Project Information Document (PID)
## BASIC INFORMATION

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>Honduras</td>
<td>P173125</td>
<td>Urban Water Supply Strengthening Project</td>
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<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated Appraisal Date</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
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<tr>
<td>LATIN AMERICA AND CARIBBEAN</td>
<td>24-Apr-2020</td>
<td>23-Jun-2020</td>
<td>Water</td>
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<table>
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<tr>
<th>Financing Instrument</th>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tr>
<td>Investment Project Financing</td>
<td>Secretaria de Finanzas de Honduras (SEFIN)</td>
<td>Honduran Strategic Investment Office (INVEST-H)</td>
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**Proposed Development Objective(s)**

Improve the quality and efficiency of water supply services delivered by participating urban water providers; and to support urban municipalities to respond to COVID-19 emergency needs.

**Components**

- Component 1. Improving water supply services provision in eligible UWPs/municipalities
- Component 2. Institutional strengthening of ERSAPS
- Component 3. Project management, communication, outreach, monitoring and evaluation
- Component 4. Contingent Emergency Response Component (CERC)

## PROJECT FINANCING DATA (US$, Millions)

### SUMMARY

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tr>
<td>Total Project Cost</td>
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<td>Total Financing</td>
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<tr>
<td>of which IBRD/IDA</td>
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<td>Financing Gap</td>
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### DETAILS

**World Bank Group Financing**

| International Development Association (IDA) | 45.00 |
B. Introduction and Context

Country Context

1. Honduras is one of the poorest countries in Latin America and the Caribbean region (LAC). International headcount estimates for 2018 show that 16.5 percent of the Honduran population lives on less than US$1.90 per day (the international poverty line), the second highest rate in LAC; and around half live on less than US$5.50 per day (the upper middle-income global poverty line). New official poverty estimates indicate that poverty levels are lower than previously thought, but confirm that poverty reduction has been weak in recent years. As of 2018, an estimated 48.3 percent of Honduras (around 4.5 million people) live below the national poverty line. The global Coronavirus (COVID-19) pandemic will likely reduce gross domestic product (GDP) growth, resulting in significant formal and informal job losses and increased poverty rates.

2. 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. Investments in services have not kept up with urban population growth. To date, urban development has been largely 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.

3. In addition to facing poverty and critical shortages in basic services, Honduras has been severely impacted by extreme weather events. According to the Global Climate Risk Index for 2019 (Germanwatch), Honduras is one of the three countries most affected by climate change. Its accelerated urbanization has increased the country’s overall exposure and vulnerability to climate-change related natural catastrophic events. Climate change has likewise impacted precipitation patterns. Projected reductions in annual precipitation of 20 percent by 2050 and 30-40 percent by 2090, combined with rising temperatures are expected to reduce water availability across the country. On average, Honduras loses 2.6 percent of its national GDP each year to climatic events. To respond to growing climate change–related threats, the Government of Honduras (GoH) launched a National Climate Change Strategy in 2010, a Strategic Program for Climate Resilience (2018-2022) and the Water, Forest and Land Master Plan for 2017 to 2030. 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.
Sectoral and Institutional Context

4. **Sectoral Context.** Honduras requires significant investments to achieve the Sustainable Development Goal for Water (SDG 6) of universal access to safe water and sanitation. In all, a total of US$314.1 million annually would be required, US$157.3 million for infrastructure to achieve universal coverage, of which US$102.6 million to rehabilitate it. The level of investments required far exceeds the GoH’s average annual expenditure of US$31.6 million.

5. Over 100 medium and small-sized cities suffer from inefficient and unreliable water supply services, causing financial burden on households and the risk of disease contagion. While Honduras has increased access to basic water services over the past decades, it faces significant challenges in providing better and more reliable services, particularly to small and medium sized cities. Although piped water coverage in urban areas is high at around 96 percent, when it comes to safely managed water in urban areas availability is very low. A 2017 World Bank survey of mid-sized cities and small towns in Honduras revealed that, on average, 67 percent of residents only had access to water service three hours per day. Inadequate system management is largely to blame for the persisting low service quality. In 2019, the GoH declared a national state of emergency given that rainfall had declined to half of its historic level, suggesting that access to water services has dropped significantly.

6. Physical and commercial losses resulting from aging infrastructure and historically insufficient investments in maintenance and rehabilitation pose significant challenges to water supply provision in urban areas. The wells and treatment facilities that make up the production systems are also operating below design capacity due to lack of maintenance and rehabilitation. Use of these aging tanks and other system components together with the lack of pressure zones management contribute to the intermittency of water services, leading residents to seek other sources of water, primarily from private vendors, with uncontrolled prices and sources. The uncontrolled prices disproportionally affect low-income families while unregulated sources may provide lower quality water, which increase potential outbreaks of water-borne diseases.

