Cane, and Copan Ruinas. Thus the task team will consult with institutions including, but not limited to, 1) Municipality of Intibucá, 2) La Esperanza, 3) Cané, 4) Copán Ruinas, 5) National Indigenous Maya Chortí Council of Honduras (CONIMCHH), 6) Confederation of Indigenous Peoples of Honduras (CONPAH), 7) Lenca National Indigenous Organization of Honduras (ONILH), the indigenous community, and 8) other actors.</p>
Involuntary Resettlement OP/BP 4.12	Yes	<p>This policy is triggered given the potential need to acquire lands or permits for easements and temporary affectations. However, the technical aspects of investment, place, technical capacity in managing impacts that the sub-projects could generate, the land tenure characteristics of where investments could be made, among other important aspects are unknown. Therefore a Resettlement Policy Framework will be prepared, in order to provide the client with a guide of procedures that protects the potential social impacts. The impacts are estimated to be similar to the original project.</p>
Safety of Dams OP/BP 4.37	No	<p>This policy is not triggered given the project will not support the construction or rehabilitation of dams nor will it support other investments which rely on the services of existing dams.</p>
Projects on International Waterways OP/BP 7.50	Yes	<p>A preliminary assessment of the scaling-up of the Project concluded that some of the potential new municipalities could be located in trans-boundary basins. Therefore, this policy is triggered mainly for municipalities who at project outset are eligible under Component 1. At the beginning of the Project, municipalities eligible under Components 2 & 3 are not located in international basins. Given the Project aims to implement a cascade approach and gradually move municipalities eligible under Component 1 (less efficient) to Component 2 and 3 (more efficient), municipalities identified in trans boundary basins for Component 1 may gradually become eligible under the next two components.</p>



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 will meet the criteria for the exemption 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). The exemption to notification memo will highlight, 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. The Team will seek the necessary exemption to notification as soon as possible.

Projects in Disputed Areas OP/BP 7.60

No

This policy is not triggered as project activities will not be conducted in disputed areas.

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Nov 30, 2017

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

July 15 to November 30, 2017

CONTACT POINT

World Bank

Marco Antonio Aguero, Luiz Claudio Martins Tavares
Sr Water & Sanitation Spec.

Borrower/Client/Recipient

Ministry of Finance
Omar Zuniga
Coordinador de la UAP



ozuniga@sefin.gob.hn

Implementing Agencies

Unidad Administradora de Proyecto UAP del Ministerio de Finanzas

Rosa Ayala

Coordinadora del Proyecto PROMOSAS

rayala@sefin.gob.hn

FOR MORE INFORMATION CONTACT

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 473-1000

Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):

Marco Antonio Aguero, Luiz Claudio Martins Tavares

Approved By

Practice Manager/Manager:

David Michaud

21-Jul-2017

Country Director:

Christian Albert Peter

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