

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

RURAL WATER AND SANITATION PROGRAM

(HO-X1017)

GRANT PROPOSAL

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ELECTRONIC LINKS	
Required	
1.	Annual work plan (AWP) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36244187
2.	Monitoring and evaluation arrangements http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36258136
3.	Procurement plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36258135
4.	Environmental and social management report http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36258134
5.	Environmental and safeguards classification form http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36258258
Optional	
1.	Technical analysis: List of projects designed http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36258132
2.	Financial analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36258130
3.	Institutional capacity assessment (ICAS) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36224910
4.	Socioeconomic analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36258137
5.	Operating Regulations http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36258315
6.	Program execution plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36244199

ABBREVIATIONS

AECID	Spanish International Development Cooperation Agency
AHJASA	Asociación Hondureña de Juntas de Agua y Saneamiento [Honduran Association of Water and Sanitation Boards]
AJAM	Asociación de Juntas de Agua y Saneamiento Municipal [Association of Municipal Water and Sanitation Boards]
AWP	Annual work plan
CONASA	Consejo Nacional de Agua y Saneamiento [National Water and Sanitation Council]
EIRR	Economic internal rate of return
EPHPM	Encuesta Permanente de Hogares de Propósitos Múltiples [Permanent Multipurpose Household Survey]
ERSAPS	Ente Regulador de los Servicios de Agua Potable y Saneamiento [Water and Sanitation Regulatory Authority]
ICB	International competitive bidding
INE	Instituto Nacional de Estadística [National Statistics Bureau]
NCB	National competitive bidding
NGO	Nongovernmental organization
O&M	Operation and maintenance
OMT	Operation and maintenance technician
PEMAPS	Plan Estratégico de Modernización del Sector de Agua y Saneamiento [Strategic Plan for Modernization of the Water and Sanitation Sector]
SANAA	Servicio Autónomo Nacional de Acueductos y Alcantarillados [Autonomous National Water and Sanitation Service]
SEFIN	Department of Finance
SFW	Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean
SIAFI	Sistema de Administración Financiera Integrada [Integrated Financial Administration System]
SIAR	Sistema de Información de Agua Rural [Rural Water Information System]
UEPEX	Unidades Ejecutoras de Préstamos Externos [Foreign Loan Executing Units]
WST	Water and sanitation technician

PROJECT SUMMARY

RURAL WATER AND SANITATION PROGRAM (HO-X1017)

Financial terms and conditions				
Beneficiary: Republic of Honduras				
Executing agency: Servicio Autónomo Nacional de Acueductos y Alcantarillados [Autonomous National Water and Sanitation Service] (SANAA), as the agency that provides technical support for the water and sanitation sector.				
Source	Amount (US\$)	%	Source of financing	SFW
IDB – Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW):	25,000,000	91	Disbursement period:	4 years
Government of Honduras:	2,500,000	9	Currency:	U.S. dollars
Total	27,500,000	100		
Project at a glance				
<p>Objective and description. To improve and increase access to water and sanitation services in rural communities with fewer than 2,000 inhabitants. The project is expected to benefit 13,700 households with new water connections and 15,900 households with individual sanitation solutions. It will also benefit 2,200 households by rehabilitating their water systems. The program consists of the following components: (i) water and sanitation projects, including the construction of water systems and the provision of sanitation solutions, rehabilitation of existing systems, preinvestment studies, design of sustainable management arrangements, and community awareness and training activities; (ii) institutional strengthening, which includes the strengthening of SANAA in its capacity as sector technical agency, including updating of its rural water information system (SIAR); better coordination with the Water and Sanitation Regulatory Authority (ERSAPS) in regulating the rural area; actions to promote the sustainability of the systems, including the establishment of Associations of Municipal Water and Sanitation Boards (AJAMs) to provide technical monitoring for the systems, the establishment of chlorine banks, and the design and implementation of at least two pilot projects to support the sustainability of services; and execution of the activities mentioned in the Environmental and Social Management Report.</p>				
<p>Special contractual conditions. The following are conditions precedent to the first disbursement: (i) an agreement has been signed by the Department of Finance (SEFIN) and SANAA to transfer funds from the contribution to SANAA and establish the parties' execution obligations (paragraph 2.1); (ii) the Operating Regulations have been approved, which will include a fiduciary management and internal control manual (paragraph 3.4); (iii) SANAA has implemented and is using the Integrated Financial Administration System (SIAFI) and SIAFI's UEPEX module has been implemented in the Development Division (paragraph 2.8); and (iv) a program coordinator and core team are in place for program execution (paragraph 3.2).</p> <p>Other conditions: (i) before any calls for bids can be made on contracts for goods under the first execution arrangement described in paragraph 3.3, SANAA has implemented to the Bank's satisfaction a new system for inventory control for the works built with program funds (paragraph 2.8); (ii) when the first execution arrangement described in paragraph 3.3 is implemented, the independent firm of public accountants referred to in Article 3.01 of the General Conditions of the agreement will also perform concurrent audits of the inventories of materials and unit costs of the systems built with program funds every four months for three four-month periods after the new system for inventory control and unit cost allocation per project has been implemented (paragraph 3.8); and (iii) a special disbursement of up to US\$100,000 equivalent is requested to develop and implement the inventory control and cost allocation system, once the agreement on transferring funds has been signed by SEFIN and SANAA and the conditions established in Article 3.01 (a), (b), and (d) of the General Conditions have been met (paragraph 2.3).</p>				
Exceptions to Bank policies: None.				
Operation consistent with the country strategy: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>				
Operation qualifies as: SEQ <input checked="" type="checkbox"/> PTI <input checked="" type="checkbox"/> Sector <input type="checkbox"/> Geographic <input checked="" type="checkbox"/> Headcount <input type="checkbox"/>				

I. BACKGROUND, PROBLEM ADDRESSED, AND RATIONALE

A. Background

- 1.1 **Framework law.** The Water and Sanitation Sector Framework Law (framework law) promulgated in 2003 defined the sector's institutional framework and decentralized water and sanitation services in the country's 298 municipalities and separated the service delivery, planning, and regulatory functions. Under this new framework, institutions were created such as the Consejo Nacional de Agua y Saneamiento [National Water and Sanitation Council] (CONASA) and the Ente Regulador de los Servicios de Agua Potable y Saneamiento [Water and Sanitation Service Regulatory Authority] (ERSAPS), and other institutions were restructured such as the Servicio Autónomo Nacional de Acueductos y Alcantarillados [Autonomous National Water and Sanitation Service] (SANAA) which became the sector's technical agency, responsible for providing technical assistance for the municipios and water and sanitation service providers (including the water management boards). The framework law assigned ownership of the water and sanitation services to the municipalities, which became responsible for determining how and under what conditions these services would be provided in their jurisdictions.
- 1.2 **SANAA.** SANAA was established in 1974 by Decree Law 155 as an autonomous agency with its own legal capacity and assets to promote the development of water and sanitation services in the country. Under the decentralization process that began with promulgation of the framework law, SANAA's mandate was redefined and the systems it managed and the goods required to provide service were to be gradually transferred to the municipalities. Some of the roles conferred on SANAA under the framework law were: (i) to act as technical secretariat of CONASA, formulate policies, establish plans, prepare programs and projects, evaluate and promote financing strategies; and (ii) as sector technical agency, to provide support for ERSAPS, the municipalities, and the water boards.
- 1.3 **Rural sector.** The framework law established that the water boards are to receive preferential treatment from municipios when they issue permits for the operation of services, to which end the boards must obtain legal status from the Department of State for the Interior and Population. The law's enabling regulations and the regulations governing the water boards stipulate how they are to be organized, with meetings of users, boards of directors, and support committees, in order to: (i) administer, operate, and maintain the systems; (ii) promote community participation for the construction of systems, sanitary education, and rational water use; and (iii) promote and oversee the conservation and protection of watersheds and water sources. The regulations governing the water boards define how to assure representativeness and select members, and establish the rights and obligations of the boards. ERSAPS has prepared a set of guidelines that define how regulations are to be applied in rural areas. However, ERSAPS suffers from budgetary and operating difficulties that prevent it from applying those guidelines. To counteract these shortcomings, ERSAPS promotes local regulatory arrangements by

establishing local supervision and control units, which carry out regulatory functions at the municipal level, including in rural areas.