7. The importance of ensuring access to safely managed water supply has been made even more apparent in the midst of the evolving global Coronavirus Pandemic. It is widely recognized that access to safely managed water supply is critical to break the cycle of disease contagion.

8. **Institutional Context.** Over the past two decades, the GoH has pursued a process of decentralization aimed at reducing poverty levels and improving basic services by delegating greater responsibility to local governments. The 2003 Drinking Water and Sanitation Sector Framework Law (the Framework Law), redefined WSS provision in Honduras. Recognizing that the prevailing institutional setup led to poor service levels, the Framework Law mandated the decentralization of the National Autonomous Water and Sewer Service (Servicio Autónomo Nacional de Acueductos y Alcantarillados, SANAA), and called for the transfer of its assets to municipalities by 2013. As per the Framework Law, municipalities are required to set up a ring-fenced urban water service provider (UWP). The Framework Law also established the following institutions: (i) the National Council for Water and Sanitation (Consejo Nacional de Agua Potable y Saneamiento, CONASA) at the central level; (ii) the Municipal Council for Water and Sanitation (Comisión Municipal de Agua y Saneamiento, COMAS); (iii) the National WSS Regulator (Ente Regulador de los Servicios de Agua y Saneamiento, ERSAPS); and (iv) Local Supervision and Control Units (Unidad de Supervisión y Control Local, USCLs).

9. The Framework Law requires that citizens be involved in the entire service management cycle. According to the Law, deconcentrated UWPs must establish a governing body comprised of civil society members and municipal councils. COMAS are expected to be comprised of managers of municipal corporations, organized civil society and/or residents, to oversee local policy and planning issues in both urban and rural areas within the municipal territory. USCLs, which are made up of three members of civil society and one regulation and control expert hired by the municipality, monitor the quality of water services and compliance with sector regulations.
C. Proposed Development Objective

10. The Project Development Objective (PDO) is to improve the quality and efficiency of water supply services delivered by participating urban water providers and to support urban municipalities to respond to COVID-19 emergency needs.

Key Results

11. Achievement of the PDO will be measured via the following key results indicators:

- UWPs that increase hours of water service provision above 21 hours per week (percentage)
- UWPs that meet national water quality standards (percentage)
- UWPs that increase micro metering as a basis for billing by 10 percent (percentage)
- UWPs that reach operating cost recovery ratio greater than one (percentage)
- UWPs that reduce NRW by 5 percentage points (percentage)
- Urban municipalities that have implemented water supply and hygiene activities prioritized in the emergency intervention plans approved by the Municipal Corporation, as part of the efforts to address COVID-19 (percentage).

D. Project Description

12. The proposed Project would be financed by an IDA Credit of US$45 million to be implemented over 5 years. Participating municipalities are expected to contribute with US$3 million¹ to finance infrastructure rehabilitation investments. The Project would follow a demand-based approach that would require that UWPs apply for participation; eligibility criteria would be detailed in the Project Operation Manual and be publicly available.

13. **Component 1. Improving water supply services provision in eligible UWPs/municipalities.** This Component would support the operationalization of water systems as contemplated in the Framework Law using a demand-based approach. To this end, the Component would finance goods, works and services. Investments would include the rehabilitation and upgrading of urban water systems prioritized in the Rapid Impact and Rehabilitation Plans (RIRPs) and Business Plans (BPs) aimed at improving operational and financial management, enhancing energy efficiency, optimizing existing water supply systems, and increasing water continuity. More reliable water supply services—resulting from more efficiently operating and financially sustainable service providers— is expected to render beneficiary communities more resilient to climate change and diseases, and may reduce the need for new water abstraction.

14. This Component would, likewise, support emergency needs resulting from the COVID-19 pandemic through the implementation of priority activities defined by urban municipalities, prioritizing vulnerable groups, healthcare facilities, schools and unserved populations. On the latter, activities would be focused on water supply and hygiene, including communications campaigns. Additional activities or mechanism may be explored to improve the financial and operational resilience of the municipal service providers to address the effects of the pandemic.

15. **Component 2. Institutional strengthening of ERSAPS.** This Component will support ERSAPS’ institutional capacity to implement incremental activities associated with Component 1 for participating UWPs. Incremental activities resulting from Component 1, including collection and analysis of data, monitoring of UWP services, management of unresolved complaints between users and UWPs, enforcement of regulations and fees related to the conversion of UWPs would likewise be supported. The Component would finance consulting services, in-country travel, training, workshops and goods.

