

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

CENTRAL DISTRICT WATER AND SANITATION SERVICES REFORM PROGRAM

(HO-L1207)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Omar Garzonio (WSA/CPN), Project Team Leader; Keisuke Sasaki (INE/WSA) and Alfred Grunwaldt (CSD/CCS), Alternate Project Team Leaders; Manuela Velásquez and Marilyn Guerrero (INE/WSA); Nadia Rauschert and María Cecilia del Puerto (VPC/FMP); Alejandro Aguiluz (CID/CHO); Esteban de Dobrzynski (LEG/SGO); and Sisi Larrea (INE/INE).

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.

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING.....	1
	A. Background, problem addressed, and rationale.....	1
	B. Objectives, components, and cost.....	10
	C. Key results indicators	12
II.	FINANCING STRUCTURE AND MAIN RISKS.....	13
	A. Financing instruments	13
	B. Environmental and social risks	14
	C. Fiduciary risks	14
	D. Other key issues and risks.....	14
III.	IMPLEMENTATION AND MANAGEMENT PLAN	15
	A. Summary of implementation arrangements	15
	B. Summary of arrangements for monitoring results	15
IV.	POLICY LETTER	16

ANNEXES	
Annex I	Development Effectiveness Matrix – Summary
Annex II	Policy Matrix
Annex III	Results Matrix

REQUIRED LINKS	
Link 1	Policy letter
Link 2	Means of verification
Link 3	Monitoring and evaluation plan

OPTIONAL LINKS	
Link 1	Analysis of compliance with the Public Utilities Policy
Link 2	Climate change
Link 3	Framework Law on the Water and Sanitation Sector
Link 4	National Water and Sanitation Plan
Link 5	Tegucigalpa and Comayagüela Action Plan
Link 6	Guidelines for developing the Gender Plan

ABBREVIATIONS

AMDC	Alcaldía Municipal del Distrito Central [Municipal Government of the Central District]
COMAS	Comisión Municipal de Agua y Saneamiento [Municipal Water and Sanitation Committee]
CONASA	Consejo Nacional de Agua Potable y Saneamiento [National Water and Sanitation Council]
ERSAPS	Ente Regulador de los Servicios de Agua Potable y Saneamiento [National Water and Sanitation Service Regulator]
GDP	Gross domestic product
IDB	Inter-American Development Bank
JAA	Juntas Administradoras de Agua [Water boards]
KIF	Korea Infrastructure Development Cofinancing Facility for Latin America and the Caribbean
OECD	Organisation for Economic Co-operation and Development
PBP	Programmatic policy-based loans
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]
SEFIN	Secretaría de Estado en el Despacho de Finanzas [Ministry of Finance]
SERNA	Secretaría de Recursos Naturales y Ambiente [Ministry of Natural Resources and Environment]
UGASAM	Unidad de Gestión de Agua y Saneamiento Municipal [Municipal Water and Sanitation Management Unit]
UMAPS	Unidad Municipal de Agua Potable y Saneamiento [Municipal Water and Sanitation Unit]
USCLs	Unidades de Supervisión y Control Local [Local Supervision and Control Units]

PROJECT SUMMARY

HONDURAS CENTRAL DISTRICT WATER AND SANITATION SERVICES REFORM PROGRAM (HO-L1207)