- 1.4 **The country's sector policy and strategy.** The sector strategy is laid out in the Strategic Plan for Modernization of the Water and Sanitation Sector (PEMAPS). Its vision is to contribute to the balance between supply and demand for sustainable water and sanitation services, with universal coverage and efficient services that are cost-effective and sustainable, to the improve quality of life and health by establishing institutions and players who participate in the sector, with supervisory and regulatory bodies that are in the process of consolidation, and adequate financial and institutional mechanisms. In rural zones, the strategy is based on the above-mentioned principles, giving priority to national government investments in such zones, since most people without access to water and basic sanitation services live there.
- 1.5 **The SANAA model for rural water and sanitation projects.** SANAA has been the main executing agency for projects in rural areas and has developed a model for the design, construction, and operation of rural water systems. Its Development Division has more than 30 years' experience in the rural sector. The model attaches great importance to participation by the beneficiary community and is supported by water and sanitation technicians (WSTs) and operation and maintenance technicians (OMTs). Each project is designed by a SANAA engineer, who works with the WSTs and the community. To build the systems, SANAA hires a foreman to oversee all aspects of construction and community contributions, which generally involve local materials and unskilled labor. In parallel, the WSTs provide community education in health, hygiene, rational use of water, and protection of water sources, and support the water boards in getting established and in obtaining legal status and municipal authorization. Also, during the construction of works, the WSTs provide training for the members of the board in managing the system (basic accounting, etc.) and for a plumber to operate it. Once the system is operating, the water board is responsible for its management, operation, and maintenance, collecting a fee from each user. From then on, the system is supported by the OMTs. In many cases, as a complement to the OMTs, since SANAA does not have the capacity to provide technical assistance services everywhere in the country, Associations of Municipal Water and Sanitation Boards (AJAMs) are being established on the municipal level, and the Honduran Association of Water and Sanitation Boards (AHJASA) operates at the national level, to provide technical services to water boards.
- 1.6 The SANAA model is followed by other institutions, such as the Honduran Social Investment Fund (FHIS), supported by SANAA's engineers and WSTs, and nongovernmental organizations (NGOs). The projects financed by the United States

Agency for International Development (USAID), which is an important source of funding for rural projects, also follow SANAA's methodology.¹

- 1.7 **Rural Water Information System.** SANAA maintains a Rural Water Information System (SIAR) to track the condition of rural water systems, containing information on the condition of infrastructure, the water boards, users, and fees, for some 5,200 water systems. The information is used to classify the rural systems into four categories. Category A includes systems that operate well in technical and managerial terms. Category B includes systems that require limited administrative intervention by an OMT to support the water boards. Category C includes systems that require some kind of physical or administrative intervention whose solution lies within the financial and technical capacity of the water boards, with technical support from the OMTs. Category D is for systems that require physical and institutional interventions that demand investments that exceed the water boards' technical and financial capacity.

B. Problem addressed and rationale

- 1.8 According to the National Statistics Bureau (INE), Honduras has a population of about 8.2 million, with 3.7 million (45%) living in urban areas and 4.5 million (55%) in rural ones. According to the INE, in 2010, 71.6% of the rural population was living below the poverty line, and accounted for about 60% of all the country's poor. In turn, 60.2% of the rural population lives in extreme poverty, accounting for 73% of all Hondurans living at that level. Taking the percentage of people living on less than a dollar a day as the parameter, this situation affects 34.7% of the rural population. As for health, the World Health Organization indicates that mortality among children under 5 in rural areas is 43.1 for every 1,000 live births, while diarrhea is the cause of 12.2% of deaths in this age group.

Table I-1. Percentage of households with access to adequate water and sanitation systems (2009)

Sphere	Water	Sanitation
National	85.4%	77.8%
Urban	95.2%	75.6%
Rural	77.2%	79.7%

Source: EPHPM. INE, May 2009.

- 1.9 According to INE's Permanent Multipurpose Household Survey (EPHPM) of May 2009, 85.4% of households have access to adequate water services (95.2% in

¹ More details on the validity of the model are presented in "Metodología de Cobertura y Sostenibilidad en Agua y Saneamiento Rural," [Methodology of Coverage and Sustainability in Rural Water and Sanitation] Carlos Javier Rivera Garay, Asociación Interamericana de Ingeniería Sanitaria y Ambiental - Capítulo Honduras, 2001, which can be consulted at: <http://www.bvsde.paho.org/bvsaidis/centroa22/Ponencia4.pdf>.

urban areas and 77.2% in rural ones); while 77.8% have access to adequate sanitation (75.6% in urban zones and 79.7% in rural ones).²

- 1.10 In rural communities, problems with access to water and sanitation services are significant. Apart from a shortfall in water and sanitation coverage of 22.8% and 20.3% respectively, according to SANAA's records, approximately 22% of rural systems (1,150 water systems) have

Table I-2. Condition of rural water systems

Category	Definition	#	%
A	Good condition	1,855	35%
B	Requires operating assistance	1,570	30%
C	Requires upgrading	701	13%
D	Requires rehabilitation	1,150	22%
Total		5,276	100%

Source: SANAA, 2011

deteriorated to the point that they require rehabilitation (SANAA category D). To resolve this problem, own estimates taking an average of 750 people per community, indicate that to rebuild the 1,150 systems at a cost of US\$200 per person would require a total investment of more than US\$172 million. One of the main reasons that the systems deteriorate is failure by users to pay their water bills. According to SANAA, in rural areas, the water boards are only able to cover 65% of their operation and maintenance (O&M) costs from sales. In many cases this problem stems from the fact that the communities themselves set rates that are not high enough to cover those costs, even if 100% were collected.

- 1.11 Other factors that contribute to lack of access and sustainability of the systems are: (i) the lack of physical capacity to execute programs large enough to have the necessary impact; (ii) the lack of capacity to deliver legal status to the water boards; and (iii) the absence of a sustainable mechanism to support communities and water boards that encounter technical, financial, or organizational problems after the systems come into operation. For budgetary reasons and on account of the withdrawal of external donors, SANAA's technical and institutional support for the rural sector has shrunk recently with the reduction in the number of OMTs. According to SANAA, in 2002 there were 118 OMTs country-wide. Today, there are just 40. Also, project engineers and supervising engineers have disappeared from SANAA's regional offices around the country. With the reduction in SANAA's programs and budget, its functions are being carried out by a single regional engineer who supports activities in his region, and whose responsibilities also include design, construction, and monitoring and the preparation of education

² Adequate access to a water service is defined as all households with access to a public or private collective service (urban area) and all access to a piped system or well (rural area). Access to an adequate sanitation system in urban areas is defined as a toilet connected to a sewer or a septic tank, or a toilet discharging into a river, lagoon, or the sea. In rural areas, an adequate sanitation system is defined as a toilet connected to a sewer or to a septic tank, or discharging into a river, lagoon, or the sea; a latrine discharging into a river, lagoon or the sea; a latrine with a hydraulic seal connected to a septic tank or a cesspit through a system of pipes or a trench.

methodologies. Given the small number of OMTs, civil society organizations such as Associations of Municipal Water and Sanitation Boards (AJAM) or the Honduran Association of Water and Sanitation Boards (AHJASA) provide technical and institutional assistance to water boards.

