



Board of Executive Directors

No-Objection Procedure

Expires on 9 June 2021

PR-4893
26 May 2021
Original: Spanish
Public
Simultaneous Disclosure

To: The Executive Directors
From: The Secretary
Subject: Honduras. Loan proposal for the "Potable Water and Sanitation Program in Honduras"

Basic Information: Loan type Global Multiple Works Operation (GOM)
Borrower Republic of Honduras
Amount up to US\$15,750,000
Source Concessional Ordinary Capital
Amount up to US\$29,250,000
Source Ordinary Capital

Inquiries to: Omar Garzonio (telephone Country Office in Panama 507-206-0928) or
Keisuke Sasaki (extension 2714)

Remarks: The Executive Directors are requested to inform the Secretary in writing with copy to "SEC-EXE", no later than **9 June 2021**, if they wish to interrupt this procedure. If no such communication is received by that date, the attached resolution will be considered adopted by the Board of Executive Directors and a record to that effect will be made in the minutes of a forthcoming meeting.

Management has determined that this loan proposal meets the requirements for presentation by No-Objection Procedure, in accordance with Part III, Section 2 (paragraph 3.29 (b)) of the Regulations of the Board of Executive Directors and Part III, paragraph 3.5 of document GN-1838-3.

Reference: AB-2504(11/06), GN-1838-3(6/18), DR-398-18(8/18), GN-3034(2/21)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

POTABLE WATER AND SANITATION PROGRAM IN HONDURAS

(HO-L1213)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Omar Garzonio, Project Team Leader (INE/WSA); Keisuke Sasaki, Alternate Project Team Leader (INE/WSA); Ana Maria Saiz, Alternate Project Team Leader (CSD/HUD); Alfred Grünwaldt (CSD/CCS); María Eugenia de la Peña, Francisco González Medina, Germán Sturzenegger, Mauro Nalesso, Maria Julia Bocco, and Liliana López (INE/WSA); Julio Rojas and Juan Carlos Vásquez (VPS/ESG); Esteban de Dobrzynski (LEG/SGO); Maria Cecilia del Puerto and Christian Contin (VPC/FMP); and Amalia Guzmán (CID/CHO).

In accordance with the Access to Information Policy, this document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

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Proposed resolution

ANNEXES	
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LINKS
REQUIRED <ol style="list-style-type: none">1. Multiyear execution plan and annual work plan2. Monitoring and evaluation plan3. Environmental and social management report4. Procurement plan
OPTIONAL <ol style="list-style-type: none">1. Socioeconomic analysis2. Technical analysis3. Sustainability strategy4. Gender strategy5. Climate change analysis6. Program Operating Regulations7. Compliance with the Bank's Public Utilities Policy8. Environmental and social analysis9. Environmental and social management framework10. Itemized cost table11. Model progress monitoring report

ABBREVIATIONS

AJAM	Asociaciones de juntas administradoras municipales [associations of municipal administrative boards]
AMDC	Área Metropolitana Distrito Central [Central District Metropolitan Area]
CCIT	Cámara de Comercio e Industria de Tegucigalpa [Chamber of Commerce and Industry of Tegucigalpa]
COMAS	Comisión Municipal de Agua y Saneamiento [Municipal Water and Sanitation Commission]
CONASA	Consejo Nacional de Agua Potable y Saneamiento [National Potable Water and Sanitation Council]
DIA	Development in the Americas
EIRR	Economic internal rate of return
ERSAPS	Ente Regulador de los Servicios de Agua Potable y Saneamiento [National Water and Sanitation Service Regulatory Agency]
ESMF	Environmental and social management framework
ESMP	Environmental and social management plan
IDECOAS	Instituto de Desarrollo Comunitario, Agua y Saneamiento [Community Development, Water, and Sanitation Institute]
INE	Instituto Nacional de Estadística [National Institute of Statistics]
JAA	Juntas administradoras de agua [water administration boards]
JMP	Joint Monitoring Programme
NGO	Nongovernmental organization
O&M	Operation and maintenance
PCU	Program coordination unit
PLANASA	Plan Nacional de Agua y Saneamiento [National Water and Sanitation Plan]
SANAA	Servicio Autónomo Nacional de Acueductos y Alcantarillados [National Autonomous Water and Sewer Service]
SDG	Sustainable Development Goal
SEDECOAS	Secretaría de Estado en los Despachos de Desarrollo Comunitario, Agua y Saneamiento [Department of Community Development, Water, and Sanitation]
SEFIN	Secretaría de Finanzas [Department of Finance]
SIAFI	Sistema de Administración Financiera Integrada [Integrated Financial Administration System]
SIASAR	Sistema de Información de Agua y Saneamiento Rural [Rural Water and Sanitation Information System]
UMAPS	Unidad Municipal de Agua Potable y Saneamiento [Municipal Potable Water and Sanitation Unit]

PROJECT SUMMARY
HONDURAS
POTABLE WATER AND SANITATION PROGRAM IN HONDURAS
(HO-L1213)

Financial Terms and Conditions			
Borrower:	Source	Amount (US\$)	%
Republic of Honduras	IDB (Regular OC):	29,250,000	65
	IDB (Concessional OC):	15,750,000	35
	IDB:	45,000,000	100
Executing agency:	Other/Cofinancing:	0	
Department of Community Development, Water, and Sanitation (SEDECOAS)	Local:	0	
	Total:	45,000,000	100
	Regular OC (FFF) ^(a)	Concessional OC	
Amortization period:	25 years	40 years	
Disbursement period:	5 years		
Grace period:	5.5 years ^(b)	40 years	
Interest rate:	LIBOR-based	0.25%	
Credit fee:	^(c)	N/A	
Inspection and supervision fee:	^(c)	N/A	
Weighted average life:	15.25 years	N/A	
Currency of approval:	United States dollars		
Project at a Glance			
Project objective: The general objective will be to contribute to improving the quality of life of the Honduran population without access to quality potable water and sanitation. To achieve this general objective, the following specific objectives are established: (i) increase access to and improve the quality of potable water and sanitation services with a focus on water security in urban and rural areas; and (ii) strengthen sector entities to improve service delivery management and sustainability, taking into account the impacts of climate change on water supply sources and infrastructure.			
Special contractual conditions precedent to the first disbursement of the loan proceeds: The first disbursement of the loan proceeds will be contingent on compliance, to the Bank’s satisfaction, with the following conditions: (i) the program Operating Regulations , including the environmental and social management framework as an annex, have been approved and entered into force on the terms previously agreed upon the Bank; and (ii) the executing agency has appointed the key core staff to start program execution (coordinator, financial specialist, an environmental specialist, procurement specialist, procurement analyst, and project evaluator and formulator), on the terms and conditions approved by the Bank (paragraph 3.5).			
Special contractual conditions of execution: Prior to awarding works for each project under Component 1, the executing agency will provide evidence that it has signed an interagency agreement or memorandum with the corresponding municipios (or their delegates), specifying, among other factors, evidence of legal possession of the land, easements, or other necessary rights for the construction and utilization of the work, and the responsibilities of the parties in the execution of each project, including operation and maintenance, on the terms and conditions previously agreed upon with the Bank (paragraph 3.6). See other contractual social and environmental conditions in Annex B of the environmental and social management report (required link 3).			
Exceptions to Bank policies: None.			
Strategic Alignment			
Challenges: ^(d)	SI <input checked="" type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes: ^(e)	GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/> and ES <input checked="" type="checkbox"/>	IC <input checked="" type="checkbox"/>

- (a) Under the terms of the Flexible Financing Facility (FFF) (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.
- (b) Under the flexible repayment options of the Flexible Financing Facility (FFF), changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life (WAL) of the loan or the last payment date as documented in the loan contract.
- (c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the relevant policies.
- (d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (e) GD (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 The Republic of Honduras has an estimated population of 9.16 million, with 55% of inhabitants located in urban areas, and 45% in rural areas,¹ making it one of the countries with the highest rurality in the region. According to the Honduran National Institute of Statistics (INE), 60.1% of the rural population was living below the poverty line in 2018, which accounts for approximately 56% of the country's total poor. The Joint Monitoring Programme (JMP) (2017) reports that Honduras has 95% coverage of basic access to drinking water² at the national level, with 99% coverage reported in urban areas, and 89% in rural areas. Coverage of access to basic sanitation³ is 81% nationally, with 85% coverage in urban areas, and 76% in rural areas. The inequality report produced by the JMP in 2017 shows that these coverages are lower for the poorest rural population quintile, especially as concerns sanitation. The difference between basic access to clean drinking water between the richest and poorest quintiles is 5.5 percentage points, and for access to basic sanitation 40.4 percentage points. Basic access does not imply safe management and acceptable quality. Water service continuity is extremely low.⁴ Access to water services managed safely in rural areas is 18.5%, whereas access to safe sanitation in urban areas is 34.5% (JMP, 2017).⁵ These data are confirmed by the Rural Water and Sanitation Information System ([SIASAR](#)),⁶ as 35% of rural water systems have some sort of operational issue.⁷
- 1.2 Only 72% of the 1.2 million inhabitants in the Central District Metropolitan Area (AMDC) are connected to the potable water system, which means that close to 30% depend on expensive, low-quality alternatives, such as tank trucks with a unit price (per cubic meter) 50 times higher than the price paid by connected households.⁸ Only 47% of the population has access to the sewer system, and just 17% of wastewater is treated.⁹ The AMDC has 545 neighborhoods, 222 of which are vulnerable due to poor infrastructure and basic services. In terms of water and sanitation, only 35% have access to clean drinking water, and 2% to sewers.

¹ [INE \(2019\)](#).

² Basic access to drinking water: drinking water from an improved source, provided collection time is not more than 30 minutes for a roundtrip, including queuing.

³ Basic access to sanitation: use of improved facilities which are not shared with other households.

⁴ [ERSAPS \(2018\)](#).

