



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 24-Feb-2019 | Report No: PIDC26557



BASIC INFORMATION

A. Basic Project Data

Country Honduras	Project ID P170469	Parent Project ID (if any)	Project Name TEGUCIGALPA: WATER SUPPLY STRENGTHENING PROJECT (P170469)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date Apr 23, 2019	Estimated Board Date May 31, 2019	Practice Area (Lead) Water
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance (SEFIN)	Implementing Agency Municipality of Tegucigalpa (AMDC)	

Proposed Development Objective(s)

The Project Development Objective (PDO) is to strengthen institutional capacity for increased efficiency and reliability of water services in select areas of Tegucigalpa.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	105.00
Total Financing	105.00
of which IBRD/IDA	50.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	50.00
IDA Credit	50.00

Non-World Bank Group Financing

Counterpart Funding	55.00
Borrower/Recipient	30.00



Municipalities of Borrowing Country

25.00

Environmental and Social Risk Classification

Substantial

Concept Review Decision

Track II-The review did authorize the preparation to continue



Other Decision (as needed)

B. Introduction and Context

Country Context

- 1. Although Honduras' economy has experienced moderate recovery since the 2008-2009 global economic crisis, the country faces the highest level of economic inequality in Latin America.** Honduras' modest rate of Gross Domestic Product (GDP) growth (0.3 points per year¹) has been insufficient to significantly improve living standards, especially given the country's accelerated population growth. In 2017, roughly 64 percent of households (69 percent of the country's 8.3 million inhabitants) lived in poverty and an estimated 40.7 percent lived in extreme poverty.² This level of extreme poverty is second only to Haiti in the LAC region. While income growth has been recovering — particularly for the bottom 40 percent of the income distribution (B40), which posted an annualized rate of 1.2 percent between 2011 and 2016, ahead of the rest of the population, preliminary data for 2017 suggest that inequality has been increasing over the last two years.
- 2. Honduras' urban growth rate (3.2 percent in 2015) and percentage of urban poor (53 percent) are among the highest in the region.** Nearly 54 percent of the population lives in urban areas, and based on the current growth rate, this figure is expected to increase to 70 percent by 2050. Investments in services have not, however, kept pace with ever-increasing urban growth trends. Instead, urban development has largely lacked planning, regulation or controls, subjecting a large and ever-increasing portion of the population to critical shortages in terms of access to housing and public services, including water supply and sanitation (WSS), basic education and health. Nowhere are the pressures of unchecked urban growth more apparent than in the capital of Tegucigalpa, which houses 18 percent of the country's population (1.4 million) and generates 32 percent of the country's GDP.
- 3. 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. Its accelerated urbanization has increased the country's overall exposure and vulnerability to natural catastrophic events. On average, Honduras loses 2.6 percent of its national GDP each year to climatic events. The combination of global climate change and increased climatic variability are likely to exacerbate its exposure to hurricanes, floods, erosion, landslides, and droughts. The 20 percent reduction in annual precipitation projected across the country by 2050 and 30-40 by 2090 combined with increased temperature are expected to result in reduced water availability.

¹ According to the Central Bank of Honduras, from 2014 to 2017, the GDP has experienced an average growth of 0.3 points per year, GDP in January 2017 is 4.

² Instituto Nacional de Estadísticas (INE), *Encuesta Permanente de Hogares de Propósitos Múltiples, junio 2017*.