- 1.12 **Consistency with the strategy of the Spanish Cooperation Agency.** The strategic objective of the Spanish Cooperation Agency in Honduras is to contribute to attaining the goals of the poverty reduction strategy by strengthening central and local public institutions. One of its strategic lines for attaining that objective is to improve basic habitability and access to water and basic sanitation. Spain prioritizes three areas: (i) the north (Atlántida and Colón), (ii) the west (Copán, Santa Bárbara, Lempira, and Ocotepeque), and (iii) the Gulf of Fonseca (Choluteca and Valle). It has been agreed with the country that at least 50% of projects will be in these priority zones and that each year a balance will be maintained between the number of projects executed in these zones and the number executed elsewhere in the country.
- 1.13 **Consistency with the IDB's strategy with Honduras and alignment with the Ninth General Increase in the Resources of the Bank (GCI-9).** The operation is consistent with the Bank's country strategy that is in preparation, which establishes increased water and sanitation coverage in rural zones as one of its priority lines. The program is also aligned with the GCI-9 objectives of supporting financing for small and vulnerable countries and reducing poverty and enhancing equity, since it contributes to increased coverage of basic services in areas with high poverty levels. It also is consistent with the regional development target on infrastructure for competitiveness and social welfare. Under this program, an estimated 143 water systems will be built or rehabilitated, helping to reach the targets in the Bank's Water and Sanitation Initiative (document GN-2446-3), specifically the 3,000 Rural Communities Program aimed at financing technical assistance and investments in rural zones. The operation contributes to increased access to water and sanitation services, promotes the financial sustainability and administrative and operational efficiency of the water boards in charge of managing the systems, promotes the quality of services, and provides for a comprehensive intervention in water and sanitation. It also promotes activities to develop the sector through the strengthening of SANAA as the technical arm, and active participation by the beneficiary communities in the project cycle. Given this framework, the operation is consistent with the Bank's Public Utilities Policy (OP-708) and its Basic Environmental Sanitation Policy (OP-745).

C. Description: Objective and components

- 1.14 The program's objective is to increase and improve access to water and sanitation services in rural communities with fewer than 2,000 inhabitants. It is a demand-driven program and will include the following components.
- 1.15 **Component I. Water and sanitation projects (US\$22,540,000).** This component will finance the construction of water systems and the provision of sanitation

solutions, as well as the rehabilitation of existing water systems in rural communities with fewer than 2,000 inhabitants. It covers the costs associated with project execution, including: (i) the design and construction of water systems; (ii) the creation and/or strengthening of water boards up to the point where they can obtain legal status; (iii) community awareness and education in important aspects such as paying for services, participation by women, sanitary and environmental education, and rational water use; (iv) training for the members of the water boards in their responsibilities for system management; and (v) training for plumbers in system O&M.

- 1.16 **Component II. Institutional strengthening (US\$2,000,000).** This component will finance: (i) institutional strengthening for SANAA in its capacity as the sector's technical arm, including updating and improving the SIAR; (ii) improvement in the regulation of rural areas in coordination with ERSAPS; (iii) actions to promote the sustainability of the systems built, including the establishment of AJAMs in the municipios where the program is active, to provide technical monitoring of the systems built and to design and implement at least two pilot projects to support the sustainability of the services (paragraph 2.16); and (iv) execution of the actions established in the Environmental and Social Management Report (see [link](#)). The improvement in regulation in rural areas will be brought about by contracting consultants to support the municipios in the program in establishing and strengthening local supervision and control units, which will regulate at the municipal level, including rural areas, and develop service regulations.

D. Costs and financing

- 1.17 The program will cost a total of US\$27.5 million, with US\$25 million coming from the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW) administered by the IDB, and US\$2.5 million in local counterpart resources, which correspond to contributions in kind related to the costs of SANAA personnel assigned to the program. The program costs include sales tax and import duties on goods and services.

Table I-3. Cost table (US\$)

Category	IDB (SFW)	Local contribution	Total	%
I. Administration	1,160,000	800,000	1,960,000	7%
1. Program administration	800,000	800,000	1,600,000	
2. Monitoring, evaluation, and auditing	360,000	-	360,000	
II. Direct costs	22,840,000	1,700,000	24,540,000	89%
Component I	20,840,000	1,700,000	22,540,000	
1. Project studies and designs	682,166	-	682,166	
2. Construction of water and sanitation systems	18,620,087	-	18,620,087	
3. Community strengthening	492,747	1,700,000	2,192,747	
4. Inspection and supervision	1,045,000	-	1,045,000	
Component II	2,000,000	-	2,000,000	
1. Institutional strengthening	2,000,000	-	2,000,000	

III. Contingencies	1,000,000	-	1,000,000	4%
Total costs	25,000,000	2,500,000	27,500,000	100%

E. Expected results

- 1.18 The program is expected to benefit 13,700 households with new water connections and 15,900 with individual sanitation solutions. It will also benefit 2,200 households by rehabilitating their water systems. It is estimated that, through the program, water coverage in rural areas will increase from 77.2% to 79.7%, while sanitation coverage will rise from 79.7% to 82.1%. Community-based entities (water boards) will also be established and trained to manage, operate, and maintain the systems. The indicators and outcomes for the different components are presented in Annex II (results matrix). The most relevant indicators and their expected targets are shown in Table I-4.

Table I-4. Key program indicators

Indicator	Target
Households with adequate access to water services through new systems	13,700
Households with adequate access to water services through upgraded systems	2,200
Households with new individual sanitation solutions (latrines, septic tanks, etc.)	15,900
Number of systems operating up to design specifications	143

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing structure

- 2.1 The beneficiary will be the Republic of Honduras and the funds from this contribution will be transferred to SANAA, in its capacity as the executing agency, for execution under a subsidiary agreement that establishes that the transfer will be nonreimbursable and stipulates other conditions for program execution. The disbursement period will be four years after the grant agreement is signed by the IDB and the Republic of Honduras. **Signature of an agreement between SEFIN and SANAA on the transfer of the contribution to SANAA and establishment of the execution obligations of the parties will be a condition precedent to the first disbursement.**

Table II-1. Disbursement schedule (US\$ millions)

Year	1	2	3	4	Total
US\$	7.9	8.2	6.6	4.8	27.5
%	29%	30%	24%	17%	100%

- 2.2 The Honduran government has asked the IDB for a loan for US\$13 million in addition to the SFW grant funds to form a financing structure (US\$25 million from SFW plus a US\$13 million IDB loan) under which support for this program was

approved by the Executive Committee of the Spanish Water and Sanitation Fund (FCAS). The IDB loan will be processed in 2012. The operation's design as a multiple works program facilitates its execution in stages. This new operation for US\$13 million is expected to benefit some 8,000 additional households through the construction of about 70 new water systems and a similar number of households with new sanitation solutions. The operation's specific activities to strengthen SANAA will establish institutional conditions that will facilitate execution of the subsequent operation.

- 2.3 A special disbursement is requested for up to US\$100,000 equivalent to develop and implement the inventory control and cost allocation system, as a condition for execution once the agreement on the transfer of funds has been signed by SEFIN and SANAA and the conditions established in Article 3.01 (a), (b), and (d) of the General Conditions have been met.
- 2.4 Technical cooperation operation ATN/OC-11625-HO supported preparation of this program by conducting socioeconomic surveys used in evaluating a sample of projects.

B. Environmental and social considerations

- 2.5 With the program's investments in rural water and sanitation, a positive social and environmental impact will be made on the quality of life and welfare of the beneficiaries. Based on the expected environmental and social impacts and in fulfillment of the Environment and Safeguards Compliance Policy, the program has been classified as a category B operation. The environmental and social assessment performed as part of program preparation underlines three important aspects: (i) the short-term impacts of project construction; (ii) the risk that could be caused by poor management of micro-watersheds; and (iii) the country's vulnerability to natural disasters.
- 2.6 During the construction phase, the following limited negative impacts of short duration will be felt: (i) air and water pollution caused by the increase in suspended particles and sedimentation, and soil erosion; (ii) destabilization of slopes in vulnerable areas, particularly areas with steeper grades, which will be taken into consideration in the technical design of the works; (iii) the impacts of rights-of-way and population resettlement which are very unlikely, given the small scale of the works; and (iv) impacts on archaeological remains in areas with a higher concentration of ancestral indigenous cultures, which are unlikely.
- 2.7 **Mitigation measures.** To mitigate the temporary impacts during the construction stage and reduce the risks, the budgets for the projects will include funds to implement the prevention and mitigation works established in the designs. In turn, SANAA will prepare procedures to be incorporated into the Operating Regulations. To mitigate the impact of poor micro-watershed management and for natural risk management, SANAA, in conjunction with the Department of Natural Resources and the Environment (SERNA), will prepare a manual for comprehensive micro-watershed management and implement a training module for the authorities,

specialists from SANAA's Development Division, technicians who provide technical assistance to the communities, and the communities themselves. In addition, SANAA will strengthen the Development Division with an environmental specialist and a specialist in social communication.