⁵ Access to safely managed water services: drinking water from an improved water source which is located on premises, available when needed and free from fecal and priority chemical contamination. Safe sanitation: use of an improved sanitation facility which is not shared with other households and where excreta are safely disposed in situ or transported and treated off-site. JMP does not have estimates for safe water in urban areas or safe sanitation in rural areas.

⁶ SIASAR: joint initiative launched by Honduras, Nicaragua, and Panama. Strategic objective: to have a basic, updated, and comparable information tool on the rural water supply and sanitation services in place in a given country.

⁷ [IDB 2020 Development in the Americas \(DIA\) Report](#). Chapter 1. Services: The Forgotten Side of Infrastructure. Focus on the infrastructure services that consumers need. Gaps.

⁸ [IDB \(2015\)](#).

⁹ [IDB \(2015\)](#).

- 1.3 In addition to gaps in coverage, there are sustainability challenges associated with the lack of: (i) actions for operation and maintenance (O&M) of wastewater treatment plants and systems in small towns; (ii) ability of water administration boards (JAAs) and operators to charge a rate that allows O&M costs to be recovered; (iii) ability to grant JAAs legal status; and (iv) a sustainable mechanism to support JAAs and operators experiencing technical, financial, and organizational problems in the postconstruction phase.^{10, 11}
- 1.4 Access to quality water and sanitation has become even more important during the COVID-19 pandemic, as hand washing with soap and water is one of the most cost-effective measures for combating the spread of the virus.¹² Guaranteeing reliable access to basic hygiene facilities at home and in health and education centers is crucial, as is the practice of regular hand washing and other hygiene habits.
- 1.5 **Gender and access to water and sanitation.** In periurban rural areas, when access to water is limited or nonexistent, women are typically the ones who assume the responsibility of supplying the home with water, in many cases by hauling water from sources that can be located hundreds of meters or even kilometers away. Hauling water, in containers that can weigh up to 20 kilograms, affects women's health and takes time away from other activities they could be doing. According to data collected in Honduras by the Bank, these activities are carried out six days a week, on average. An average of two trips are made per day (to a maximum of eight). Women make 49% of the trips, whereas men make 37%, and children under the age of 14 make 14% of the trips. A roundtrip, including queuing, takes an average of 25 minutes (to a maximum of 180 minutes), and the distance covered averages 367 meters (to a maximum of 4 kilometers). These data show that inadequate access affects women to a greater extent. However, where water services do exist, a low presence of women is observed in the management of services, especially in rural areas. According to SIASAR, just 22% of the country's JAAs have a woman among their members, typically in administrative rather than leadership positions.
- 1.6 **Climate change.** Honduras is one of the most vulnerable countries in Central America given its geographic location, topography, and socioeconomic context (e.g., poverty and extreme poverty index and inequality). Studies¹³ show that 76% of municipios are moderately and highly vulnerable, highlighting the need for capacity-building.¹⁴ Areas such as the Dry Corridor¹⁵ are particularly vulnerable given

¹⁰ SIASAR: 8% of the 2,800 rural suppliers analyzed fall into category "A" (adequate level of compliance with O&M and administration functions).

¹¹ [IDB 2020 DIA Report](#). Chapter 4. The Good, the Bad, and the Ugly of Services. Evaluation based on three pillars: access, quality, and affordability.

¹² Documented in numerous studies, as summarized by Brenneman, A., and Kerf, M. in "Infrastructure and Poverty Linkages, A Literature Review." World Bank, 2002.

¹³ International Institute for Sustainable Development.

¹⁴ Kawas, Ferman, and Wiese (2011).

¹⁵ The Honduran Dry Corridor extends from the border with Guatemala to the border with Nicaragua on the west side of the country, characterized by dry and variable climate conditions.

the drought episodes, which are expected to intensify in the coming decades due to climate change.¹⁶

- 1.7 Variability is determined by changes in average climate values, caused primarily by droughts, heat waves, hurricanes, tropical storms, and the El Niño–Southern Oscillation phenomenon. Records¹⁷ show that more than 60 extreme events have occurred in the past 20 years, causing annual losses of approximately 2% of GDP.¹⁸ In the past 60 years,¹⁹ around 10 El Niño events have been observed with a duration of between 12 and 36 months, seriously impacting the economy (e.g., loss of crops, reduced flows in water sources, higher number of forest fires, pests).
- 1.8 Models with a better correlation show a clear trend toward higher average temperatures and changes in precipitation ranging from -10% to +10% relative to the historical average in the most pessimistic scenario.²⁰ They also show deficits in seasonal precipitation in the wetter first quarter by 2030 on the Caribbean coast, but increased precipitation for the rest of the seasons in central and southern parts. In addition, climate change is increasing the frequency and intensity of hurricanes, notable examples being Eta and Iota, which hit Honduras in 2020,²¹ and Mitch in 1998, leading to total economic losses of around US\$3.8 billion, including US\$58 million in damages to water and sanitation infrastructure.²²
- 1.9 To address these climate change impacts,²³ the country developed a National Adaptation Plan with major areas of strategic focus aligned with the Nationally Determined Contribution.²⁴ Three of these major focus areas are directly related to this operation: infrastructure and economic development (e.g., increase gray infrastructure's resilience to climate change), water resources (e.g., restore and conserve water supply basins and improve water, meteorological, and climate information), and human health (e.g., expand coverage of clean drinking water and sanitation).
- 1.10 **Sector institutional structure.** The National Autonomous Water and Sewer Service (SANAA) was responsible for developing, funding, designing, building, operating, and regulating services. As a result of the State's decentralization policy,

¹⁶ The large-scale droughts experienced in recent years (2014-2016, 2018-2019) forced the government to issue various emergency water shortage decrees. The Dry Corridor was the hardest hit.

¹⁷ Third National Communication to the United Nations Framework Convention on Climate Change.

¹⁸ On average, over US\$600 million in purchasing power parity.

¹⁹ Report of the Central American Commission for Environment and Development.

²⁰ RCP 8.5: Representative Concentration Pathway. Type of future climate change scenario developed by the Intergovernmental Panel on Climate Change, characterized by long-term high energy consumption with modest climate change policies and loosely controlled greenhouse gas emissions.

²¹ Economic Commission for Latin America and the Caribbean (ECLAC): an estimated US\$1.879 billion, with the water and sanitation sector being one of the hardest hit (US\$292 million).

²² [IDB 2020 DIA Report](#). Chapter 6. Resilient Infrastructure for an Uncertain Future. Nature's impact on infrastructure.

²³ The National Adaptation Plan views adaptation as a development process and is part of the National Planning System (Horizon 2030), in accordance with the 2030 Agenda and the Sustainable Development Goals (SDGs), SDG 13.

²⁴ [Link](#).

the Water and Sanitation Framework Law²⁵ (2003) separated roles at the national level: (i) creating a sector planning body, the National Potable Water and Sanitation Council (CONASA); (ii) creating a regulatory authority, the National Water and Sanitation Service Regulatory Agency (ERSAPS); (iii) directing SANAA to transfer service delivery responsibilities to the 33 municipal governments where it previously operated; and (iv) instructing SANAA to become a provider of technical assistance to municipios. Thus far, SANAA has transferred service delivery responsibilities to 29 of the 33 municipal governments. The four remaining municipal governments are the Central District, La Ceiba, Amapala, and El Progreso, which have not been finalized due to the difficulty of restructuring the workforce and consolidating its role as a technical assistance provider. SANAA currently has a unit that provides technical assistance to rural areas but needs strengthening to guarantee effective assistance.

- 1.11 **Service delivery.**²⁶ In rural areas, more than 5,000 JAAs are responsible for O&M and administration of potable water and sanitation services and have the authority to manage their legal status, establish bylaws, and set and collect fees.²⁷ Additionally, some of the country's municipios or departments have associations of municipal administrative boards (AJAMs) created to provide technical assistance to their members. AJAMs receive technical assistance and training from SANAA and promote the development of JAAs. The Department of Community Development, Water, and Sanitation (SEDECOAS)²⁸ promotes community development through the coordination, design, and implementation of participatory, inclusive, and equitable programs and projects in partnership with local governments and strategic partners, to improve the quality of life of the poorest and most vulnerable population. SANAA reports to SEDECOAS. Despite this integration within the national government, challenges nevertheless remain in terms of the sector institutional structure for improving coordination to determine the roles and responsibilities of each of the actors involved, especially in rural areas and small towns.
- 1.12 The Municipal Water and Sanitation Commission (COMAS) was created to develop local policies on utilities in the AMDC. The technical arm of COMAS is the Municipal Water and Sanitation Management Unit, which is in charge of planning and formulating programs and projects, in addition to its provisional responsibility of supporting transfer of the services. Substantial progress has recently been seen in consolidating municipalization with the creation in 2015 of the Municipal Potable Water and Sanitation Unit (UMAPS), to establish an administratively and financially autonomous service unit. UMAPS reports to a board of directors with

²⁵ [Link](#).

²⁶ INE defines urban areas as population centers with more than 2,000 inhabitants and population centers with between 1,500 and 1,999 inhabitants having at least one of the following characteristics: (i) divided into blocks; (ii) an education center; (iii) a health center; and (iv) at least 10% sewer availability. A rural area is defined as any population center that does not fall under the above definition.

²⁷ [National Water and Sanitation Plan \(PLANASA\)](#) (CONASA, 2014).