Sectoral and Institutional Context

4. **The GoH's ambitious decentralization effort included issuing the 2003 Drinking Water and Sanitation Sector Framework Law (the Framework Law) which redefined WSS provision in Honduras.** The Framework Law mandated among others, the decentralization of SANAA, which managed and provided water supply services to 30 rural and urban areas; called for the transfer of its assets to the municipalities by 2013; required municipalities to set up autonomous service providers; and established a Water and Sanitation Sector Regulator (Ente Regulador de los Servicios de Agua Potable y Saneamiento, ERSAPS) to ensure more effective sector governance. Following the decentralization and transfer of its assets to municipalities, SANAA was intended to become a technical assistance (TA) agency providing support to municipal service providers.
5. **Over the past two decades, Honduras has made significant progress in closing the WSS coverage gap through ambitious infrastructure expansion programs.** Whereas in 1990 less than 75 percent of the population had access to improved water and under 50 percent to improved sanitation,⁴ Honduras succeeded in meeting the Millennium Development Goals⁵ of reducing coverage gaps in half by end-2012. By 2015, 91 percent of Hondurans had access to improved water, and 83 percent had access to improved sanitation. Despite the substantial headway made in terms of overall WSS coverage, there are significant inequities in access to these services and service quality is generally low. Whereas only 7 percent of the country's non-poor lacked access to water supply and another 12 percent lacked access to sanitation in 2015, fully 20 percent of its poor lacked access to these services. The 2016 Country Monitoring WSS Report (Monitoreo de los Avances del País en Agua Potable y Saneamiento — MAPAS) estimated that only 35 out of 72 cities had access to sewerage with a treatment system — the effectiveness of which is unknown, and only 38 percent of water delivered in urban areas is potable.
6. **Significant investments are required to achieve universal coverage, maintain and improve the quality and reliability of services, and protect water resources.** The 2016 MAPAS Report estimated that Honduras would need to invest US\$314.1 million in the sector annually between 2016 and 2022 (for a total of \$1.8 billion) to expand coverage to 95 percent of its population and maintain service levels in areas currently covered. The level of investment required far exceeds the GoH's average expenditure of US\$48 million per year. For Tegucigalpa alone, total investment needs are estimated at \$40 million per year for the same period.
7. **Completion of the decentralization process called for in the Framework Law is pending the transfer of remaining systems and award of severance obligations to SANAA staff.** The transfer of the remaining four systems managed by SANAA — which provide services to 1.7 million inhabitants, including Tegucigalpa — is pending 12 years following the agreed deadline for completion of the decentralization process. Despite the decentralization and accompanying downscaling of staff and services in 9 of its original 13 systems, SANAA remains profoundly overstaffed — with an average of 13 employees for every 1,000 connections. This figure significantly exceeds both the 2 employees per 1000 connections average attained by concessionary water utilities and water boards counterparts in Honduras, and the regional average of 3.49 employees per 1000 connections. While the Framework Law prevents SANAA from indiscriminately hiring additional staff, salaries and benefits expenditures have increased to 95 percent of operating and maintenance (O&M) costs. This not only poses financial sustainability challenges to address Tegucigalpa's ever-more critical water infrastructure investment needs, but also increases the cost of severances to be paid. Honduras' labor law requires that all staff, transferred or dismissed, be duly compensated while the Framework Law requires that systems be free of debt at the time of transfer to the municipalities.
8. **Tegucigalpa constitutes the largest and most complex WSS system remaining to be decentralized.** Since 2016, the Municipality of Tegucigalpa (Alcaldía Municipal del Distrito Central — AMDC) is advocating that the central



government expedites the transfer of SANAA's four pending systems and completes the sector reform by awarding severance payments to the roughly 1,700 staff remaining, an estimated 1,366 of which, are employees of Tegucigalpa's Metropolitan WSS System. One of the most significant binding constraints to the transfer of the Tegucigalpa system relates to the financing of US\$103 million in severance payments to SANAA's staff, including the metropolitan based staff. The Mayor of Tegucigalpa assumed the leadership role in this process and appointing SANAA's current Financial and General Managers and accelerating the transfer of 9 out of the 13 remaining WSS systems managed by SANAA to different municipalities.

9. **In May 2015, the Municipal Unit of Potable Water and Sanitation of the Central District (Unidad Municipal de Agua Potable y Saneamiento, UMAPS) was instituted via municipal decree to serve as the local service provider responsible for delivering WSS services to the metropolitan area of Tegucigalpa.** The approved service model established UMAPS as a Deconcentrated Entity of the AMDC with administrative autonomy, as well as its own budget and accounting system. However, its incorporation statute limits UMAPS to serve as a user and administrator of AMDC assets for the provision of services. Therefore, UMAPS will at least initially lack capacity to finance major capital investments, which will remain under the responsibility of the AMDC. This model was adopted to avoid social risks associated with a corporatization model that could be mistaken for privatization by the public at large.
10. **The quality of WSS services in the capital city falls far below acceptable levels.** According to latest figures, only 70 percent of Tegucigalpa's population has access to piped water and 50 percent to sewerage, significantly lagging behind the national averages of 91 and 83 percent, respectively. Water continuity indicators have likewise reached a critical low. On average, households receive water twice a week for 2 to 4 hours each day. The frequency of service is not uniform throughout neighborhoods. None of Tegucigalpa's residents enjoy continuous water service from the network. Residents with the financial means build domestic reservoirs to overcome supply shortages, purchasing water from tankers as needed at prices several times higher than those charged by SANAA. Households categorized as poor (32 percent) and extremely poor (21 percent) generally settle in areas where water rationing is most severe or not delivered at all, emphasizing the stark inequities in access. These households lack the means to build their own reservoirs and are relegated, instead, to storing water received in plastic drums and other makeshift containers. Similarly, an estimated 298,000 poor residents living in highly vulnerable peri-urban areas are either receiving water services through some 170 water boards (Juntas de Agua) with varied standards of service or are simply not connected to the network. In addition to the water supply rationing regime prevailing in the city, physical losses throughout the water supply network are estimated to total at least 45 percent, although it is difficult to calculate with precision due to low levels of metering. Even if physical losses were reduced to zero, water available from existing sources would not suffice to provide continuous service. The inefficient provision of water supply service contributes to the growing pressure on already limited water resources in the capital.