C. **Fiduciary risk**

- 2.8 The execution arrangement using the SANAA model (paragraph 1.5) requires the management of a stock of materials at the regional and local levels at the final site of the works, and the use of systems to determine unit costs. SANAA has systems of this kind but they need to be updated and improved. To mitigate this risk, as a special condition for execution, it was agreed that before calling for bids on contracts for goods under the first execution arrangement described in paragraph 3.3, SANAA will have implemented a new system to the Bank's satisfaction for inventory control for systems built using program funds. In addition, since SANAA is partially connected to SIAFI but does not currently comply with financial management and control standards that are acceptable to the IDB, there is a risk related to the administration of program funds (see paragraph 2.12). To mitigate this risk, **as a condition precedent to the first disbursement, SANAA will have implemented and be using the integrated financial administration system (SIAFI), and SIAFI's UEPEX module will have been implemented in the Development Division.** SANAA is currently implementing the SIAFI in the institution. There is also a risk related to administration of procurement, contracting, and internal control processes that will be mitigated by strengthening the Development Division with a procurement specialist (paragraph 3.2) and through Bank support in implementing an automated system to track procurements, which will be introduced during the program. Along these lines, SANAA is currently implementing the SIAFI Warehouse module, which will allow for effective inventory management and fulfillment of the execution condition.

D. **Feasibility analysis**

- 2.9 **Technical feasibility.** From a technical standpoint, the analysis of the average costs of the systems and the engineering practices followed by SANAA to scale the works and design the projects to be supported by the program was based on a sample of 41 projects that included new gravity and pumped systems, and systems to be expanded and rehabilitated. Despite the relative technical simplicity of the rural systems and the existence of standard plans that facilitate design activities, the project team made some recommendations to be included in the Operating Regulations in relation to population projections, design capacity, and optimum design volume for dams and storage tanks in particular. The technical analysis presents the sample of 41 projects, and includes information on costs, population, housing, type of system and location, for new systems, expansions, and reconstructions. With the support of a nonreimbursable technical-cooperation project currently in execution, SANAA will continue to fine-tune the designs of projects whose execution will begin in the first year of the program. To that end, SANAA will perform a detailed evaluation like the one conducted by the project

team for the subsample, adjusting the designs to the changes in design parameters (population projections, capacity, and scale of the different components) and will complete the sanitation solutions, which were not included in all the projects studied. Costs will be adjusted based on this analysis and the final designs will be prepared by the Development Division. SANAA will also prepare standard designs for other sizes of storage tanks and other components to optimize scale. The design of a sanitation solution that incorporates a system for appropriate water management using some type of standpipe will also be completed. Preparation of the final designs of the projects to be built in the first year and the standard designs for the different system components is a relatively simple exercise given the scant complexity of the rural systems, and therefore no complications are anticipated in their preparation. They will be ready prior to the date on which eligibility for disbursements is declared.

- 2.10 **Socioeconomic feasibility.** The program will take the form of a water and sanitation global multiple works program for rural communities. Based on the results of the 700 socioeconomic surveys conducted in February and March 2011 in rural communities in Honduras, a cost-benefit analysis was performed of a representative sample of 44 water projects. Thirty-three of them are socioeconomically feasible, with economic internal rates of return (EIRR) of 12.14% to 58.6% (see [electronic link](#)). As a result of the evaluation of the sample, a benchmark cut-off value of US\$1,303 per connection has been established for the water projects. Projects costing that amount or less per connection are socioeconomically feasible and therefore eligible for program financing. A cost-benefit analysis was also performed for the individual sanitation solutions proposed under the program. They are socioeconomically feasible with an EIRR of 15.9%. The cut-off value for the individual sanitation solutions is US\$183 per latrine.
- 2.11 The rate to be paid by users of the water systems included in the program ranges from 30 lempiras a month for a gravity system to 100 lempiras a month for a pumped system (US\$1.60 and US\$5.30). According to information obtained during preparation of the projects in the sample, the rates associated with the systems to be financed represent between 0.4% and 4.5% of monthly family income, which are acceptable values.
- 2.12 **Institutional feasibility.** As part of the program's institutional feasibility, SANAA was evaluated as the executing agency. Its current legal and institutional frameworks were evaluated and its management reports and the results of the institutional capacity assessment system (ICAS) were reviewed (see [link](#)). The analysis indicates that in the legal sphere, SANAA has the necessary powers to implement the program. An evaluation was also performed of its systems for the management of goods and procurement, finances (budget, treasury, and accounting), and internal and external control and found that they need to be improved. Given this framework, SANAA's institutional strengthening will be directed to boosting its managerial capacity through: (i) implementation of SIAFI in

- SANAA and SIAFI's UEPEX module in the Development Division; (ii) implementation of an automated system for planning bids and purchases of goods and services; and (iii) training for personnel in carrying out these functions. To mitigate the risks associated with execution of this operation, SANAA will add consultants to its Development Division.
- 2.13 **Financial feasibility.** A financial feasibility analysis was performed of 16 rural communities with an average of 161 connections. The methodology employed indicates that these projects are financially feasible. The methodology will be established in the Operating Regulations, and is based on the following principles: (i) operating income from sales should be sufficient to cover the costs of operation, maintenance, management, and replacement of short-term assets; and (ii) income from sales should make up 85% or more of total income. The water boards will be encouraged to establish a reserve fund equivalent to six months of O&M, which will be capitalized annually with small cash surpluses generated during operation of the systems, so that they will be in a position to respond to different financial contingencies.
- 2.14 Average operating, maintenance, and administration costs will vary depending on the type of system—i.e. gravity or pumped. For gravity systems, operating, maintenance, and administration costs are an estimated US\$1,300 a year. This figure typically includes the salary of the plumber, chemicals (chlorine), accessories, and administration costs and per diems. The average estimated cost for a pumped system is US\$3,600 a year. Unlike gravity systems, energy contributes substantially to costs. Accordingly, meters will be installed for all users of pumped systems. Meters are estimated to cost US\$30 each.
- 2.15 **Community development.** A series of activities will be carried out to create capacity in the beneficiary communities to administer, operate, and maintain the systems and provide sanitary and environmental education and instruction in the adequate use of water and sanitation services. The following will be provided: (i) workshops on community organization that will include participation issues such as sensitization to the importance of paying for the services, participatory design of technical solutions and the corresponding rates, and participation by women in decision-making; (ii) workshops on laws and regulations that will cover aspects of the framework law, water board regulations, and legal status; (iii) workshops on system administration (for the members of the boards) that will include administrative controls, management of account books, rates, transparency, accountability, and access to information; (iv) O&M workshops (for plumbers and board members) that will include O&M of the systems in stages, water quality, disinfection with chlorine; and (v) workshops on sanitary and environmental education in schools and communities that will include personal hygiene with emphasis on hand washing, sanitation in the home, adequate use of water in the home, use and maintenance of latrines, trash control, wastewater control, and protection and conservation of water sources.

- 2.16 **Sustainability of the systems.** For budgetary reasons, SANAA has lost much of the capacity of its OMT system to provide technical assistance to the water boards after the systems are built. The problem will be mitigated by: (i) updating the SIAR, which can be used to monitor the condition of the systems that have been built; and (ii) establishing and strengthening (training and equipment) of the AJAMs. Each AJAM will have and manage a chlorine bank that will provide basic inputs for the water boards. The program will also finance at least two pilot projects to test sustainability models. Each pilot project will establish a technical assistance network to support the boards based on the OMT model. The financing will cover the costs of consulting services to design and publish the model, the salary of the OMTs during the first year, and 50% of the salaries of the OMTs in the second year.