²⁸ Created in 2019 with the elevation in rank of the Department of the Community Development, Water, and Sanitation Institute (IDECOAS) ([link](#)).

representatives of various sectors.²⁹ In 2020, the transfer of services began from SANNA to UMAPS.³⁰

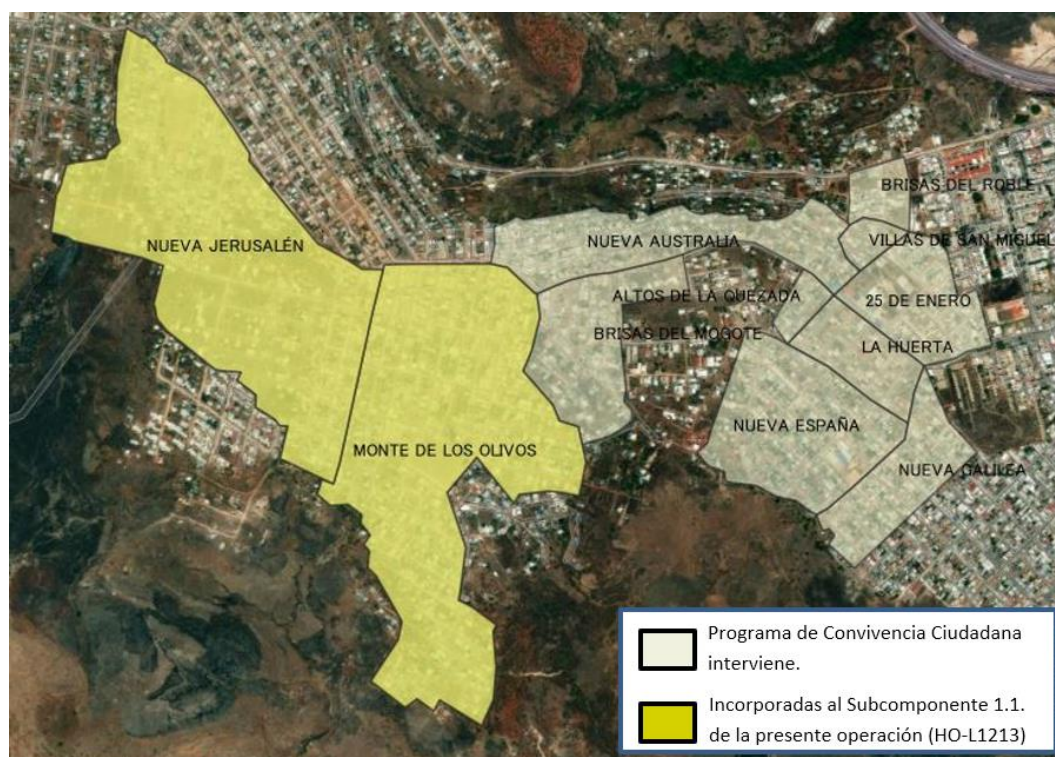
- 1.13 **Program conceptual design and target areas.** As noted, there are sector challenges: (i) a gap in coverage and infrastructure quality in rural areas, small towns, and periurban areas; and (ii) a need to build sector capacity to guarantee system sustainability, especially in rural areas, small towns, and neighborhoods in periurban areas. The program will thus contribute to increasing coverage of clean drinking water and sanitation and building the technical capacity of national, departmental, and municipal entities to contribute to system sustainability.³¹ To focus resources and achieve a bigger impact, projects will be required to meet the established prioritization criteria (paragraph 2.5). Two periurban neighborhoods will be included in the AMDC: Nueva Jerusalén and Monte de los Olivos. These were to be included in another Bank operation (Civic Coexistence and Neighborhood Improvement Program (operation 4518/BL-HO), but the operation was reformulated amid the COVID-19 pandemic, and these neighborhoods were excluded from its scope. The proposed water and sanitation works in those neighborhoods will be included in this operation under Subcomponent 1.1 (paragraph 1.26). Efforts will also be complemented by other Bank operations, giving priority to those clusters identified in operation 4936/BL-HO / 4940/BL-HO, seeking to improve productive development in the Dry Corridor, and in operations 3878/BL-HO and 4926/GN-HO, focusing on protection of critical water supply basins.

²⁹ Including the Chamber of Commerce and Industry of Tegucigalpa (CCIT) and the JAA.

³⁰ Bank support through the Central District Water and Sanitation Services Reform Program (operations 4878/BL-HO and 4879/KI-HO).

³¹ The new water management paradigm in the [2020 DIA Report](#), whose objective is to address climate change and higher demand, has four pillars: (i) to diversify systems (e.g., centralized and decentralized, green and gray); (ii) to reuse water (e.g., source separation); (iii) to recover resources from wastewater; and (iv) to use new technologies and innovation to monitor and connect system components and their users.

Figure I-1. Map of the impact of reformulation of the Civic Coexistence Program



- 1.14 The effectiveness of the proposed interventions is demonstrated in various studies on works developed in similar contexts.³² With regard to gender, international experience shows that women play an essential role in the sector, given their involvement in water use in the home, as well as in the supervision and promotion of good hygiene practices, and that water and sanitation projects designed and operated with women's involvement are more effective and sustainable.³³
- 1.15 **The Bank's sector knowledge and lessons learned.** The Bank has been supporting the water and sanitation sector in the country, working in metropolitan, periurban, and rural areas, and has promoted national dialogue. Recent operations include: (i) the Potable Water and Sanitation Investment Program (operation 1048/SF-HO) and its supplemental program (operation 1793/SF-HO); (ii) the Rural Aqueduct Program (operation GRT/WS-12850-HO); and (iii) the Central District Water and Sanitation Services Reform Program (operation 4878/BL-HO and 4879/KI-HO). The main lessons learned include: (i) incorporating pre- and post-construction interventions and a monitoring system to monitor performance in the O&M phase, to ensure sustainability; (ii) giving consideration to the substantial impact of energy costs on O&M costs; (iii) adapting

³² According to an experimental impact assessment conducted by the Bank in smaller communities in Bolivia, water and sanitation projects reduce the incidence of diarrhea in the 6-17 age subgroup by 10 percentage points, with a relative effect among the treatment group. The program was also highly effective in improving intermediate outcomes related to water and sanitation service access, use, availability, and quality ([link](#)).

³³ [IDB, 2020](#).

execution modalities to the features of the project and the community where activities take place, and to the capacities of companies and/or organizations working in the target area; (iv) considering the production of studies and designs for competitive bidding as the initial phase of execution and, once the operation is finalized, preparing a portfolio of projects for the country to continue investing and closing sector gaps; (v) providing administrative³⁴ and O&M training to the JAA and plumbers, in addition to other services required for system operation, as crucial to sustainability; (vi) providing institutional strengthening at the structural and organizational levels, to make progress in building an effective institutional framework for the sector; and (vii) carrying out smaller water and sanitation projects by engaging community-based organizations and nongovernmental organizations (NGOs),³⁵ where construction firms are few, which can have time, cost, and investment sustainability advantages, while creating work in rural areas.³⁶ These lessons learned were reflected in the preparation of this operation, incorporating resources for preparing and/or building on project final designs and taking into account sociocultural factors, the use of solar systems to lower energy costs, risk management, climate change adaptation, and local training and community development activities. Actions will also be financed to strengthen system monitoring through SIASAR, technical assistance for municipalities for technical support to JAAs, and capacity-building at sector institutions.

- 1.16 **The national government's sector strategy.** The program is aligned with the National Water and Sanitation Plan (PLANASA, 2014), which sets out the sector strategic focus areas and the coverage and financial targets, and sets a goal for 2022 of increasing clean drinking water coverage in concentrated rural areas to 93% (baseline: 87% in 2013).³⁷ The target for sanitation is 60% sewer coverage in urban centers with more than 5,000 inhabitants, and the onsite sanitation target is 73% in smaller urban and concentrated rural areas (baseline: 34% and 63%, respectively, in 2013).
- 1.17 **Strategic alignment.** The loan is consistent with the second Update to the Institutional Strategy 2020-2024 (document AB-3190-2) and aligned with the development challenges of: (i) social inclusion and equality, by improving and increasing coverage of clean drinking water and sanitation; (ii) productivity and innovation, by increasing access to clean drinking water, reducing the time households spend hauling water, freeing it up for other activities, and utilizing the change in behavior to make interventions more sustainable; and (iii) institutional capacity and rule of law, by strengthening national, departmental, and municipal entities in the sector and building technical capacity (paragraph 1.28). It is also aligned with the following crosscutting areas: (i) climate change and environmental sustainability, by increasing sanitation use and reducing pollution, as well as

³⁴ The importance of micrometering for rational use and sustainability is emphasized (Water and Sanitation Sector Framework). There has been some opposition in Honduras ([link](#)), and micrometering coverage is very low ([PLANASA](#)). [CONASA \(2016\)](#) states that the implementation of micrometering is a priority action as a mechanism for loss reduction and rational use.

³⁵ Loan 1793/SF-HO, execution by NGOs with good results ([link](#)).

³⁶ [IDB, 2019](#).

³⁷ No strategy is envisaged for serving remote rural areas ([CONASA, 2016](#)).

lessening vulnerability to climate change by incorporating climate resilience elements into the design of water and sanitation infrastructure, along with source protection actions to guarantee water security; and (ii) gender and diversity, by promoting the egalitarian participation of men and women in decision-making forums (JAAs, community assemblies, etc.) and training (workshops) associated with the project, and by mainstreaming gender and diversity, particularly the specific interests, needs, and expectations of women, in each of the different technical solutions and studies to be financed. The program fits into the Bank's country strategy with Honduras 2019-2022 (document GN-2944) through the dialogue area of water and sanitation, which emphasizes the need for institutional and operational management interventions contributing to sound management of the resource, sustainability and quality, and access. Of the total operation resources, 34.24% will be invested in climate change adaptation activities, according to the [joint methodology of the multilateral development banks for tracking climate finance](#). These resources contribute to the IDB's climate finance goal of 30% of the annual volume of approvals.

