

**INTEGRATED SAFEGUARDS DATASHEET
APPRAISAL STAGE**

I. Basic Information

Date prepared/updated: 10/07/2010

Report No.: AC5467

1. Basic Project Data

Country: Mexico	Project ID: P121195	
Project Name: Water Utilities Efficiency Improvement Project (PROME)		
Task Team Leader: David Michaud		
Estimated Appraisal Date: July 9, 2010	Estimated Board Date: November 9, 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>	100.00	
	100.00	
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 type="checkbox"/>

2. Project Objectives

1. The Project Development Objective (PDO) is to improve the efficiency of participating utilities through technical assistance and financing.

3. Project Description

Component 1: Water Supply and Sanitation (WSS) sector information and knowledge management improvement (estimated cost: 5M USD, IBRD funding: 100 percent)

2. This Component would continue information and knowledge management activities undertaken under the Modernization of the Water and Sanitation Sector (PATME) project and generally support the National Water Commission's (CONAGUA) work in improving the WSS sector actors' capacity with regards to efficiency improvement. To achieve this, the Component will include two main lines of action.

3. Management of information. CONAGUA will seek to develop a body of information that will improve analysis and decision making processes within CONAGUA and in the sector generally. Some of the activities contemplated include:

Continuation of work on the development of standardized indicators to be used to measure Water Supply and Sanitation Utility's (WSSU) performance. Under PATME, work on such standards was initiated, however the resulting draft standards are not

currently being implemented and a number of conflicting indicators are being used. Under PROME, the Component will finance consultancies to continue this work.

Harmonization activities on existing WSSU information system. CONAGUA currently operates three different information systems, with different geographical scopes, purposes, periodicity and indicators. While these systems # which are maintained by different departments within CONAGUA - would be initially maintained, the project would seek to link and cross-reference the data they contain and move towards a harmonization of indicators and definitions. As such, under PROME, consultancies as well as the development of information systems will be financed.

Internal and external benchmarking. In addition, CONAGUA is also seeking to make this data more public and more user-friendly. An annual compendium of data from hundreds of WSSU is already being published in paper form, but it does not allow for easy benchmarking and comparison between WSSU or over time. CONAGUA is interested in providing a more processed version of this information, either through an analytical report or through an interactive website offering benchmarking tools. To achieve this, PROME will finance consultancies and possibly the development of a web-based platform for performance benchmarking.

4. 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. In particular, some of the activities contemplated include:

Development of norms and standards. Over the course of the PATME project, several sets of norms and standards were developed, in part to support the establishment of a clear framework for sector performance monitoring. Work on this normative framework would be continued under the PROME project, through the financing of studies to develop and finalize the needed norms and standards.

Development of manuals. CONAGUA also developed several well-received manuals during the PATME project, such as one on physical and energy efficiency improvements. Under PROME CONAGUA will continue such activities, starting with the financing of the finalization of a pending manual on commercial efficiency which preparation was initiated under PATME.

Training. CONAGUA also organized the training of hundreds of representatives of WSSU staff on topics related to efficiency improvement and this Component will continue to finance such training under PROME.

Documentation. Finally, CONAGUA will also use financing from this Component to document the experience and review the lessons learned under the project - generally and in particular under the output-based disbursement window (Component 2C).

5. All of the activities under this Component would be implemented by CONAGUA's WSSU Institutional Strengthening Unit itself.

Component 2: Modernization of the services of participating water utilities (estimated cost: USD 157M USD, IBRD funding: 100 percent of federal contribution, estimated to USD 95M)

6. This Component, implemented 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 PROMÉ entails, and the vision of creating a self-standing federal program, a much larger number of utilities will participate in PROMÉ.

7. 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. Other utilities that might participate include those with particularly low levels of efficiency. CONAGUA expects that a total of 70 to 80 utilities will participate in PROMÉ overall.

8. To cater to the different needs and modernization levels of the participating utilities, this Component would entail three different windows targeted at supporting utilities wherever they are in their strengthening process. Those three windows are described in the following paragraphs.

9. Component 2A: Technical Assistance (total cost: 7M): all participating utilities would have access to a technical assistance window throughout the project. Initially, this window would finance a diagnostic and investment plan that would prioritize investments to be conducted under PROMÉ and other federal programs; later in the process, the window could finance studies on a case-by-case basis, for example on tariff and subsidies, governance structure, or specific operational or commercial efficiency issues. CONAGUA would finance 75 percent of the cost of diagnostics and 60 percent of the cost of other technical assistance activities under this window, while the WSSU would finance the rest.