III. EXECUTION PLAN

A. Execution arrangement

- 3.1 **Executing agency.** Under the mandate conferred by the framework law, SANAA, in its capacity as the technical agency supporting the water and sanitation sector, will implement the program in accordance with the execution mechanisms described in paragraph 3.3. SANAA will execute the program through its Development Division, which has extensive experience implementing rural water and sanitation projects. The Development Division operates with a central office and nine regional offices (divisions) located in strategic cities. The management division, the planning and training directorate, and the administrative and accounting units in charge of financial processes, purchasing and supplies, accounting support, and other areas operate out of the central office. Each regional division has physical installations, furniture, equipment, vehicles, depots, and human resources, including an engineer, technicians, and administrative and support staff. All this personnel will be at the program's disposal.
- 3.2 For program execution, SANAA will designate a full-time coordinator who will be responsible for ensuring that the program attains its objectives in the terms stipulated in the Operating Regulations. Apart from the coordinator, SANAA will establish a core work team to include: a planning and control specialist, a water and sanitation specialist, a procurement specialist, a financial specialist, a legal specialist, a gender and community development specialist, a social communication specialist, and an environmental specialist. In the event that SANAA does not have the required specialists on its existing staff, professionals and/or consulting services can be contracted with program resources to complete or complement the team. Results-based contracts will be used for all program consultants, in keeping with terms of reference and profiles agreed on with the IDB.
- 3.3 **Execution mechanisms.** Execution of the water and sanitation projects and implementation of training activities and support for the water boards will be carried out under two arrangements: (i) the SANAA model (paragraph 1.5); and

(ii) through private contracts with firms or NGOs with experience in building rural water systems. In both cases, the works will be supervised by contracting specialized supervisory firms. Under the SANAA model, the works will be executed by basic work teams, consisting of a project engineer, supported by three water and sanitation technicians (WSTs). Each WST can work directly and simultaneously on three projects. Accordingly, each work team led by a project engineer will be capable of handling nine projects simultaneously. A works foreman will be contracted for each project carried out under this arrangement to take charge of the construction process, with support from assistant foremen, masons, and/or the community.

- 3.4 **Operating Regulations.** The Development Division is preparing Operating Regulations based on the regulations and guidelines it uses for its programs and on the agreements reached during the missions and the results of the consulting services to strengthen SANAA's institutional capacity. The Operating Regulations will include but not be limited to: (i) project eligibility and prioritization criteria; (ii) bidding, contracting, and works supervision processes; (iii) description of the mechanisms for coordination with ERSAPS and for program control, planning, and monitoring; and (iv) description of the project cycle and the disbursement process (see [link](#)). **Approval of the Operating Regulations, to include a fiduciary management and internal control manual, will be a condition precedent to the first disbursement.** The project eligibility criteria are shown in Table III-1.

Table III-1. Project eligibility conditions
Benefit communities with fewer than 2,000 inhabitants and more than 20 houses.
Have a water source with all the necessary permits, licenses, and rights-of-way.
Rehabilitation and expansion projects must be in category D (SANAA nomenclature).
50% of the projects will be located in the Gulf of Fonseca (Choluteca and Valle), the west (Santa Bárbara, Ocotepeque, Copan, and Lempira), and the north (Atlántida and Colón).

- 3.5 **Procurement.** Annex III contains the procurement plan for the first 18 months. All procurements to be made during a given period must be included in the procurement plan approved by the IDB and will follow the methods and fall within the ranges established therein. Program procurements will be reviewed ex ante until such time as the evaluation of the executing agency's managerial capacity warrants a change to ex post evaluation. Procurements of goods and services, civil works, and consulting services paid for in full or in part with program funds will be carried out in accordance with the IDB policies in documents GN-2349-9 and GN-2350-9. International competitive bidding (ICB) will be used for works costing US\$1.5 million and over. Procurements costing under US\$1.5 million but over US\$150,000 will be made through national competitive bidding (NCB) and price comparison of three quotes will be used for smaller contracts. For goods, ICB will be used for purchases costing US\$150,000 and over, NCB for goods between

US\$25,000 and US\$150,000 and price comparison for contracts for under US\$25,000. The shortlists of consulting firms for services up to US\$200,000 may comprise entirely national firms.

- 3.6 **Advances.** The IDB will advance funds from the financing to the executing agency. The maximum amount of each advance will be established by the IDB and will be based on the program's liquidity requirements. At no time may an advance of funds exceed the amount required to finance expenditures for a period of up to six months, in accordance with the annual work plan, the procurement plan, the financial programming, the cash flow, and the capacity demonstrated by the executing agency to efficiently administer the funds. The IDB may: (i) increase the maximum amount of an advance in the event immediate cash requirements warrant, if so requested and justified by the financial programming and the cash flow; (ii) make a new advance of funds when at least 80% of the total balance accumulated from earlier advances has been justified; (iii) reduce or cancel the accumulated total balance of the advances in the event it is determined that the funds have not been used or duly justified in a timely manner. The executing agency will attach a conciliation of the advance payments to every disbursement request it presents to the IDB.

B. Monitoring and evaluation

- 3.7 **The monitoring and evaluation arrangements** will include: (i) the procurement plan; (ii) the AWP; (iii) the annual verification of fulfillment of the targets established in the results matrix; and (iv) the semiannual reports. These reports will describe: (i) the activities carried out under the program and progress in execution; (ii) an evaluation of the results matrix; (iii) an evaluation of the procurement plan; (iv) an evaluation of the AWP; (v) an evaluation of the risk matrix; (vi) monitoring and evaluation of the institutional strengthening plan; and (vii) any other information requested by the IDB. Program performance will be evaluated on the basis of the indicators established in the results matrix. The beneficiary will present for the Bank's approval a report within 30 days after the following evaluations: (i) midterm evaluation 30 months after the closing date of the agreement or when 50% of program resources have been committed; and (ii) final evaluation, when 90% of program resources have been committed.
- 3.8 **External audits.** During the program execution period, the beneficiary will present the program's consolidated annual financial statements to the IDB within 120 days after the end of the respective fiscal year. The audits will be performed by a firm of independent accountants acceptable to the IDB and based on the guidelines established in the terms of reference for external auditing of IDB-financed projects. As a special execution condition, when the first execution arrangement described in paragraph 3.3 is used, the independent firm of public accountants referred to in Article 3.01 of the General Conditions will also perform a concurrent audit of the status of the inventories of materials and the unit costs of the systems built with program funds every four months for three four-month periods after the new inventory control and unit cost allocation system has been implemented. These

reports are to be presented within 60 days after the end of the respective four-month period (paragraph 2.8).

RURAL WATER AND SANITATION PROGRAM

HO-X1017

CERTIFICATION

I hereby certify that this nonreimbursable investment operation was approved for financing under the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW) at the 5 October 2009 meeting of the Executive Committee of the Spanish Cooperation Fund for Water and Sanitation (FCAS) through a letter dated on 20 June 2011 and signed by Mr. Adriano García-Loygorri, Head of the Department of the Cooperation Fund for Water and Sanitation of the Spanish Agency for International Development Cooperation (AECID) of the Ministry of Foreign Affairs and Cooperation.

Also, I certify that resources from the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW) are available for up to US\$25,000,000 (twenty-five million United States dollars) in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of 12 (twelve) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be regarded as cancelled, and signature of a new certification will be required to renew the reserve. The commitment and disbursement of these resources shall be made only by the Bank in United States dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own country, who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified hereinabove for the implementation of this program. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

(Original Signed)

6/22/2011

Marguerite S. Berger
Chief
Grants and Cofinancing Management Unit
VPC/GCM

Date

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	The intervention contributes to the lending program to small and vulnerable countries , as well as, to poverty reduction and equity enhancement.		
Regional Development Goals	The intervention contributes to infrastructure for competitiveness and social welfare by supporting reductions in the incidence of waterborne diseases (per 100,000 inhabitants).		
Bank Output Contribution (as defined in Results Framework of IDB-9)	The intervention contributes to the goal of households with new or upgraded water supply and households with new or upgraded sanitary connections.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2475	The water and sanitation sector does not form part of the priority areas in the CS most recently approved. It does form part of the CS presently under preparation.	
Country Program Results Matrix	GN-2617	The project is included in the 2011 Country Program Document. It contributes to the reduction in the prevalence of parasitic infections in beneficiary communities; and to 200,000 rural residents having new potable water and sanitation connections, and 20,000 having improved water and sanitation services.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	8.0		10
3. Evidence-based Assessment & Solution	6.5	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	5.6	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Medium		
Environmental & social risk classification	B		
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	yes	The project relies on the use of financial management systems.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	yes	Train women to operate and maintain the water and sanitation systems and be members of the Water Committees.	
Labor	yes	Skills enhancement in the executing agencies.	
Environment	yes	Educating beneficiaries on the efficient use of water and on the use of individual sanitary solutions.	
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 HO-T1122: "Preparation of the Rural Water Program in Honduras".	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.			