- 1.18 This program is aligned with the IDB Infrastructure Strategy: Sustainable Infrastructure for Competitiveness and Inclusive Growth (document GN-2710-5) by: (i) promoting access to infrastructure services through interventions that will increase access to quality water and sanitation; and (ii) supporting the construction and maintenance of sustainable social and environmental infrastructure through comprehensive interventions that reflect gender and diversity and environmental, social, and climate change considerations. It is also aligned with the Water and Sanitation Sector Framework Document (document GN-2781-8 and its update), specifically the following dimensions of success: (i) countries achieve universal access to water and sanitation while improving service quality; and (ii) the preparation and execution of sector projects involves disaster risk management, climate change and promotes water security, by incorporating these considerations into interventions that will increase and improve access to water and sanitation.
- 1.19 **Innovation and productive local development.** The program involves: (i) identifying innovative solutions for the reuse of treated wastewater and the proper management and use of sludge from sanitation solutions in farming activities; (ii) fostering production-oriented activities, such as the creation of microenterprises for sanitary fees and new employment opportunities around waste value generation; (iii) instituting community-based methodologies for monitoring hydrometeorological variables; (iv) instituting behavioral change methodologies to promote hand washing and the use of sanitation solutions; (v) implementing innovative sustainability plans; and (vi) using Hydro-BID, a water resource simulation tool created by the Bank.³⁸
- 1.20 **Actions for persons with disabilities.** In line with the principles of diversity to be adopted by the program, design criteria will be determined, primarily for individual sanitation solutions, that meet the necessary requirements guaranteeing access for persons with disabilities. These criteria will be applied during execution.

³⁸ [IDB \(2014\)](#). Implemented in 15 countries of the region, a standard tool for water resource management in various national agencies.

- 1.21 **Consistency with the Public Utilities Policy (document GN-2716-6).** The program and the national sector objectives are consistent with the principles of policy document GN-2716-6 and meet the financial sustainability and economic evaluation conditions. Project eligibility conditions will include commitments to ensure compliance with the conditions of this policy, including the commitment to establish a rate structure sufficient to cover O&M costs. The works to be financed must also be socioeconomically viable ([optional link 7](#)).

B. Objectives, components, and cost

- 1.22 **Objective.** The general objective will be to contribute to improving the quality of life of the Honduran population without access to quality potable water and sanitation. To achieve this general objective, the following specific objectives are established: (i) increase access to and improve the quality of potable water and sanitation services with a focus on water security in urban and rural areas; and (ii) strengthen sector entities to improve service delivery management and sustainability, taking into account the impacts of climate change on water supply sources and infrastructure.
- 1.23 The program is structured in two components:
- 1.24 **Component 1: Expansion and improvement of water and sanitation systems (US\$38.7 million).** The financing will be used to: build new potable water systems; expand, improve, and rehabilitate existing systems, including water purification, raw water transportation, distribution of clean drinking water, storage, household connection, and micrometering; and to build and improve sanitation systems with sanitary management of excreta and wastewater, including sewer networks with wastewater treatment and individual sanitation solutions that include hand-washing devices, and the management and eventual use of wastewater and excreta as well as source protection activities. All infrastructure interventions will be designed with potential disaster and climate change risks in mind and will include participatory social management activities aimed at community capacity-building to operate, maintain, and administer the systems and at promoting changes in user behavior for the proper use of the infrastructure and facilities built. Emphasis will be put on promoting hygiene habits, such as hand washing, especially in water storage and disinfection processes, to prevent the spread of COVID-19 and other diseases. The financing will also be devoted to water and sanitation interventions in schools and health centers in priority communities and activities to incorporate basic circular economy concepts.³⁹ All social management activities will mainstream gender and diversity considerations, promoting the equal participation of men and women, especially in training and decision-making. The preinvestment stage will include: (i) community diagnostic assessments focused on gender and diversity; (ii) sessions for the participatory selection and validation of technical alternatives and levels of service; and (iii) a gender-based diagnostic assessment of the JAA. The investment stage will promote: (i) women's participation in the societal oversight of works; (ii) gender equality in JAA membership; (iii) O&M and administration training for women; and (iv) hygiene and sanitary and environmental education from a gender

³⁹ Value creation and optimization of physical resources, their reintegration into the new production cycle, and production-oriented activities that target services.

and diversity perspective through household-level activities and workshops. In the postinvestment stage, hygiene habits will be reinforced, and training will be provided to women on preventive and corrective care of infrastructure. Women's participation levels in these decision-making and training forums will be monitored and reported (paragraph 1.14 and [optional link 4](#)).

- 1.25 Two subcomponents were identified, based on the geographic areas to be targeted:
- 1.26 Subcomponent 1.1: Periurban neighborhoods in the AMDC. Two AMDC neighborhoods will be targeted under this subcomponent: Nueva Jerusalén and Montes de los Olivos (paragraph 1.13). Final designs are ready for the works in these neighborhoods, developed as part of the Civic Coexistence Program.
- 1.27 Subcomponent 1.2: Small towns and rural areas. Includes interventions in towns of up to 30,000 inhabitants and in rural areas (up to 2,000 inhabitants).⁴⁰
- 1.28 **Component 2: Preinvestment and sector strengthening (US\$3.2 million).** The financing will be used for preinvestment studies, sector strengthening activities at national, departmental, and municipal entities in priority areas, and technical capacity-building to contribute to system sustainability. This will include: (i) prefeasibility and preinvestment studies with a vulnerability, impact, and/or climate risk analysis; (ii) final designs; (iii) the promotion of water security through: (a) source protection and reforestation; (b) the implementation of gauging campaigns and water quality sampling; and (c) training courses on technical aspects of the sector, technical training for women and young people, and creation of production-oriented enterprises in the target areas; and (iv) the implementation of the program's sustainability strategy, including: (a) support for SIASAR system consolidation and information-gathering in 2,000 rural communities; (b) technical assistance for municipal governments or leagues of municipalities to provide technical assistance services to JAAs, including micrometering promotion campaigns; (c) capacity-building on sustainability at SEDECOAS, SANAA, and ERSAPS; and (d) the development of products (manuals and operating guides) and training workshops for JAAs and operators on system administration and O&M. Women's participation in training sessions will be monitored.
- 1.29 **Program administration, execution, evaluation, and external audit (US\$3.1 million).** The financing will be used for administrative and operational needs to execute the program smoothly, audit of the program financial statements, and midterm and final evaluations.

C. Key results indicators

- 1.30 The Results Matrix (Annex II) includes the program outputs and outcomes. Table I-1 shows the main indicators.

⁴⁰ Twenty-three projects analyzed with final designs that meet the program's viability criteria.

Table I-1: Key results indicators

Indicator	Unit of measure	Baseline	Target
1 and 2. Households with adequate access to water services in rural communities and small cities (under 30,000 inhabitants)	Household	0	16,300
10. Climate-resilient potable water systems operating to design specifications	%	0	100
11. Women in executive positions in rural water administration boards or urban operators	%	0	30

- 1.31 **Beneficiaries.** The program is expected to benefit at least 30,200 households with access to safe water and sanitation services and will improve hygiene practices in rural areas and towns of less than 30,000 inhabitants. Safe access to these services involves improving their coverage and quality (in terms of continuity, potability, and treatment). JAAs, operators, and municipal entities responsible for service delivery will also benefit from training and technical assistance.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Cost and financing.** The total program cost is US\$45 million, which will be financed from the Bank's regular Ordinary Capital (65%) and concessional Ordinary Capital (35%) resources.

Table II-1. Consolidated budget (in US\$ millions)

Component	IDB	%
Component 1. Expansion and improvement of water and sanitation systems	38.66	85.92
Subcomponent 1.1 Periurban neighborhoods in the AMDC	10.37	23.05
Subcomponent 1.2 Small towns and rural areas	28.29	62.87
Component 2. Preinvestment and sector strengthening	3.21	7.13
Administration and execution	2.79	6.20
Evaluations	0.09	0.20
Audits	0.25	0.56
Total	45.00	100

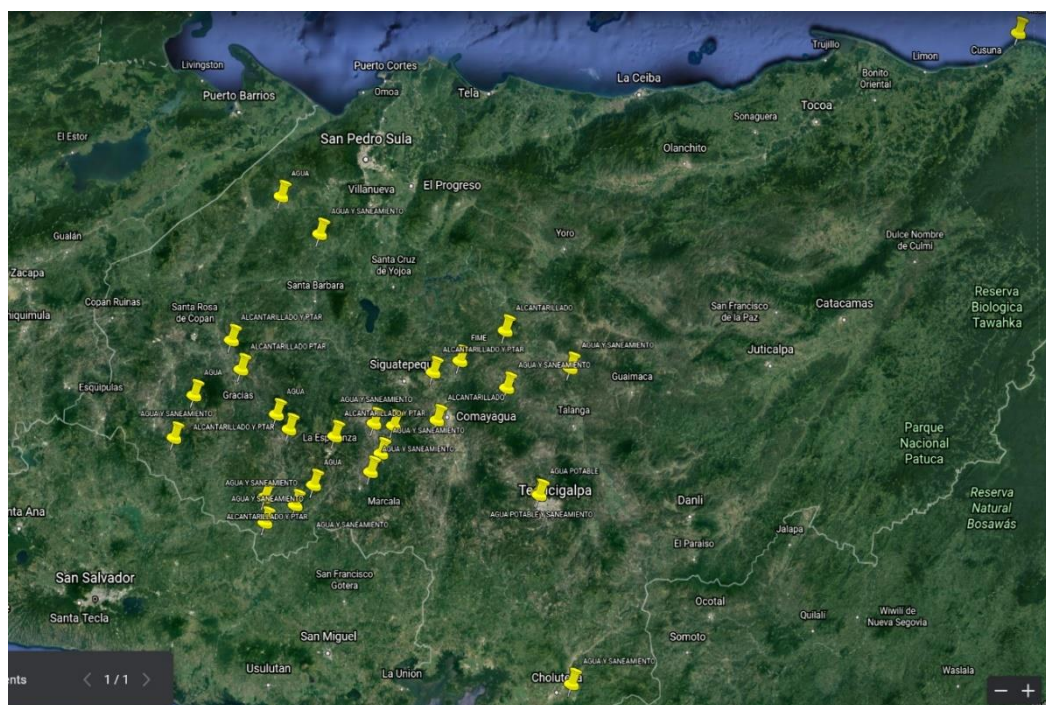
- 2.2 **Modality.** This operation is structured as a multiple works program, since it will finance various projects, each involving physically similar groups of work, the feasibility of which does not depend on the execution of other projects, and the individual size of which does not warrant the Bank financing them individually. A representative sample was analyzed for its preparation, enabling an early start in execution.
- 2.3 The disbursement period is five years, in keeping with the multiyear execution plan ([required link 1](#)). The timeline for the physical start of the works under the program will be two years, running from the effective date of the loan contract.