10. Component 2B: Classical Efficiency Investments (total cost: 145M): utilities that have completed an initial assessment study or already had one, could enter the classical efficiency investments window, which would operate under rules very similar to the previous PATME project. This window would finance typical operational and commercial improvements similar to those financed under PATME, such as establishment of District Metering Areas, active leakage control, source and consumer water meter installation, supply and installation or upgrade of billing system, etc. This window would represent the core of PROMÉ's investment. All investment measures would have to be based on a diagnostic study that would establish financing priorities together with a specific baseline and an easily measurable target for each action. The project would finance 60 percent of the cost of efficiency improvements, with the WSSU financing the rest. No formal ceiling would be established (under PATME, availability of counterpart financing has proven an effective mechanism to control the amount being assigned to a given WSSU); however, utilities that do not use the funds assigned to them

in previous years or fail to show overall efficiency improvements would see their assignation decrease.

11. Component 2C: Pilot Output-based Efficiency Investments (total cost: 5M): Among existing and potential participating utilities, some are much more advanced than others in the implementation of efficiency improvement measures; this window would cater to their higher level of sophistication, generally financing similar activities as the classical investment window but using outputs, rather than inputs, as the basis for disbursement. Given the challenges presented by the design of such a mechanism, CONAGUA and the Bank have agreed to design this window as a pilot limited to a few indicators, activities and utilities, at least initially. In addition, this window will only become operational once an operating manual acceptable to the Bank has been completed. CONAGUA would finance 60 percent of the cost of the activities under this window, while the WSSU would finance the rest. No formal ceiling would be used and the same principles as in the Classical Efficiency Investments window apply.

12. All of the windows under this Component would be implemented by the WSSU themselves, under the technical and fiduciary supervision of CONAGUA's regional branches and River Basin Agencies.

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

13. The geographical scope of the project is decentralized water utilities located in urban communities with more than 20,000 inhabitants. 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).

5. Environmental and Social Safeguards Specialists

Mr Jose Luis Calderon Bartheneuf (LCSAR)

Mr Luis Ernesto Vega Chacon (LCSPF)

Ms Maria Poli (LCSSO)

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:

14. 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 mainly 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. It is important to notice that there are not large scale, significant or irreversible impacts expected with the project.

15. 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. With regard to this issue, Mexico has the capacity and the experience in dealing with PCR findings through the National Institute of Anthropology and History (INAH, Instituto Nacional de Antropología e Historia) regulations

16. OP 4.12. Involuntary Resettlement has also been triggered as a preventive measure, although small civil works #including but not limited to, installation/replacement of tanks, micro and macro-metering, leak reductions- are envisioned by the Project, and no resettlement is expected to take place. An analysis of the type of works undertaken by the previous PATME project indicated that no resettlement issues took place and that only 4% of all actions involved infrastructure civil works. This percentage is expected to remain on a similar level for PROME.

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

Not expected.

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

N/A

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.

17. The Bank team has supported CONAGUA in the preparation of an Environmental Framework that describes and evaluates the possible environmental impacts generated by the project's activities and determines mitigation measures to be applied in each construction contract with a simple monitoring system based on legal obligations established in the Federal, State, and Municipal environmental legislations.

18. 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) is fully complied by construction companies in a similar manner as the environmental issues.

19. The Bank has also supported CONAGUA in the preparation of a Resettlement Framework, which includes appropriate screening measures for assessing water utilities' works proposals. Since no resettlement issues are expected to arise, the Bank will work closely with CONAGUA's technical staff on a case-by-case basis for determining training needs whenever required.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people. In-country publication by CONAGUA (July 2nd, 2010) and InfoShop disclosures (July 6th, 2010) were completed.

B. Disclosure Requirements Date

Environmental Assessment/Audit/Management Plan/Other:

Was the document disclosed prior to appraisal?	No
Date of receipt by the Bank	07/02/2010
Date of "in-country" disclosure	07/02/2010
Date of submission to InfoShop	10/07/2010
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	

Resettlement Action Plan/Framework/Policy Process:

Was the document disclosed prior to appraisal?	Yes
Date of receipt by the Bank	07/02/2010
Date of "in-country" disclosure	07/02/2010
Date of submission to InfoShop	10/07/2010

Indigenous Peoples Plan/Planning Framework:

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

Pest Management Plan:

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 4.11 - 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?	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?	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 documents?	Yes

D. Approvals

<i>Signed and submitted by:</i>	<i>Name</i>	<i>Date</i>
Task Team Leader:	Mr David Michaud	07/02/2010
Environmental Specialist:	Mr Jose Luis Calderon Bartheneuf	07/02/2010
Social Development Specialist Additional Environmental and/or Social Development Specialist(s):	Mr Luis Ernesto Vega Chacon	07/02/2010
<i>Approved by:</i>		
Sector Manager:	Mr Guang Zhe Chen	07/02/2010
Comments:		