The lack of access to adequate water and sanitation services by the rural population in Honduras is significant, with a deficit in coverage of 22.8% for potable water services and 20.3% for sanitation services. Additionally, 22% of the systems in rural area are deteriorated and require repair. The factors that have contributed to these problems include: lack of tariffs payments by users; lack of capacity and technical and institutional support by SANAA; lack of budgetary resources; and exit of external donors.

The POD presents a solid diagnosis, although the sources of information used in the diagnosis are not presented. The problems of the rural water and sanitation systems are clearly identified as are most of the factors contributing these problems. However, the reasons for the lack of tariff payments by users and the fact that the communities do not set tariffs at levels that cover the systems' operation and maintenance expenses is not explained. The magnitude of deficiencies are provided and the proposed interventions are clearly linked to the problems that are identified in the diagnosis.

The results matrix is very well formulated. It has vertical logic, and the outcomes and outputs are clearly stated. All indicators are SMART, have baselines and targets and sources of data. The project was analyzed using a cost-benefit analysis which was rigorously undertaken. All economic benefits were adequately quantified, the costs used reflect real resource costs, assumptions were spelled out and a sensitivity analysis was undertaken. The operation will be evaluated using a reflexive methodology and an ex-post cost-benefit analysis. The project has a monitoring and evaluation plan that includes some of the key activities for this process, as well as the identification of the entity responsible for the activity and the costs involved. The risks identified as being the most severe are development risks (execution capacity of the Development Division), social and environmental sustainability risks (lack of technical, institutional and/or financial support to the Water Committees from the responsible entities, and low capacity of the SANAA for environmental management) and public management and governance risks (limited participation of the beneficiaries). Mitigation measures are presented for each risk as well as indicators to monitor its implementation.

RURAL WATER AND SANITATION PROGRAM (HO-X1017)

RESULTS MATRIX

GENERAL OBJECTIVE	To increase and improve access to water and sanitation services in rural communities with fewer than 2,000 inhabitants.
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IMPACT INDICATORS	BASELINE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TARGET	MEANS OF VERIFICATION/COMMENTS
Adequate water coverage ¹ in rural communities with fewer than 2,000 inhabitants	77.2%	0.63%	0.70%	0.70%	0.45%	79.68%	National Statistics Bureau's (INE) Permanent multipurpose household survey (EPHPM)
Adequate sanitation coverage ² in rural communities with fewer than 2,000 inhabitants	79.7%	0.61%	0.68%	0.68%	0.44%	82.11%	National Statistics Bureau's (INE) Permanent multipurpose household survey (EPHPM)

COMPONENT 1: WATER AND SANITATION PROJECTS							
OUTPUTS	BASELINE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TARGET	MEANS OF VERIFICATION/COMMENTS
New water systems in rural communities with fewer than 2,000 inhabitants	0	22	34	34	33	123	Works inspection reports/Semiannual program executing unit report ³
Upgraded water systems in rural communities with fewer than 2,000 inhabitants ⁴	0	7	7	6	0	20	Works inspection reports/Semiannual program executing unit report
Individual sanitation solutions built (latrines) in rural communities with fewer than 2,000 inhabitants	0	4,000	4,500	4,500	2,900	15,900	Works inspection reports/Semiannual program executing unit report
School water and sanitation modules	0	55	60	60	35	210	Works inspection reports/Semiannual program executing unit report/Acceptance certificates for the works at the beneficiary schools
Training workshops on community participation (for the community)	0	58	82	80	66	286	Semiannual program executing unit report ⁵
Training workshops on water laws and regulations (for water management boards)	0	58	82	80	66	286	Semiannual program executing unit report ⁶

OUTPUTS	BASELINE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TARGET	MEANS OF VERIFICATION/COMMENTS
Training workshops on system management (for water management boards)	0	58	82	80	66	286	Semiannual program executing unit report ⁷
Training workshops on system operation and maintenance (for plumbers)	0	58	82	80	66	286	Semiannual program executing unit report ⁸
Workshops on sanitary and environmental education (for the community)	0	87	123	120	99	429	Semiannual program executing unit report ⁹
Technical designs for rural water systems	0	20	20	20	5	65	Semiannual program executing unit report
OUTCOMES	BASELINE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TARGET	MEANS OF VERIFICATION/COMMENTS
Households with access to adequate water service in rural communities with fewer than 2,000 inhabitants	639,974	643,974 (4,000)	648,474 (4,500)	652,974 (4,500)	655,874 (2,900)	655,874 (15,900)	National Statistics Bureau's (INE) Permanent multipurpose household survey (EPHPM)
Households with individual sanitation solutions (latrines, septic tanks, etc.) in rural communities with fewer than 2,000 inhabitants	660,968	664,968 (4,000)	669,468 (4,500)	673,968 (4,500)	676,868 (2,900)	676,868 (15,900)	National Statistics Bureau's (INE) Permanent multipurpose household survey (EPHPM)
Increase in water consumption in rural households with water solutions financed by the program (liters/person/day)	21					95/132	Socioeconomic survey performed as part of the ex post evaluation. Program executing unit report. ¹⁰
Cost of water for a typical household (US\$/m ³)	1.9					0,64	Socioeconomic survey performed as part of the ex post evaluation. Program executing unit report. ¹¹
EIRR of the projects in the sample (%)	See socio-economic link					>=12%	Ex post socioeconomic evaluation

COMPONENT 2: INSTITUTIONAL STRENGTHENING							
OUTPUTS	BASELINE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TARGET	MEANS OF VERIFICATION/COMMENTS
SIAR updated	0	0	1	0	0	1	Semiannual program executing unit report
SANAA regional and central offices equipped	0	10	0	0	0	10	Semiannual program executing unit report

OUTPUTS	BASELINE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TARGET	MEANS OF VERIFICATION/COMMENTS
Associations of municipal water boards created	0	15	20	20	15	70	Semiannual program executing unit report
Chlorine banks created	0	15	20	20	15	70	Semiannual program executing unit report
Pilot tests of sustainability	0	-	-	1	1	2	Semiannual program executing unit report
Design and construction standards for water and sanitation systems updated	0	-	1	-	-	1	Semiannual program executing unit report
OMT and WST training manuals prepared	0	1	-	-	-	1	Semiannual program executing unit report
Prefeasibility manuals for systems updated	0	1	-	-	-	1	Semiannual program executing unit report
OUTCOMES	BASELINE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TARGET	MEANS OF VERIFICATION/COMMENTS
Water systems operating up to design specifications ¹²	1,855	29	41	40	33	143	Regional reports by SANAA/Semiannual program executing unit report/consultant for midterm evaluation/consultant for final evaluation
Water boards financially sustainable ¹³	3,425	29	41	40	33	143	Regional reports by SANAA/Semiannual program executing unit report/consultant for midterm evaluation/consultant for final evaluation
Municipios with regulatory mechanisms (local supervision and control units created)	61	14	14	0	0	89	Semiannual program executing unit report and ERSAPS reports

1. In Honduras, adequate access to water service is defined as all households with access to a public or private collective service (urban area) and all access to a piped system or well (rural area).
2. In Honduras, access to an adequate sanitation system in urban areas is defined as a toilet connected to a sewer system or a septic tank. In rural areas, an adequate sanitation system is defined as a toilet connected to a sewer system or a septic tank, or discharging into a river, lagoon, or the sea; a latrine discharging into a river, lagoon, or the sea; a latrine with a hydraulic seal connected to a septic tank or to a cesspit. This definition is used in the program for statistical purposes only. The program does not sanction discharges into bodies of water contrary to the IDB's Basic Environmental Sanitation Policy (OP-745) or its Environment and Safeguards Compliance Policy.
3. The semiannual reports that the executing agency, specifically the SANAA Development Division, will present to the Bank as part of its responsibilities will contain the activities carried out under the program and progress in executing them, for the corresponding six-month period. Those reports will be used to monitor the progress made on the indicators in the Results Matrix.
4. A system will be considered upgraded by the intervention when there is an increase in water quantity (liters/person/day) and/or water quality (according to national standards).

