

**INTEGRATED SAFEGUARDS DATA SHEET
CONCEPT STAGE**

Report No.: AC5289

Date ISDS Prepared/Updated: 04/21/2010

I. BASIC INFORMATION

A. Basic Project Data

Country: Mexico	Project ID: P121195
Project Name: Water Utilities Efficiency Improvement Project (PROME)	
Task Team Leader: David Michaud	
Estimated Appraisal Date: June 1, 2010	Estimated Board Date: August 5, 2010
Managing Unit: LCSUW	Lending Instrument: Specific Investment Loan
Sector: Water supply (50%);Sewerage (25%);Central government administration (25%)	
Theme: Access to urban services and housing (100%)	
IBRD Amount (US\$m.): 100.00	
IDA Amount (US\$m.): 0.00	
GEF Amount (US\$m.): 0.00	
PCF Amount (US\$m.): 0.00	
Other financing amounts by source:	
<u>Borrower</u>	<u>100.00</u>
	100.00

B. Project Objectives [from section 2 of PCN]

The tentative PDO is to improve the efficiency of WSS services by (a) strengthening the institutional capacity of CONAGUA to improve sector performance, and (b) supporting operational and commercial efficiency increase activities in participating water utilities.

C. Project Description [from section 3 of PCN]

The operation's technical scope would be generally similar to the recently closed PATME project but entail a significant scale-up and incorporate a number of lessons learned during the implementation of PATME. CONAGUA's vision is to use this project as the basis for the creation of a new federal program targeting efficiency improvements in the WSS sector overall. To achieve this, the project would keep a similar structure to the PATME project, with some adjustments, as described in the coming paragraphs.

Component 1: WSS sector information and knowledge management improvement (estimated cost: 5M USD, 100% IBRD funding). This component, implemented by CONAGUA, would finance activities centered around two main axes:

- Management of information. Under the project, the preparation of standards for indicators definition, initiated under PATME, would be completed and CONAGUA would move

towards greater coordination and standardization of the information with the objective of turning it into a tool for benchmarking and an instrument for greater accountability and transparency.

- Management of knowledge. Within CONAGUA, the unit that would implement the PROME project is generally responsible for capacity building activities and would continue and strengthen its efforts to improve the sector's capacity to provide efficient, reliable water and sanitation services. Activities such as training courses, sector studies, development of manuals and organization of annual conferences around the efficiency issues, are contemplated, in continuity of PATME-financed activities.

In addition, this component would also finance overall project management and evaluation activities.

Component 2: Modernization of the services of the water utilities (estimated cost: USD 195M USD, IBRD funding: 100% of federal contribution, estimated to USD 95M). This component, implemented mostly by the water utilities themselves, would finance physical and commercial efficiency improvement measures. Under PATME, less than 20 water utilities participated in the project, and these were mostly hand-picked to create a representative sample of pilot models. No specific criteria, types of investments or investment ceilings were established and there was limited supervision and focus on results. Given the scale-up that PROME entails, and the vision of creating a self-standing federal program, a much larger number of utilities will participate in PROME. Aside from the utilities already involved under PATME, CONAGUA seeks to focus this program initially on a number of utilities in the Mexico Valley (Valle de Mexico), which includes close to 40 water utilities with variable but generally low efficiency, and where a large investment program is underway, potentially requiring utilities to cover higher operations and maintenance costs. Following preliminary discussions, the Component would entail three different windows targeted at supporting utilities wherever they are in their strengthening process.

- . Technical Assistance (total cost: 10M): all participating utilities would have access to a technical assistance window throughout the project. Initially, this window would finance activities such as initial diagnostics and investment plans; later in the process, the window would finance studies on a case-by-case basis, for example on tariff and subsidies, governance structure, or specific operational or commercial issues. The window would be implemented by either CONAGUA or the utilities themselves. This window would also finance a stronger supervision scheme aimed at ensuring that the activities are well planned and well implemented.

- Classical Efficiency Investments (total cost: 175M): utilities that comply with a set of minimal requirements, to be defined during preparation, would be eligible for this investment window, possibly linked with an overall ceiling based on performance criteria. This window would finance typical operational and commercial improvements similar to those financed under PATME, such as establishment of District Metering Areas, leak reductions, macro and micro-metering installation, commercial system installations etc. This window would represent the core of PROME's investment. All investment measures would have to be based on an initial diagnostic that would establish financing priorities together with a specific baseline and an easily measurable objective for each action. Such diagnostics and investments plans would be financed by the Technical Assistance window in utilities where none is available.