Table II-2. Disbursement schedule (in US\$ millions)

Source/Year	1	2	3	4	5	Total
IDB	1.66	10.53	15.10	10.56	7.15	45.00
%	3.70	23.41	33.55	23.46	15.89	100

2.4 **Representative sample.** The representative sample includes investments in 28 locations with an estimated value of US\$19 million, which represents 42% of the total amount of the operation ([optional link 2](#)), including water and sanitation works projects in towns of up to 30,000 inhabitants, located in different departments across the country, which includes periurban neighborhoods in the Central District Metropolitan Area (AMDC).

Figure II-1. Location of sample projects



2.5 **Eligibility and prioritization criteria.** The following criteria were used to determine the eligibility of the sample works and will also be applied as part of the program Operating Regulations to determine the eligibility of the remaining projects to be financed: (i) projects that benefit communities of fewer than 30,000 inhabitants;⁴¹ (ii) viable projects from a socioeconomic, legal, technical, financial, institutional, social, and environmental perspective; (iii) projects that meet the requirements of the program's environmental and social management framework (ESMF); (iv) projects classified as Category "A" based on their characteristics, in accordance with the IDB social and environmental safeguards policies, or that cause population resettlement will not be eligible for financing; and (v) rehabilitation projects classified

⁴¹ Includes rural communities of up to 2,000 inhabitants.

as either Category “C” or “D” in accordance with the SIASAR infrastructure module.⁴² The following prioritization criteria were also established: (i) projects located in the Dry Corridor; (ii) projects located in Category “C” or “D” municipios in accordance with the criteria set by the national government;⁴³ (iii) projects in areas where productive development is being promoted, that is, in economic corridors identified by the Government of Honduras and economic clusters (paragraph 1.13); (iv) projects in systems that have been damaged or destroyed by extreme water-related weather phenomena, which will require a resilience analysis; (v) projects that propose comprehensive water and sanitation solutions and reflect the principles of safe water and sanitation services as established by the SDGs; and (vi) for clean drinking water projects in small towns, priority will be given to those involving the use of micrometering.

B. Environmental and social safeguard risks

- 2.6 This program is classified as Category “B” under the Bank’s Environment and Safeguards Compliance Policy (Operational Policy OP-703).
- 2.7 Plans are to build new clean drinking water systems and expand and improve existing systems, as well as build and improve sanitation systems with sanitary management of excreta and wastewater. This work could generate localized, short-term, and nonscalable negative environmental and social impacts that could be offset through standard mitigation measures.
- 2.8 The potential socioenvironmental impacts and risks are typical of the magnitude of works to be built: dust generation, noise, waste, greenhouse gas emissions, accidental fuel spills, traffic disruptions, risk of accidents, COVID-19 infection, and public complaints.
- 2.9 The impacts and risks described above can be avoided, mitigated, and controlled through effective management measures and actions known by the sector, which have been included in the environmental and social analysis and the environmental and social management plan (ESMP) for the sample projects and in the ESMF for the nonsample projects. COVID-19 prevention and response plans have been included, as has the mechanism for managing complaints and claims.
- 2.10 The activities to be conducted for the sample projects will not give rise to situations of involuntary resettlement or economic displacement, nor will they adversely affect Indigenous populations, protected natural areas, or critical habitats. As this is a multiple works operation, the environmental and social impact and risk assessment was based on a representative sample of program projects reflecting the nature and type of works as well as the environmental and social risks and impacts during execution.

⁴² Categories C and D involve infrastructure that needs investment for the replacement of components, requiring external support, and infrastructure that requires complete rehabilitation.

⁴³ The Department of Governance, Justice, and Decentralization established four categories: municipios in categories A, B, C, and D. There are 125 municipios in Category D (critical performance), 111 in Category C (poor performance), 43 in Category B (satisfactory performance), and just 19 in Category A.

- 2.11 Public consultation for the sample projects occurred in the second and third weeks of December 2020. The general public supports the works, and their questions related to the activities to be conducted during construction (adverse environmental impacts that the project could cause, the hiring of local labor, the process of restoration of the work area, and water supply during construction). No suggestions were made for the ESMP ([required link 3](#) and [optional link 8](#)).
- 2.12 The final versions of the environmental and social documents, which also include reports on the public consultations, have been available on the Bank's website since 15 March 2021. The natural disaster risk of the operation is classified as moderate Type 1, entailing exposure to storms, hurricanes, and earthquakes.

C. Fiduciary risks

- 2.13 **Institutional viability.** The institutional analysis of the executing agency was based on the Institutional Capacity Analysis Platform (ICAP) methodology, which identified shortcomings in: (i) direction of projects, with potential difficulty in hiring the director and a lack of required goods and services; (ii) technical quality management due to a lack of staff time availability; (iii) human resource management, including stability in management positions; (iv) procurement management due to a lack of qualified, stable staff, in addition to historical performance in the duration of process; (v) financial management due to a lack of qualified, stable staff; and (vi) environmental and social safeguards due to the lack of an institutional policy on environmental and social impacts, insufficient qualified staff, and historical performance that, among others, entails deficiencies in contractor management. The main recommendations are to: (i) hire staff in the aforementioned areas; (ii) review the requirements in the terms of reference to ensure that procurement is in line with the cost proposal and budget ceilings; (iii) include the necessary goods and services in administrative costs; (iv) hold transition and handoff meetings when there is a change of directors; (v) provide training on IDB policies and procedures; and (vi) develop an institutional policy for administering environmental, social, safety, and occupational health impacts.
- 2.14 A medium-high taxonomy risk was identified in the economic/financial environment due to the budget provisions established by the Department of Finance (SEFIN) concerning budget allocation and execution times. This could give rise to budget freezes and restricted budget execution timelines, leading to failure in meeting the physical and financial targets of projects in execution. For this reason, dialogue will be ongoing with SEFIN through portfolio management review meetings.

D. Other key issues and risks

- 2.15 **Other risks.** The following medium-high risks were identified: (i) Sustainability: in case of noncompliance by municipal and central authorities, operators, and water administration boards (JAAs) with their service delivery obligations, operation and maintenance (O&M) levels for the works would be low, resulting in poor quality of the given service, affecting its future sustainability; this risk is mitigated through the implementation of the actions under program Component 2 related to the strengthening of operators; (ii) Governance system: the lack of technical/administrative capacity among sewer system and treatment plant operators could cause improper operation or abandonment of such facilities,

generating health/environmental risks; this risk is mitigated through the implementation of the actions under program Component 2 related to the strengthening of operators; (iii) Governance system: if institutional coordination is deficient, the details of activities could be difficult to define, leading to delays in the execution of Component 2; this risk is mitigated by: (a) designating focal points at each of the institutions, arranging coordination meetings between them; and (b) signing interagency agreements between the institutions and SEDECOAS; and (iv) Political environment: if a changeover of national and local authorities occurs, changes could be sought to the planning, agreements, and scopes established in the program, delaying program execution; to that end, workshops will be held to familiarize the new central and local authorities, as project beneficiaries, with the program scope, objectives, and timelines.

- 2.16 **Technical viability.** The water and sanitation works to be included in the program will be identified on the basis of the corresponding feasibility studies and final designs for competitive, which will have first been reviewed by SEDECOAS to ensure that they comply the technical criteria and procedures established in the program Operating Regulations. All studies and designs will be prepared in accordance with the national standards in force and generally accepted international engineering principles. In every case, the solution adopted will be the least-cost, technically viable alternative validated by the population. The IDB team reviewed a representative sample of preinvestment projects for water and sanitation systems to determine the technical viability of the solutions, finding most of the designs reasonable, and agreeing on optimizations and revisions to some of the designs with the counterparts prior to solicitation for the works ([optional link 2](#)).
- 2.17 **Socioeconomic viability.** Given that the program will be conducted as a multiple works program, a cost-benefit analysis was done on a representative sample of projects. Analyses were performed of 19 clean drinking water projects, 13 of which are economically viable with economic internal rates of returns (EIRR) between 12.2% and 70.7%, and 28 sanitation projects, 23 of which yield returns with EIRRs between 12.3% and 76.6%. A cost-benefit analysis will be done for projects that have not been evaluated, and only those with an EIRR above 12% will be eligible to be financed by the program. The rate that users of the water and sanitation systems from the sample will have to pay varies between 12 and 251 lempiras monthly (US\$0.50 and US\$10.20) per connection, which represents between 0.2% and 3.1% of monthly household income, which are acceptable values ([optional link 1](#)).
- 2.18 **Investment sustainability.** An institutional and financial viability analysis was done on the sample projects through a review of the project formulation documents held by SEDECOAS. Community letters of commitment are the main mechanisms within the project cycle used to verify the commitments of the beneficiary community or municipio, as the case may be, to provide an institutional framework for the actions required to operate and maintain the works built and the payment of rates to cover O&M costs. Accordingly, the program Operating Regulations will include, as an evaluation criterion, the requirement for a letter of commitment with the beneficiary community, the operator responsible for operation and maintenance, or the beneficiary municipio covering the following points: (i) institutional viability: steps will be taken to verify that the community or municipio has a provider or is committed to organizing itself and assuming the responsibility to operate and maintain the system