OUTPUTS	BASELINE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TARGET	MEANS OF VERIFICATION/COMMENTS
5. The community participation workshops include discussion of the importance of paying for the service, gender, and participation (all the topics will be discussed at two events).							
6. The workshops on laws and regulations include discussion of the framework law for the water and sanitation sector, regulations governing the water and sanitation boards, legal status (two events will be held).							
7. The workshops on system management include administrative controls, account book management, rates, transparency, accountability, and access to information (two events will be held).							
8. The operation and maintenance workshops include training for plumbers in operation and maintenance of the systems in stages, water quality, water disinfection with chlorine (two events will be held).							
9. The workshops on sanitary and environmental education in schools and the community include personal hygiene with emphasis on hand washing, sanitation in the home, adequate use of water in the home, use and maintenance of latrines, trash control, wastewater control, protection and conservation of water sources (three events will be held).							
10. According to the design specifications for each project.							
11. According to the rate structure for each project.							
12. A system is considered to function up to design specifications when the specifications governing water quantity, quality, and pressure are met.							
13. A water board is considered financially sustainable when its income is higher than its expenditures.							

**RURAL WATER AND SANITATION PROGRAM
(HO-X1017)**

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Honduras

Project No.: HO-X1017

Name: Rural Water and Sanitation Program

Executing agency: The Republic of Honduras through the Servicio Autónomo Nacional de Acueductos y Alcantarillados [Autonomous National Water and Sanitation Service] (SANAA)

Prepared by: Nalda Morales (Financial Management) and Juan Carlos Martell (Procurement)

I. EXECUTIVE SUMMARY

- 1.1 As part of the design of the operation, an institutional capacity assessment was made of the executing agency, applying the ICAS methodology, which concluded that the level of risk was substantial. The assessment identified the following risks: (i) weak or nonexistent management control information systems and methodologies; (ii) absence of formalized procedures and financial management and procurement information systems; and (iii) internal control system not yet implemented in accordance with the country's internal control standards. An update of the risk management exercise for the project is pending, which will be evaluated during execution to propose any necessary strengthening activities and modifications to the fiduciary arrangements.
- 1.2 Apart from the risks identified in the assessment, the project will face an additional risk related to the management of inventories of materials and, therefore, there is a risk of inadequate handling, deterioration, loss or improper use that requires specific controls. The use of the materials is linked to the models of the systems to be built, for which reference unit costs are available based on SANAA's experience in building works of this kind. Inventory control is currently performed with the aid of a specific information application. SANAA also uses an information application to calculate the unit cost of the systems built. Both applications are considered obsolete by the officials who participated in designing the operation and they expressed an interest in acquiring new ones for these tasks that would contribute to the institutional strengthening of the executing agency by replacing two tools that are necessary for its normal activities.
- 1.3 Analyses of Honduran public financial management systems show considerable progress toward good international practices and standards, mainly implementation of SIAFI and the single treasury account (CUT) and decentralization of the treasury

- function. At present, the portfolio is managed through budget, treasury, and accounting subsystems, and reports on projects with external financing are generated by the SIAFI/UEPEX module. SIAFI also contains a 'warehouse' subsystem for inventory control; however it is in the testing stage and its use for project purposes can only be studied once project execution has progressed. In the meantime, it will be necessary to use the current inventory system.
- 1.4 Honduras presents a fiduciary risk with a general classification of HIGH. As the result of country financial management risk identified as MEDIUM and procurement risk identified as HIGH, as determined in the recent analysis using the OECD/DAC methodology, this classification indicates that country procurement systems cannot be used for the proposed operation.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 At present, the executing agency does not use SIAFI in real time; transactions are processed using an accounting application that issues reports that are consolidated in spreadsheets to regularize quarterly budget execution. The accounting, inventory, and cost systems are obsolete and are supported by parallel manual processes, which makes these systems vulnerable and susceptible to errors.
- 2.2 SANAA executed loan 917/OP-HO, but it does not have staff that is qualified in the fiduciary management of projects, since disbursements were handled by personnel from the institution who were unable to make the knowledge gained from IDB operations take hold, and it has no staff trained in procurements following IDB procedures. It will therefore be necessary to contract qualified personnel for fiduciary management.

III. ASSESSMENT AND MITIGATION OF THE FIDUCIARY RISK

- 3.1 The financial risk will be mitigated by implementing SIAFI in SANAA and in the project. Use of the country system will make it possible to do away with the existing accounting system and parallel manual procedures. Payments will be made through direct bank transfers to suppliers. A fiduciary management and internal control manual must also be introduced that describes the agreed organizational structure, process flows, logistical procedures for managing inventories and control of individual costs in water systems, and administrative and accounting procedures for project execution. A chart of accounts listing SIAFI's budget and accounting structure will be drawn up. The risk will also be mitigated by introducing a guide for internal control and contracting a financial specialist to work exclusively on the project. Owing to its characteristics, the project will also require a general accountant and a cost accountant.
- 3.2 As for procurements, the risk will be mitigated by contracting personnel that specialize in purchasing following IDB procedures, who will work out of the Development Division. Workshops will also be held to train contracted personnel and SANAA staff in procedures for procurements financed by the Bank and support

will be provided for an automated procurement planning and monitoring system for the project.

IV. ASPECTS TO BE INCLUDED IN THE SPECIAL CONTRACTUAL CONDITIONS

- 4.1 To streamline negotiation of the contract by the project team, mainly by LEG, agreements and requirements to be included in the special conditions are presented below:
- a. The program Operating Regulations, including the fiduciary management and internal control manual.
 - b. The currency of the operation will be the U.S. dollar. The exchange rate agreed on with the executing agency will be the official buying rate published by the Central Bank of Honduras at the time the payment is made.
 - c. Annual financial and concurrent audits will be performed, in accordance with existing model terms of reference.
 - d. The firm named in the General Conditions to audit the program's financial statements will also review and report on complementary financial information, cost accounting for the project, the records and accounts for the counterpart in kind, and the project's internal control system. A special concurrent audit will be performed of project inventories and costs, with reports every four months. This condition will be kept in place for three four-month periods following implementation of the new inventory and cost control system.
 - e. Consultants will be contracted to strengthening the Development Division, based on an agreed profile and using a standard model contract agreed on with the Bank.
 - f. The procurement policies to be used in this operation are the IDB's Policies for the Procurement of Goods and Works (document GN-2349-9) and its Policies for the Selection and Contracting of Consultants (document GN-2350-9).

V. PROCUREMENT AGREEMENTS AND REQUIREMENTS

- 5.1 The fiduciary agreements and requirements for procurement will establish provisions that apply to all project procurements.

1. Procurement

- 5.2 **Procurement of works, goods, and nonconsulting services:** Contracts for works, goods, and nonconsulting services¹ generated under the project and subject to

¹ Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document [GN-2349-9](#)). Services other than consultant services will be treated like goods.

international competitive bidding (ICB) will be carried out using the standard bidding documents issued by the Bank. Procurements subject to national competitive bidding (NCB) will be carried out using national bidding documents agreed on by the Honduran government and the Bank and officially posted on the Internet site of the Oficina Normativa de Compras y Adquisiciones del Estado [National Procurement Office] (ONCAE). Review of the technical specifications for procurement during preparation of the selection processes is the responsibility of the project sector specialist.