- Pilot Results-based Efficiency Investments (total cost: 10M): Among existing and potential participating utilities, some are much more advanced than others; this window would cater to their higher level of sophistication, generally financing similar activities as the classical investment window but using outputs (or outcomes), rather than inputs, as the basis for

disbursement. Since eligibility criteria would be more demanding than for the classical investment window, this window would possibly allow for the use of the country's fiduciary rules and systems, in agreement with the stronger capacity of the utilities.

D. Project location (if known)

The geographical scope of the project is urban areas with more than 20,000 inhabitants, nationally. CONAGUA has indicated that the initial focus of the project will be on the PATME utilities as well as a number of utilities in the Mexico Valley (Valle de Mexico).

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

Environmental Assessment. The project triggers OP 4.01 due to the nature of the works proposed. CONAGUA has the institutional capacity and specific Manuals needed to guarantee that the federal environmental legislation in relation with Environmental Impact Assessments is fully complied; nevertheless, the type of activities to be supported with PROME fall in a local, non federal, regulation that applies to the water companies at the municipalities. The proposed activities seek to improve efficiency related infrastructure mainly electromechanical equipment and a reduced number of minor construction works which in essence imply low environmental impacts that can be addressed through the use of a simplified framework as an integral part of construction contracts. The Bank team is supporting CONAGUA in the preparation of an Environmental Framework that will describe and evaluate the possible environmental impacts generated by the project's activities and determine mitigation measures to be applied in each construction contract. The team will determine during preparation the need to provide training on environmental safeguards to water utilities and CONAGUA's local agencies which will supervise the application of environmental framework application.

Physical Cultural Resources. Additionally, Safeguard 4.11 Physical Cultural Resources is triggered, since the construction works involve excavations and earth movements and some of these construction works might be located near physical cultural resources. Thus, it is necessary to guarantee that the Bank safeguard and the ample local legislation in this matter (INAH Instituto Nacional de Antropología e Historia) is fully complied by construction companies in a similar manner as the environmental issues. Appropriate chance find procedures will be included in the bidding documents as part of the Environmental Framework.

Land Acquisition and Involuntary Resettlement. The proposed Project triggers the OP 4.12. While PROME's proposed catalogue of works is based on that used for PATME, the final catalogue of works will be defined during preparation. The type of works and activities covered under PATME shows that these have consisted of minor infrastructure works, not involving issues related to involuntary resettlement. The responsible agency, CONAGUA, and the Sub-Gerencia de Gestión y Evaluación de Proyectos con Crédito Externo which supports the Gerencia de Apoyo a Organismos Operadores, directly responsible for project implementation, have prior experience in managing social safeguards. However, given that CONAGUA's decentralized branches, the Direcciones Locales and the Basin Agencies at the state and regional level, are expected to be responsible for direct supervision of water infrastructure works executed by municipal water utilities, the team will determine during preparation the need to provide training on social safeguards to said agencies. Moreover, the client has indicated that the majority of municipal water utility operators have set up social units dedicated to addressing

users' complaints and local communities' concerns and requests. In regard to means for addressing complaints, the project would therefore adapt existing mechanisms set up by municipal water utilities' social units. Although the types of infrastructure works is expected to continue being of small scale under the new Project, these will be demand-driven and thus not known before Project approval. Hence, during project preparation, the team will support the client in preparing an involuntary resettlement framework. The latter is proposed to be included in the agreements signed between CONAGUA and participating states, municipalities and water operators, which include execution and technical annexes (Anexos Tecnicos y de Ejecucion), as well as attached to construction contracts signed between water operators and contractors of works.

Social Assessment and Consultations. As part of the social analysis, PROME's proposed design features and the results of the PATME TAL -on which the new Project is based- were reviewed. The results of PATME indicate that the project has had positive social impacts, including efficiency improvements associated with customer service (new hardware and software systems and personnel training), increased access to water services (increased coverage) and improved quality of water and water savings (replacement of tubes and tanks, leakages repair). While the previous project introduced the monitoring of efficiency indicators as a condition for participation by water utilities, indicators did not explicitly include the monitoring of social indicators per se, such as customer satisfaction related to access, quality and service and the impacts of improved efficiency on low-income populations. The previous project, however, did include funding for activities for improving the utilities' responsiveness to users, including better customer service through new computerized systems. Moreover, the team will work with the client to define whether the list of indicators to be monitored by water utilities and CONAGUA may include indicators related to customer satisfaction and explicit attention to poor populations.