built, and make it sustainable; and (ii) financial viability: the community or municipio is committed to establishing a rate structure sufficient to cover O&M costs. Additionally, SEDECOAS will have personnel certified to train JAAs on rate-related issues, so that they can effectively establish a rate schedule that covers O&M costs. To that end, consulting services are planned to support the updating and/or supplementing of such training materials. To strengthen the monitoring of services, SIASAR will be utilized, and data collection will be financed, as will training on data analysis and use for sector institutions (SEDECOAS, SANAA, ERSAPS, and municipal governments). The program will build local capacity among municipal governments, for providing technical assistance to JAAs (paragraph 1.28 and [optional link 3](#)).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Honduras. The executing agency will be the Department of Community Development, Water, and Sanitation (SEDECOAS), acting through a program coordination unit (PCU) that has experience in executing IDB operations⁴⁴ and reports directly to the Executive Directorate headed by the Minister. The PCU will have key core staff (paragraph 3.5). The executing agency will be responsible for administration of the loan proceeds, achievement of the operation's objectives, and program monitoring and evaluation. SEDECOAS will be responsible for coordination of all program technical and operational activities, including accounting records and compliance with the program Operating Regulations. Approval of the program Operating Regulations and the selection of key staff will be included as contractual conditions (paragraph 3.5).
- 3.2 **Program Operating Regulations.** The program will be governed by the Operating Regulations ([optional link 6](#)), which will include: (i) the organizational structure for the program; (ii) the technical and operational arrangements for its execution; (iii) the results programming, monitoring, and evaluation plan; (iv) eligibility and prioritization criteria; (v) guidelines for financial, audit, and procurement processes; (vi) operational guidelines for the selection of consultants; (vii) details on the duties of the PCU and the responsibilities of the executing agency's other relevant bodies in the processes provided for in the program; and (viii) the environmental and social management framework (ESMF).
- 3.3 Procurements will be conducted in accordance with policy documents GN-2349-15 and GN-2350-15 or their updated versions. Any proposed revisions to the procurement plan will be submitted to the Bank annually or as required for approval. Community organizations and nongovernmental organizations (NGOs) are expected to be engaged for the execution of certain types of works. The community organizations selected will be those receiving benefits of up to US\$100,000 from the works and will be eligible provided that they meet the requirements set in the contract

⁴⁴ Including loan 4518/BL-HO. This will leverage experience not only in executing IDB operations, but working in periurban settlements of the Central District Metropolitan Area (AMDC). The PCU will also be strengthened with staff with experience in rural projects (e.g., Rural Infrastructure Project ([link](#))).

and in the program Operating Regulations. NGOs will be selected for projects not exceeding US\$400,000 following an announcement in Honduras's electronic procurement system (www.honducompras.gob.hn) and in the local press. The selection criteria for the organizations and for the respective projects will be determined in the loan contract and in the program Operating Regulations approved by the Bank.

- 3.4 PCU staff may be contracted on a sole-source basis on grounds of continuation of services, provided that it can be shown that there is a continued need for their services, they were previously selected as a result of a competitive process, and they received a positive performance evaluation, in accordance with paragraph 5.4(a) of document GN-2350-15.
- 3.5 **The first disbursement of the loan proceeds will be contingent on compliance, to the Bank's satisfaction, with the following conditions: (i) the program Operating Regulations, including the ESMF as an annex, have been approved and entered into force on the terms previously agreed upon the Bank; and (ii) the executing agency has appointed the key core staff to start program execution (coordinator, financial specialist, an environmental specialist, procurement specialist, procurement analyst, and project evaluator and formulator), on the terms and conditions approved by the Bank.** These conditions are considered essential to ensuring that the borrower will be ready to begin program execution with properly selected staff within the executing agency and with program Operating Regulations that provide detailed operational and coordination guidelines.
- 3.6 **Special contractual conditions of execution:** Prior to awarding works for each project under Component 1, the executing agency will provide evidence that it has signed an interagency agreement or memorandum with the corresponding municipios (or their delegates), specifying, among other factors, evidence of legal possession of the land, easements, or other necessary rights for the construction and utilization of the work, and the responsibilities of the parties in the execution of each project, including O&M, on the terms and conditions previously agreed upon with the Bank. This condition is required to ensure that the borrower has established a forum for dialogue between the entities participating in the program, to facilitate their coordination and involvement and guarantee that the entity responsible for service delivery has clearly established their role and obligations in the execution and O&M of the works financed by the program.

B. Summary of arrangements for monitoring results

- 3.7 **Monitoring.** The PCU will prepare reports on the progress and achievement of results for the activities under its responsibility. The monitoring plan will include the procurement plan, multiyear execution plan, annual work plan, Results Matrix, progress monitoring report, and risk management plan. The PCU will deliver six-monthly reports on progress made, results achieved, and an action plan for the next six months within 60 days after the end of each six-month period ([required link 2](#)).

- 3.8 **Evaluation.** The PCU will commission the following program evaluations: (i) a midterm evaluation, to be submitted within 90 days after the date when 50% of the loan proceeds have been disbursed; and (ii) a final evaluation, to be submitted within 90 days after the date when 90% of the loan proceeds have been disbursed. The proposed evaluation methodology is before-and-after, which consists of measuring the program's baseline results indicators and comparing the measurements after the actions are complete, to determine whether the targets were met. An ex post economic evaluation will also be done, following the ex ante evaluation methodology, comparing the costs of the investments implemented and the project O&M costs and benefits, calculated as described in the monitoring and evaluation plan ([required link 2](#)).

Development Effectiveness Matrix		
Summary		HO-L1213
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Households with improved access to water and sanitation (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2944	It is aligned with the water and sanitation dialogue area
Country Program Results Matrix	GN-3034	The intervention is included in the 2021 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		Párrafo 1.12
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		8.8
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.2
3.3 Results Matrix Quality		3.1
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.5
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		8.4
5.1 Monitoring Mechanisms		2.8
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium Low
Environmental & social risk classification		B
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System, Price Comparison.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	TC ATN/OC-17170-HO

Evaluability Note: The general objective of the program is to contribute to improving the quality of life of the population in Honduras without quality access to Potable Water and Sanitation (W&S). The specific objectives are: (i) increase access and improve the quality of W&S services with a focus on water security in urban and rural areas; and (ii) strengthen sector entities to improve the management and sustainability of service provision, taking into account the impacts of Climate Change (CC) on the sources of water and infrastructure that guarantee the water supply.

The documentation presents a solid diagnosis. The gaps in water and sanitation coverage are identified and quantified, as well as the challenges faced by the main actors of the sector in rural and peri-urban areas of the country (Water Administration Boards and operators, among others), to guarantee the sustainability of the systems in these areas. The importance of incorporating the issue of Climate Change is highlighted, both in the design of systems and in the strengthening of sectoral entities to address this issue.

To mitigate the problems identified, the program will implement two components: 1) Expansion and improvement of the W&S systems, which will focus on rural areas and small cities with up to 30,000 inhabitants; and 2) Pre-investment and sector strengthening. The proposed solution is clearly linked to the problems and needs identified. The results matrix (RM) reflects the specific objectives of the program and shows a clear vertical logic. The RM includes output and outcome indicators with their respective baseline values, targets, and means to collect the information. For the most part, the result and output indicators are SMART.

The program is conceived as a global multiple-works operation. An ex ante economic evaluation is carried out on a representative sample of more than 30% of the total amount of the operation, which includes 19 potable water and 28 sanitation projects. The assumptions made are reasonable and supported with administrative data from the projects analyzed. About 80% of the projects analyzed are economically viable, with Internal Economic Rates of Return (IERR) ranging between 12% and 76%. Sensitivity analyzes are carried out under alternative scenarios, modifying the main variables that can affect costs and benefits; these modifications do not present significant alterations to the IERR.

The monitoring and evaluation plan proposes an evaluation using an ex post cost-benefit analysis and a reflexive evaluation.

The risks identified in the risk matrix seem reasonable and are classified as Low (5), Medium-Low (5), and Medium-High (5) risk. The Medium-High classification risks include mitigation actions (4) or Transfer (1).

RESULTS MATRIX

Project objective	The general objective will be to contribute to improving the quality of life of the Honduran population without access to quality potable water and sanitation. To achieve this general objective, the following specific objectives are established: (i) increase access to and improve the quality of potable water and sanitation services with a focus on water security in urban and rural areas; and (ii) strengthen sector entities to improve service delivery management and sustainability, taking into account the impacts of climate change on water supply sources and infrastructure.
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OUTCOMES

Indicator	Unit of measure	Baseline	Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Comments/Mean of verification
Specific development objective 1: Increase access to and improve the quality of potable water and sanitation services with a focus on water security in urban and rural areas										
1. Households with adequate access to water services in rural communities under 2,000 inhabitants	Household	0						3,913	3,913	<p>Means of verification: Program final evaluation report</p> <p>Only communities targeted by the program are included.</p> <p>A household is considered to have adequate access to potable water when the quantity (liters/person/day), continuity (hours/day), and quality of the service provided by the system are as defined in the system design.</p>
2. Households with adequate access to water services in small cities under 30,000 inhabitants	Household	0						12,380	12,380	<p>Means of verification: Program final evaluation report</p> <p>Only communities targeted by the program are included.</p> <p>A household is considered to have adequate access to potable water when the quantity (liters/person/day), continuity (hours/day), and quality of the service provided by the system are as defined in the system design.</p> <p>If households with adequate access to water services are located in municipios exposed to drought events and are considered vulnerable to climate change impacts, this can be considered an indicator of climate resilience.</p>

Indicator	Unit of measure	Baseline	Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Comments/Mean of verification
3. Households properly using the individual sanitation solution built	Household	0						1,257	1,257	Means of verification: Program final evaluation report Only communities targeted by the program are included. A household uses the sanitation solution properly when that solution is used for the purpose for which it was built (bathroom).
4. Households connected to sewer networks in small cities under 30,000 inhabitants	Household	0						8,130	8,130	Means of verification: Program final evaluation report Only communities targeted by the program are included.
5. Households in small cities under 30,000 inhabitants with treated wastewater	Household	0						5,790	5,790	Means of verification: Program final evaluation report Only communities targeted by the program are included.
6. Health and community centers and schools with adequate access to water and sanitation services in rural communities and small cities under 30,000 inhabitants	Centers	0						60	60	Means of verification: Program final evaluation report Only communities targeted by the program are included. Adequate access to potable water is when the quantity (liters/person/day), continuity (hours/day), and quality of the service provided by the system are as defined in the system design.
7. Micrometering in target areas	%	0						20	20	Means of verification: Program final evaluation report Only communities targeted by the program are included.
8. Water sources protected in program target areas	Source	0						8	8	Means of verification: Program final evaluation report Only communities targeted by the program are included. A water source is considered to be protected when, by the end of the program, the quantity and quality of the water are maintained or improved relative to the baseline.