Relationship to CPF

11. **The Project is also well aligned to the World Bank Group’s FY2016-2020 Country Partnership Framework (CPF) for Honduras.**³ It will specifically support **Pillar 2: Bolstering Conditions for Growth**, by directly contributing to *Objective 1: Improve Reliability of Key Infrastructure* through investments in the rehabilitation of three key water treatment plants in Tegucigalpa. The Project will likewise support *Objective 2: Strengthen the Regulatory Framework and Institutional Capacity* through, inter alia, the establishment of an autonomous Municipal Service Provider and the development of key policies, regulations and tools necessary to strengthen the capacity of the key sectoral agencies to carry out their roles. Proposed investments will also directly support **Pillar 3: Reducing Vulnerability**, particularly *Objective 3: Boost Resilience to Disasters and Climate Change* as, investments aimed at improving the security, sanitation and efficient management of key water sources will be critical to promoting water security amidst ever-increasing climatic pressures.

C. Proposed Development Objective(s)

The Project Development Objective (PDO) is to strengthen institutional capacity for increased efficiency and reliability of water services in select areas of Tegucigalpa.

Key Results (From PCN)

12. Achievement of the PDO will be measured through the following key results indicators:

- New Municipal Water and Sanitation Provider operational
- People receiving at least X hours of water per day (To be determined)
- Priority WTPs operating at 95 percent capacity or higher in compliance with internal process standards.
- Number of hydraulic sectors complying with non-revenue water (NRW) targets
- Number of dams operating in compliance with a dam safety action plan.

13. In addition, the proposed Project will constitute an Investment Project Financing with Disbursement Indicators that will provide incentives to support the implementation of critical institutional reforms such as the transfer of the WSS Metropolitan system to the Municipality and the establishment of a sustainable WSS provider, that will ensure the achievement of key operational WSS targets

14. **Activities under the project will be organized under three components:** a) Component 1 will establish and strengthen UMAPs, including by setting up a governance structure for UMAPS; transfer of select functions from SANAA to UMAPs; and development of a Gender Policy for UMAPS; b) Component 2 aims to strengthen the water production capacity and water distribution network efficiency, including the optimization of the water treatment plants and distribution, the strengthening of dam safety measures for Laureles and Concepción dams, the development of water shed plans and instruments to improve watershed management and climate resiliency of Tegucigalpa’s water system; and c) Component 3 will support project management.

³ Report No. 98367, Honduras’ CPF



D. Concept Description

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

Based on screening at this stage, the project is not expected to entail major environmental or social risks and impacts. Civil works to be carried out under the project will be small scale and site-specific in nature, with impacts expected to be limited to the construction stage. Dam safety issues at the two large water storage dams (Laureles and Concepcion) in the municipality pose the potentially highest risk; the project design responds to these risks by including a subcomponent focused on improving dam safety, including contracting of a Dam Safety Panel of Experts, developing critical emergency and dam safety plans, and limited physical works to improve dam management -- however, major works on the dams will not be undertaken. The project's main social risks relate to sectorization works along water distribution networks in marginal and vulnerable communities, in particular where there are high rates of informal/illegal water connections; these will be managed through robust stakeholder engagement. The project will also entail a variety of minor, site specific construction related environmental, health and safety impacts associated with the various civil works activities, all of which are easily mitigated with proper construction management practices. The municipality's existing environmental and social capacity will be strengthened through the project to ensure adequate management of these issues. The proposed project activities should also result have the positive effect of enhancing environmental and safety management of the dams and water treatment plants, as well bolstering the climate resilience of the city.

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

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APPROVAL

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