F. Environmental and Social Safeguards Specialists

Mr Jose Luis Calderon Bartheneuf (LCSPE)

Mr Luis Ernesto Vega Chacon (LCSPF)

Ms Maria Poli (LCSSO)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies Triggered	Yes	No	TBD
Environmental Assessment (OP/BP 4.01)	X		
<p>The project triggers OP 4.01 due to the nature of the works proposed. CONAGUA has the institutional capacity and specific Manuals needed to guarantee that the federal environmental legislation in relation with Environmental Impact Assessments is fully complied; nevertheless, the type of activities to be supported with PROME fall in a local, non federal, regulation that applies to the water companies at the municipalities. The proposed activities seek to improve efficiency related infrastructure mainly electromechanical equipment and a reduced number of minor construction works which in essence imply low environmental impacts that can be addressed through the use of a simplified framework as an integral part of construction contracts. The Bank team is supporting CONAGUA in the preparation of an Environmental Framework that will describe and evaluate the possible environmental impacts generated by the project's activities and determine mitigation measures to be applied in each construction contract.. The</p>			

Safeguard Policies Triggered	Yes	No	TBD
team will determine during preparation the need to provide training on environmental safeguards to water utilities and CONAGUA's local agencies which will supervise the application of environmental framework application.			
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		
Physical Cultural Resources. Additionally, Safeguard 4.11 Physical Cultural Resources is triggered, since the construction works involve excavations and earth movements and some of these construction works might be located near physical cultural resources. Thus, it is necessary to guarantee that the Bank safeguard and the ample local legislation in this matter (INAH Instituto Nacional de Antropología e Historia) is fully complied by construction companies in a similar manner as the environmental issues. Appropriate chance find procedures will be included in the bidding documents as part of the Environmental Framework.			
Indigenous Peoples (OP/BP 4.10)		X	
Involuntary Resettlement (OP/BP 4.12)	X		
The proposed Project triggers the OP 4.12. While PROME's proposed catalogue of works is based on that used for PATME, the final catalogue of works will be defined during preparation. The type of works and activities covered under PATME shows that these have consisted of minor infrastructure works, not involving issues related to involuntary resettlement. The responsible agency, CONAGUA, and the Sub-Gerencia de Gestión y Evaluación de Proyectos con Crédito Externo #which supports the Gerencia de Apoyo a Organismos Operadores, directly responsible for project implementation- have prior experience in managing social safeguards. However, given that CONAGUA's decentralized branches, the Direcciones Locales and the Basin Agencies at the state and regional level, are expected to be responsible for direct supervision of water infrastructure works executed by municipal water utilities, the team will determine during preparation the need to provide training on social safeguards to said agencies. Moreover, the client has indicated that the majority of municipal water utility operators have set up social units dedicated to addressing users' complaints and local communities' concerns and requests. In regard to means for addressing complaints, the project would therefore adapt existing mechanisms set up by municipal water utilities' social units. Although the types of infrastructure works is expected to continue being of small scale under the new Project, these will be demand-driven and thus not known before Project approval. Hence, during project preparation, the team will support the client in preparing an involuntary resettlement framework. The latter is proposed to be included in the agreements signed between CONAGUA and participating states, municipalities and water operators, which include execution and technical annexes (Anexos Técnicos y de Ejecución), as well as attached to construction contracts signed between water operators and contractors of works.			
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: 06/10/2010
- B. For simple projects that will not require a QER, the target date for preparing the PAD-stage ISDS: N/A
- 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.
Environmental Framework and Resettlement Framework document are under preparation and will be disclosed prior to appraisal.

IV. APPROVALS

<i>Signed and submitted by:</i>		
Task Team Leader:	Mr David Michaud	04/15/2010
<i>Approved by:</i>		
Regional Safeguards Coordinator:	Mr Glenn S. Morgan	04/15/2010
Comments:		
Sector Manager:	Mr Guang Zhe Chen	04/15/2010
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.