Indicator	Unit of measure	Baseline	Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Comments/Mean of verification
Specific development objective 2: Strengthen sector entities to improve service delivery management and sustainability, taking into account the impacts of climate change on water supply sources and infrastructure.										
9. Financially sustainable operators and water administration boards (JAAs)	%	0						80	80	Means of verification: Program final evaluation report Only communities targeted by the program are included. A JAA or operator is considered to be financially sustainable when the income of the board administering the system is greater than its expenditures (income/expenditures >1).
10. Climate-resilient potable water systems operating to design specifications	%	0						100	100	Means of verification: Program final evaluation report Only communities targeted by the program are included. A system is considered to be operating to design specifications when the corresponding water quantity, quality, and pressure specifications are met. A climate-resilient potable water system is understood to be one that is capable of anticipating, absorbing, or recovering from fast- or slow-developing climate disruptions as well as adapting and transforming in the face of long-term stresses, changes, and uncertainty caused by climate change.
11. Women in executive positions at rural JAAs or urban operators (average)	%	0						30	30	Means of verification: Records and acts of incorporation of entities providing water and sanitation services. Only communities targeted by the program are included.

OUTPUT INDICATORS

Output	Unit of measure	Related outcomes	Cost (USD)	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Comments/Mean of verification
Component 1: Expansion and improvement of water and sanitation systems											
Newly built potable water systems in rural communities under 2,000 inhabitants	System	1, 6, and 10	2,582,993	0	0	2	3	3	2	10	Means of verification: Acceptance report approved by the works supervisor and the PCU. Note: Climate and disaster risk studies will be done during the potable water system design process in line with national regulations. The recommendations/findings of such analyses will be taken into account in the infrastructure design process.
Newly built potable water systems in small cities up to 30,000 inhabitants	System	2, 6, and 10	4,015,274	0	0	1	1	2	3	7	Means of verification: Acceptance report approved by the works supervisor and the PCU. Note: Climate and disaster risk studies will be done during the potable water system design process in line with national regulations. The recommendations/findings of such analyses will be taken into account in the infrastructure design process.
Potable water systems rehabilitated in rural communities under 2,000 inhabitants	System	1, 6, and 10	2,445,398	0	0	1	1	2	1	5	Means of verification: Acceptance report approved by the works supervisor and the PCU. Note: A system is considered to be rehabilitated when the intervention produces an increase in water quantity (liters/person/day) and/or water quality (according to national standards). Rehabilitated potable water systems that sustained damage as a result of previous extreme events will include climate resilience considerations in their new designs pursuant to national regulations.

Output	Unit of measure	Related outcomes	Cost (USD)	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Comments/Mean of verification
Potable water systems rehabilitated in small cities up to 30,000 inhabitants	System	2, 6, and 10	5,560,767	0	0	2	2	3	3	10	Means of verification: Acceptance report approved by the works supervisor and the PCU. Note: A system is considered to be rehabilitated when the intervention produces an increase in water quantity (liters/person/day) and/or water quality (according to national standards). Rehabilitated potable water systems that sustained damage as a result of previous extreme events will include climate resilience considerations in their new designs pursuant to national regulations.
Individual sanitation solution projects built	Project	3 and 6	2,953,421	0	0	5	5	3	1	14	Means of verification: Acceptance report approved by the works supervisor and the PCU.
Sanitation systems built in small cities under 30,000 inhabitants	System	4 and 6	19,253,681	0	0	4	4	4	4	16	Means of verification: Acceptance report approved by the works supervisor and the PCU. Sanitation systems include sewer networks and/or wastewater treatment plants.
JAAAs created, legalized, and/or strengthened	JAA	9, 10, and 11	687,255	0	0	8	9	8	4	29	Means of verification: PCU reports. Note: A legalized JAA is one that has been granted legal personality. A strengthened JAA is defined as one whose members received training in at least the following: legal, operation and maintenance, financial and system administration, and quality monitoring. As part of the strengthening process, training will be provided on gender and climate change management issues to be considered in system operation.

Output	Unit of measure	Related outcomes	Cost (USD)	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Comments/Mean of verification
Urban water and sanitation operators strengthened	Urban operator	9, 10, and 11	805,745	0	0	7	8	8	10	33	Means of verification: Six-monthly PCU reports. Note: A strengthened urban operator is defined as one whose employees received training in at least the following: legal, operation and maintenance, financial and system administration, and quality monitoring. As part of the strengthening process, training will be provided on climate change management issues to be considered in system operation. This indicator applies to projects in towns over 2,000 inhabitants.
Pilot projects with innovative water and sanitation solutions and with a circular vision designed and implemented	Project	1, 3, 4, 5, and 10	60,000	0	0	0	0	1	1	2	Means of verification: Final consulting report. Note: Decentralized and individual sanitation and rainwater harvesting technologies will be tested for dry environments with a circular vision.
Component 2: Preinvestment and sector strengthening											
Rural communities and technical assistance providers validated in SIASAR	Community/ technical assistance providers	9 and 10	642,367	0	400	400	400	400	475	2,075	Means of verification: Six-monthly PCU reports. Note: A community or technical assistance provider is considered to be validated when its information is published on the SIASAR website. The validation process is straightforward and consists of review and verification of information quality by sector specialists.
Technical designs of water and/or sanitation projects in small cities or rural areas prepared	Design	10	500,000	0	0	0	0	15	15	30	Means of verification: PCU reports. Note: Technical designs will include engineering criteria that guarantee robustness, flexibility, efficient repair, protection, redundancy, and other factors, to ensure that the systems to be built are climate-resilient.

Output	Unit of measure	Related outcomes	Cost (USD)	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Comments/Mean of verification
Municipios strengthened for water and sanitation system sustainability	Municipios	9 and 10	350,000	0	0	8	8	8	10	34	Means of verification: Six-monthly PCU reports. Note: Implementation is considered to be strengthened with at least one of the following: (i) delivery of at least one of the following: water quality monitoring kits, tools, replacement parts, or chlorine or reagent banks, etc.; (ii) pro-micrometering program design and execution; (iii) update of the municipal water and sanitation plan; and (iv) sustainability training and workshops.
Leagues of municipios strengthened for water and sanitation system sustainability	Leagues of municipios	9 and 10	40,000	0	0	0	2	2	1	5	Means of verification: Six-monthly PCU reports. Note: Delivery is considered strengthened through at least one of the following: water quality monitoring kits, tools, replacement parts, or chlorine or reagent banks, etc.
Courses developed for a “virtual classroom” as part of ongoing sector training	Course	9 and 10	375,000	0	2	2	2	2	2	10	Means of verification: Program final evaluation report. Note: The virtual classroom will develop courses on technical, social, environmental, administrative, and other topics. Courses will include a participation certificate and will be intended primarily for municipal or JAA personnel, incentivizing the participation of women.
Water source protection actions implemented	Action	1, 2, 6, and 8	475,000	0	0	1	2	3	2	8	Means of verification: PCU reports. Comment: Each action includes the following activities: (1) source protection and reforestation; (2) training; and (3) monitoring of gauges and water-related weather information.

Output	Unit of measure	Related outcomes	Cost (USD)	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Comments/Mean of verification
Sector entities strengthened	Entity	9 and 10	600,000	0	0	0	0	0	3	3	Means of verification: Six-monthly PCU reports. Note: Sector entities are considered to be strengthened if they receive: (i) at least one of the following: water quality monitoring kits and vehicles for transporting personnel, etc.; (ii) training and workshops on water and sanitation system operation, administration, and maintenance; and (iii) sector technical studies.
Municipios strengthened in managing treatment plants in small cities up to 30,000 inhabitants	Municipios	9 and 10	150,000	0	0	5	5	5	5	20	Means of verification: Six-monthly PCU reports. Note: The intervention associated with this indicator will target municipios covered by this program that are experiencing challenges in operation and maintenance of the treatment plants built.

Country: Honduras

Division: WSA

Operation No.: HO-L1213

Year: 2020

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Department of Community Development, Water, and Sanitation (SEDECOAS)

Operation name: Potable Water and Sanitation Program in Honduras

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country system in the operation (any system or subsystem that is subsequently approved may be applicable to the operation, in accordance with the terms of validation by the Bank).

<input checked="" type="checkbox"/> Budget	<input checked="" type="checkbox"/> Reports	<input checked="" type="checkbox"/> Information system	<input type="checkbox"/> National competitive bidding (NCB)
<input checked="" type="checkbox"/> Treasury	<input type="checkbox"/> Internal audit	<input type="checkbox"/> Shopping	<input checked="" type="checkbox"/> Other
<input checked="" type="checkbox"/> Accounting	<input checked="" type="checkbox"/> External control	<input type="checkbox"/> Individual consultants	<input type="checkbox"/> Other

2. Fiduciary execution mechanism

<input checked="" type="checkbox"/>	Specific features of fiduciary execution	As noted in the proposal for operation development, community organizations and nongovernment organizations (NGOs) are expected to be contracted for the execution of certain types of works. In the first case, the community organizations selected will be those receiving benefits from the works and will be eligible for works up to US\$100,000, provided that they meet the requirements set in the contract and in the respective operations manual. NGOs will be selected for projects not exceeding US\$400,000 following an announcement in Honduras's electronic procurement system (www.honducopras.gob.hn) and in the local press. The selection criteria for the organizations and for the respective projects will be determined in the loan contract and in the respective operations manual approved by the Bank. Financial management of the operation, policies, procedures, and systems will be governed by the Financial Management Guidelines for IDB-financed Projects (document OP-273-12) and its supplemental instructions.
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3. Fiduciary risks and risk response

Area (financial management/procurement)	Risk	Risk level	Risk response
Procurement	Lack of personnel trained in this area and personnel stability. Poor historical performance in the length of procurement processes.	Low Low	Contracting of personnel. Training on IDB policies. Review of process flows.
Financial	Lack of personnel trained in this area and personnel stability. Budget space limitations.	Medium Low High	Supervision of personnel movements by the Bank. Communication with the Department of Finance (SEFIN) to adapt the space to the execution levels required by the program.