- 5.3 **Procurement of information technology systems:** Information technology equipment and systems will be procured to strengthen SANAA. The computer equipment to be procured is standard, not technologically complex, and includes personal computers, information systems, and printers.
- 5.4 **Selection and contracting of consultants:** Consulting services generated under the project will be contracted using the standard request for proposals. The review of the terms of reference for consulting contracts is the responsibility of the project sector specialist.
- 5.5 **Selection of individual consultants:** There will be cases in which the services of individual consultants may be requested through local or international publicity with a view to establishing a shortlist of qualified individuals.
- 5.6 **Recurrent costs:** These are operating and maintenance costs necessary to run the project during its useful life and cover expenditures for materials and office supplies, which will be financed by the project out of the annual budget approved by the Bank. They will be made following procedures agreed on with the Bank in the Operating Regulations. In addition, recurrent costs include the costs of consultants contracted to assist the executing agency during the execution period, who will be selected following policy in document **GN-2350-9** which governs the operation. The operating costs do not include the salaries of public employees.
- 5.7 **Other:** The program will finance per diems for technical staff to supervise the works financed, personnel from the Development Division, and technical staff from SANAA. The Operating Regulations should contain a procedure for the calculation and payment of per diems.

2. Thresholds (US\$ thousands)

Works			Goods			Consulting services	
ICB	NCB	PC	ICB	NCB	PC	International publicity	Shortlist 100% national
Over US\$1.5 million	US\$150,000 to US\$1.5 million	US\$150,000 and under	Over US\$150,000	US\$ 25,000 to US\$150,000	US\$25,000 and under	US\$200,000 and over	Under US\$200,000
Ex post review threshold							
Works			Goods			Consulting services	
The program does not provide for ex post reviews; they may be included in subsequent reviews.			All contracts for goods and nonconsulting services will be reviewed ex ante by the Bank.			All consulting contracts will be reviewed ex ante by the Bank.	

Note: The thresholds for ex post reviews are applied in function of the fiduciary capacity of the executing agency and may be modified by the Bank as that capacity changes.

3. Main procurements

Contract description	Procurement method	Estimated date	Estimated cost
Goods			
ICB for 29 works in the first year of execution, lots for pipes, accessories, valves, reinforcing steel, toilets, roof tiles, framing for latrines	ICB	Year 1	3,462,954
ICB for 41 works in the second year of execution, lots for lots for pipes, accessories, valves, reinforcing steel, toilets, roof tiles, framing for latrines	ICB	Year 2	4,493,499
ICB for 40 works in the third year of execution, lots for pipes, accessories, valves, reinforcing steel, toilets, roof tiles, framing for latrines	ICB	Year 3	3,980,332
ICB for 33 works in the fourth year of execution, lots for pipes, accessories, valves, reinforcing steel, toilets, roof tiles, framing for latrines	ICB	Year 4	2,464,326
ICB procurement of construction tools and hardware	ICB	Year 1	300,000
Procurement of educational materials for training workshops	NCB	Year 1	62,681
Procurement of fuel, lubricants, and maintenance for works, and training workshops	Several PCs	Ongoing	633,409
ICB purchase of hardware and software for program execution and the institutional strengthening of SANAA	ICB	Year 1	328,000
ICB purchase of vehicles and motorcycles	ICB	Year 1	336,000
Nonconsulting services			
Construction workers first year	Several PCs	Year 1	474,144
Construction workers second year	Several PCs	Year 2	578,108
Construction workers third year	Several PCs	Year 3	510,376
Construction workers fourth year	Several PCs	Year 4	284,302
Consulting services			
Consulting firm to supervise the works	Several QCBS	Year 1	1,045,000
Design of works for year two	Several NICQ	Year 1	527,714
Consulting services to strengthen the Development Division	Several NICQ	Year 1	800,000
Consulting services for analysis, design and implementation of the information platform, and the SIAR	QCBS	Year 1	100,000
Consulting services to prepare design and construction standards for water and sanitation systems	QCBS	Year 1	158,000

4. Procurement supervision

5.8 The Bank will review consulting contracts and procurements of goods ex ante.

5. Special provisions

- 5.9 At its discretion, the Bank may change the kind of procurement supervision based on experience with execution and improvements in institutional capacity, or fiduciary visits conducted.

6. Records and files

- 5.10 SANAA will maintain files of the original documentation and project records through its Development Division. The consultants mentioned in the Operating Regulations as bearing responsibility for program procurements will answer for the integrity of the processes. It is recommended that the executing agency document internal work flows and separation of functions in an annex to the project's Operating Regulations.

VI. FINANCIAL MANAGEMENT

1. Programming and budget

- 6.1 The central government has implemented the integrated financial administration system (SIAFI) and the single treasury account (CUT) and is in the process of extending them to public sector institutions as established in existing regulations. The budget for projects with external financing is processed in the budgets subsystem, and reschedulings and expansions do not require legislative approval. An agreement and modification of the corresponding quarterly payment, approved by the Department of Finance, is sufficient.

2. Accounting and information systems

- 6.2 The accounting subsystem is used by central government institutions. Financial reports and project accounting are performed using the SIAFI/UEPEX model which is fed by the other SIAFI subsystems. In 2011, the government made it mandatory to use cash-based accounting, international accounting standards (IAS), and international financial reporting standards (IFRS).

3. Disbursements and cash flow

- 6.3 SANAA will open and manage a special account in the Central Bank of Honduras in the project's name. The funds will be transferred to the single treasury account (CUT) from where they will be transferred to passbooks for payments to suppliers. The Bank will disburse the financing to the executing agency in the form of advance payments. The maximum for each advance will be established by the Bank and may not exceed the sum required to finance expenditures during a period of up to six months, in accordance with the flow of funds required for those purposes and the capacity demonstrated by the executing agency to administer the financing efficiently.

4. Internal control and internal auditing

- 6.4 According to the institutional capacity assessment, the executing agency's internal control system is weak and therefore the responsibility for evaluating the internal

control system for the project will be borne by the firm of external auditors contracted to audit the project.

5. External control and reports

- 6.5 Under the Law governing the High Court of Auditors, external control is its responsibility. However, due to existing technical and financial constraints, the external auditing function for this operation will be performed by the independent firm of auditors contracted for that purpose.
- 6.6 The financial agreements and arrangements to be considered are:
- a. Implement SIAFI and SIAFI/UEPEX at the start of execution and the inventory and cost control system when the execution arrangement described in paragraph 3.3 of the Proposal for Operation Development is applied.
 - b. After the first execution arrangement described in paragraph 3.3 of the Proposal for Operation Development is applied, a concurrent audit will be performed by the independent firm of public accountants referred to in Article 3.01 of the General Conditions every four months, to the Bank's satisfaction, of materials and unit costs of the systems built with program funds, which will continue for three four-month periods after implementation of the project's new inventory control and cost allocation system.
 - c. Obtain annual financial auditing services.
 - d. The standards to be used in this operation are the Financial Management Policy for IDB-financed Projects (document OP-273-1) and the Financial Management Operational Guidelines for IDB-financed projects (document OP-274-1).

6. Financial supervision plan

- 6.7 The Bank will supervise implementation of the national SIAFI and SIAFI's UEPEX module. It will review the auditors' reports and action plans to address the findings, as well as the implementation and monitoring of actions to mitigate the risks identified during on-site reviews at the offices of the executing and co-executing agencies. In addition, it will conduct desk reviews. Supervision will be performed by the fiduciary specialist in financial management assigned to the operation, with support from the operations analysts and consultants when necessary and resources are available.

7. Execution mechanism

- 6.8 SANAA will execute the program through its Development Division, which has extensive experience in executing projects in rural areas. The Development Division operates with a central office and nine regional offices (divisions) located in strategic cities. Each regional division has physical installations, furniture, equipment, vehicles, depots, and human resources, including an engineer, technicians, and administrative and support staff. All this personnel will be at the program's disposal. For fiduciary management of the program, a coordinator will be contracted who will report directly to SANAA's Development Division. The

division will also contract a specialist in procurement and contracting, a financial specialist, and a general accountant. Program interventions will be governed by the Operating Regulations which will include a fiduciary management and internal control manual as an annex. The operation does not include co-executing agencies and the funds will be managed by SANAA in a special project account through the single treasury account mechanism.

8. Other agreements and financial management requirements

- 6.9 Periodic monitoring will be performed of the actions to mitigate the fiduciary risks identified in the project's risk management plan. The strengthening activities needed to provide reasonable assurances of the proper and efficient use of resources will be proposed and any necessary modifications will be made to the fiduciary arrangements.