¹ The counterpart funding proposed is an indicative amount based on the level of counterpart funding applied in the WSSMP and based on consultations with different stakeholders, including municipalities and service providers. The final amount will be determined at appraisal.
16. **Component 3. Project management, communication, outreach, monitoring and evaluation.** This Component would finance travel, training, consulting services and general operating costs of the Project Management Unit (PMU) to support Project implementation. It would likewise finance TA to support the PMU in, among others, monitoring and evaluation of results, procurement and FM activities, implementing environmental and social standards, undertaking annual audits, and carrying out gender strategies, citizen engagement measures, and outreach activities to explain Project benefits to beneficiaries.

17. **Component 4. Contingent Emergency Response Component (CERC).** This component would finance immediate response activities and expenditures for eligible emergencies, as defined in the Contingency Emergency Response Operational Manual prepared and adopted by the GoH.

### Legal Operational Policies

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<td>Projects on International Waterways OP 7.50</td>
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<tr>
<td>Projects in Disputed Areas OP 7.60</td>
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### Summary of Assessment of Environmental and Social Risks and Impacts

18. The Project social and environmental risks are considered Moderate. The main social risks and impacts expected under the proposed Project include: (i) negative reaction of community members to volumetric tariffs (a pre-condition to finance urban water need and priorities) and the potential that they could be cost restrictive, thus increasing tensions over water access; (ii) national context characterized by high levels of crime and violence, particularly in urban settings; (iii) weak citizen engagement and involvement in management of water and sanitation services; and, (iv) the potential exclusion of indigenous peoples, Afro-Hondurans and other vulnerable groups from project benefits and activities. To mitigate these risks, the Project would support, among other measures: (i) a comprehensive social outreach program during the design and implementation of infrastructure works; (ii) technical assistance to ring-fenced providers on how to avoid a negative impact on vulnerable and poor populations economy; (iii) strengthening of local water and other governance structures as part of their technical support during implementation; (iv) social screening in each subproject to determine the presence of indigenous peoples or Afro descendants and address their specific needs in line with ESS7; (v) technical support to raise awareness and identify vulnerable groups; and, (vi) social outreach and communications plans that are inclusive, involving local authorities and leaders. The main environmental risks, meanwhile, would stem from minor civil works to rehabilitate municipal service providers water supply systems, traffic disruptions (for works in road rights-of-way), noise, dust, generation of construction related wastes, etc. Such impacts are expected to be site-specific, limited in scope and duration, and easily mitigated with proven technologies and measures. Additional operations and maintenance stage risks include handling and management of chemicals used in water treatment, and occupational health and safety risks in both construction and operations, both of heightened sensitivity and importance due to the COVID-19 outbreak. A major focus of the Project would be to strengthen service provider capacity to improve operations and maintenance stage management of municipal water supply systems, which should contribute towards environmental and health benefits in the long term through enhanced watershed management, reduced public health risks from poorly treated water (particularly important in light of the COVID-19 outbreak), more efficient water use, and reduced pollution to downstream waterways. Given the nature of the Project following a demand-based approach, the location of the subprojects would only be determined during implementation and therefore, specific risks are unknown. Hence, a framework approach was adopted for Project environmental and social planning instruments during the preparation phase. GoH consultations of the Project’s Environmental and Social
Management Framework (ESMF), Resettlement Framework (RF), Indigenous Peoples Planning Framework (IPPF), Stakeholder Engagement Plan (SEP), including a Project-level GRM, and Labor Management Procedures (LMP) were carried out with key stakeholders on March 24, 2020. In addition, a draft Environmental and Social Commitment Plan (ESCP), laying out GoH requirements to (i) implement the above-mentioned instruments at the site-specific level; and (ii) complete periodic reporting to the Bank on its compliance with environmental and social commitments, was agreed between the GoH and the Bank and disclosed on April 24, 2020. The Honduras Strategic Investment Office (INVEST-H) would be responsible for complying with the Project’s environmental and social commitments, supervising firms and contractors to ensure application of mitigation measures, monitoring implementation and reporting to the Bank and relevant national authorities.

E. Implementation

Institutional and Implementation Arrangements

19. The Recipient would be the Republic of Honduras, through the Ministry of Finance (SEFIN). The Project would be implemented by the INVEST-H. INVEST-H, under the General Coordinator of the Presidency of the Republic of Honduras, is a government agency that supports strategic projects for the country’s socioeconomic development. INVEST-H would host the Project Management Unit (PMU), which would, in turn, coordinate with the relevant counterpart institutions. It would likewise ensure compliance with Bank environmental and social policies and be responsible for the Project’s monitoring and evaluation activities.

CONTACT POINT

World Bank

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Borrower/Client/Recipient

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APPROVAL

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<tr>
<th>Task Team Leader(s):</th>
<th>Marco Antonio Aguero</th>
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Approved By

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<th>Environmental and Social Standards Advisor:</th>
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<td>Practice Manager/Manager:</td>
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