4. Policies and guidelines applicable to the operation: Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-15) and Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15).
5. Exceptions to policies and guidelines: None.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

Special conditions precedent to the first disbursement: No specific fiduciary conditions precedent to the first disbursement.
The applicable exchange rate for justification of expenditures made in the local currency of the borrower's country is option (b)(i) under Article 4.10 of the General Conditions of the loan contract.
The audit type will be special reasonable assurance.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Bidding documents	For procurements of works, goods, and nonconsulting services conducted in accordance with the procurement policies (document GN-2349-15), subject to international competitive bidding (ICB), the Bank's standard bidding documents or documents agreed upon between the executing agency and the Bank for individual procurement will be used. The selection and contracting of consultants will be conducted in accordance with the Policies for the Selection and Contracting of Consultants (document GN-2350-15), and the standard request for proposals issued by the Bank or agreed upon between the executing agency and the Bank will be used for the selection of individuals. For national competitive bidding processes, the procurement document agreed upon between the national procurement office, ONCAE, and the Bank will be used. The project sector specialist will be responsible for reviewing the technical specifications and terms of reference of procurements during preparation of the selection processes. This technical review may be ex ante and is independent of the procurement review method and use of country systems.						
<input checked="" type="checkbox"/>	Use of country systems	Procurement via electronic catalogue/framework agreement and limited bidding will be used for planned procurements within the shopping threshold amounts for Honduras for goods, works, and nonconsulting services contracts, as approved by the Bank's Board of Executive Directors. The procurement plan for the operation will list the procurements to be conducted using the country system within the approved scope. If the scope of Board approval for use of the country system is expanded, it will be applicable to the operation.						
<input checked="" type="checkbox"/>	Procurement and sole-source selection	The personnel of the project execution unit financed by operation 4518/BL-HO may be selected on a sole source basis on grounds of continuation of services, provided that it can be shown that there is a continued need for their services, they were previously selected as a result of a competitive process, and they received a satisfactory performance evaluation, in accordance with paragraph 5.4(a) of document GN-2350-15: "tasks that are a continuation of previous work that the consultant has carried out and for which the consultant was selected competitively."						
<input checked="" type="checkbox"/>	Procurement supervision	<p>The supervision method will be ex ante, except for the competitive contracting of individual consultants, which will be ex post. Nevertheless, the terms of reference to be used will require the Bank's no objection. For procurements executed using the country system, supervision will be through the country's national supervision system.</p> <p>Ex post reviews will be conducted at least every fiscal year, in accordance with the project supervision plan, subject to changes during execution. Ex post review reports will include at least one physical inspection visit, selected from among the procurement processes subject to ex ante review.</p> <table border="1"> <tr> <td>Works</td><td>Goods/Services</td><td>Consulting services</td></tr> <tr> <td>Ex ante</td><td>Ex ante</td><td>Firms ex ante NICQ ex post</td></tr> </table>	Works	Goods/Services	Consulting services	Ex ante	Ex ante	Firms ex ante NICQ ex post
Works	Goods/Services	Consulting services						
Ex ante	Ex ante	Firms ex ante NICQ ex post						
<input checked="" type="checkbox"/>	Records and files	The execution unit will be responsible for keeping records and original supporting documents and files for procurement processes conducted with project resources, using established procedures. The operations manual will clearly document internal workflows between the execution unit and SEDECOAS, as well as the separation of roles and responsibilities.						

Main procurements

Procurement description	Selection method	New procedures/ Tools	Estimated date	Estimated amount (US\$)
Goods				
Procurement of six vehicles for the program coordination unit (including annual maintenance)	ICB		July 2021	216,000
Works				
Contract for the construction of potable water/sewer systems/treatment plant/other in the departments of Comayagua and Francisco Morazán	ICB		February 2022	1,857,324
Contract for the construction of potable water/sanitation systems/pipeline in the departments of La Paz and Intibucá	ICB		February 2022	3,226,587
Contract for the construction of potable water/sanitation systems/pipeline in the departments of La Paz and Intibucá	ICB		February 2022	1,376,177
Contract for the construction of potable rainwater microcollection systems/potable water/sanitary sewer/sanitation systems/treatment plant in the departments of Intibucá and Lempira	ICB		March 2022	1,763,969
Contract for the construction of potable water and sanitation systems in the departments of Santa Barbara, Choluteca, and Colón	ICB		March 2022	1,122,629
Contract for the construction of nonsample projects	ICB		June 2022	22,140,095
Nonconsulting services				
Firms				
Consulting services to implement environmental actions for source protection and reforestation and the monitoring of gauges and water-related weather information	QCBS		April 2022	475,000
Supervision of works for the construction of potable water/sewer/sanitation/other systems – Packages 1, 2, 3, 4, 5, and 6	QCBS		October 2021	822,406
Consulting services to provide technical assistance for capacity-building municipal operators in the operation of treatment plants and networks	CQS		February 2022	150,000
Consulting services for data collection, updating, and validation and SIASAR training	QCBS		December 2021	542,367
Contracting of consulting firm for external audit of the program	QCBS		August 2021	250,000
Supervision of construction works for potable water/sewer/sanitation/other systems for nonsample projects	QCBS		April 2023	2,214,010
Individuals				
Consulting services to conduct prefeasibility and preinvestment studies for the new project portfolio (separated into several processes, according to prioritized packages)	NICQ		April 2022	726,000
Individual consultant contract for trainers (14 trainers: 1 per every 2 projects)	NICQ		August 2021	1,092,000
Individual consultant contract for social outreach workers (10 social outreach workers x 31 months)	NICQ		July 2023	403,000
Individual consultant contract for neighborhood project social specialist	NICQ		August 2021	120,000
Individual consultant contract for three social specialists	NICQ		July 2023	186,000

Procurement description	Selection method	New procedures/ Tools	Estimated date	Estimated amount (US\$)
Individual consultant contract for social outreach workers (2 social outreach workers x 60 months)	NICQ		August 2021	156,000
Contracting of general coordinator	NICQ		June 2023	108,500

To access the 18-month procurement plan, click [here](#).

Procedures	Justification of use
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IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

<input checked="" type="checkbox"/>	Programming and budget	Challenges in budget execution are anticipated due to potential allocation restrictions that could affect execution schedules.
<input checked="" type="checkbox"/>	Treasury and disbursement management	Prior to the first disbursement, a special account will be opened at the Central Bank of Honduras, including its operating account, which will form part of the Single Treasury Account. The disbursement mechanism will be online disbursement. The operation will be managed in U.S. dollars. The exchange rate to be used in the operation will be the one in effect on the payment date of the expenditure in local currency [option (b)(i) under Article 4.10 of the General Conditions of the loan contract]. The operation will generally work with a financial planning period of six months. The preferred disbursement method will be advances of funds, although other methods may be used. The operation is expected to justify 70% of the cumulative balance pending justification. If flexibility is necessary, this will occur prior to an evaluation by the project team.
<input checked="" type="checkbox"/>	Accounting, information systems, and reporting	The specific accounting rules to be followed are the International Financial Reporting Standards (IFRS). The UEPEX module for management of external resources in the Integrated Financial Information System (UEPEX/SIAFI) will be the technology platform used for accounting purposes for the operation. The accrual basis will be used for execution, whereas the cash basis will be used for reporting. Reports will be issued by the UEPEX/SIAFI system. As a supplement to the policies and guidelines applicable to the operation, the program Operating Regulations with the documented definition of workflows and internal controls will be used.
<input checked="" type="checkbox"/>	Internal control and internal audit	The internal audit role applied to the project will be established in the project operations manual and performed by the executing agency and supervised by the National Office for the Comprehensive Development of Internal Control (ONADICI), the Superior Audit Court (TSC), and the project auditor.
<input checked="" type="checkbox"/>	External control and financial reports	The borrower and/or the executing agency will select and contract external audit services in accordance with the terms of reference previously agreed upon between the borrower and/or the executing agency and the Bank. These will establish the type, timing, and scope of the review. The selected external auditor and audit rules to be applied will be acceptable to the Bank. Depending on the nature and risk of the operation, audited financial reports prepared by a Bank-eligible firm will be required, subject to change over the course of the project based on the findings of the Bank's supervision. The type of financial report required to meet the financial information needs of external audit in the operation is the audited financial report with a cutoff date and submission deadline of 120 days after the end of the annual fiscal periods; the cutoff date and submission deadline for the closing audited financial report will be 120 days after the scheduled date for the last disbursement.
<input checked="" type="checkbox"/>	Financial supervision of the operation	The operation requires financial supervision by the Bank's fiduciary team. This team's responsibilities will also include onsite and desk reviews and support with a given frequency, subject to change during execution, which will consist of detailed reviews of the accounting and financial aspects of the project. The Bank may be assisted in this supervision by the contracted audit firm.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Honduras. Loan ____/BL- HO to the Republic of Honduras
Potable Water and Sanitation Program in Honduras

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Potable Water and Sanitation Program in Honduras. Such financing will be chargeable to the Bank's Ordinary Capital (OC) resources in the following manner: (i) up to the amount of US\$15,750,000, subject to concessional financial terms and conditions ("Concessional OC"); and (ii) up to the amount of US\$29,250,000, subject to financial terms and conditions applicable to loan operations financed from the Bank's regular program of OC resources ("Regular OC"), as indicated in the Project Summary of the Loan Proposal, and subject to the Special Contractual Conditions of said Project Summary.

(Adopted on ____ 2021)