Financial Terms and Conditions						
Borrower:	Source		%	Amount (US\$)		
Republic of Honduras	IDB (Regular OC):		17.5	US\$10,500,000		
	IDB (Concessional OC):		32.5	US\$19,500,000		
Executing agency:	Korea Infrastructure Development Cofinancing Facility for Latin America and the Caribbean (KIF):		50.0	US\$30,000,000		
Secretaría de Estado en el Despacho de Finanzas [Ministry of Finance] (SEFIN)	Total:		100	US\$60,000,000		
	Regular OC (FFF) ^(a)		Concessional OC	KIF		
Amortization period:	20 years		40 years	30 years		
Disbursement period:			1 year			
Grace period:	5.5 years ^(b)		40 years	10 years		
Interest rate:	LIBOR-based		0.25%	1.5%		
Credit fee:	^(c)		N/A	N/A		
Inspection and supervision fee:	^(c)		N/A	N/A		
Front-end fee:	N/A		N/A	0.1%		
Weighted average life:	12.75 years		N/A	N/A		
Currency of approval:	U.S. dollars					
Project at a Glance						
<p>Project objective/description: The objective of this programmatic series is to help increase access and improve the quality of water and sanitation services in the Central District through a process of reforms that permit decentralization of those services to the municipal level, thereby enhancing sector governance and management in a context of climate change and with a view to achieving water security. The objective of this first operation is to contribute to the design and enactment of legal and sector instruments. The specific objectives are: (i) to promote operational and management development so as to increase the efficiency of water and sanitation services provided by the Municipal Water and Sanitation Unit (UMAPS); (ii) to help increase the financial sustainability of services provided by UMAPS; (iii) to strengthen UMAPS planning; and (iv) to strengthen the sector framework through better governance, regulation, and management of resources in a context of climate change, and improve service delivery to better meet demand.</p> <p>This is the first loan in a series of two consecutive single-tranche operations that are technically related to one another but independently financed as programmatic policy-based loans.</p>						
<p>Special contractual conditions precedent to the sole disbursement of the loan: The first and sole disbursement of the proceeds for the first operation in the series is subject to fulfillment of the policy reform conditions set out in the Policy Matrix (Annex II), the Policy Letter (required link 1), and the remaining conditions established in the Loan Contract (paragraph 3.3).</p>						
<p>Exceptions to Bank policies: None.</p>						
Strategic Alignment						
Challenges: ^(d)	SI	✓	PI	✓	EI	
Crosscutting themes: ^(e)	GD	✓	CC	✓	IC	✓

^(a) Under the terms of the Flexible Financing Facility (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. When reviewing such requests, the Bank will take into account market conditions, operational and risk management considerations, and the concessionality of the loan, in accordance with the Bank's applicable policies.

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life 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 applicable policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Economic context.** Honduras has had one of the most dynamic economies in Latin America and the Caribbean. Between 2010 and 2017, the country's average annual economic growth was 3.7%, which is on par with the rest of Central America and surpasses the remaining countries in Latin America and the Caribbean (2%). Honduras is ranked 10th out of the 32 countries with the highest economic growth in Latin America and the Caribbean for the same period.¹ That growth was mainly driven by investment, exports, and consumption. Yet, economic growth has slowed recently, and economic activity remains closely tied to the production of primary goods and manufactured goods with low value added. In 2018, economic growth slowed to 3.7%, compared with 4.8% during the prior year. Slower growth stems from a decline in the main production-related activities and fluctuations in commodity prices. In 2018, Honduras posted a decline in sales of coffee, palm oil, and shrimp caused by a drop in international prices and access restrictions imposed by some destination markets. Meanwhile, imports rose by 8.8% year-on-year, buoyed especially by higher prices for oil and derivatives. Since 2010, bananas, coffee, and palm oil have accounted for between 40% and 57% of the country's total exports.²
- 1.2 Honduras has made progress on the path to macroeconomic stability and continues to prioritize fiscal consolidation. From 2013 to 2018, the nonfinancial public sector deficit fell from 7.5% to 1.2% of GDP. As a result of its fiscal efforts, the country improved its credit profile,³ thus stimulating foreign investment. For 2019, the government expects to keep the deficit below the ceiling established in the Fiscal Responsibility Law.⁴ In the monetary and financial arenas, prudent monetary policy and low commodity prices slowed inflation so that it remained within the Central Bank's target range of 3% to 5%; in 2017 and 2018, cumulative inflation was 4.7% and 4.2%, respectively.
- 1.3 **Institutional framework for the water and sanitation sector at the national level.** The National Autonomous Water and Sewer Service (SANAA) was formed in 1961 as the agency responsible for the development, financing, design, construction, operation, and regulation of water and sanitation services in Honduras. As a result of the State's decentralization policy, and specifically in line with the principle of subsidiarity,⁵ the sector's Framework Law (enacted in 2003) led to the following division of labor for the sector at the national level: (i) creation of a sector planning

¹ International Monetary Fund, World Economic Outlook; October 2018.

² Central Bank of Honduras. Exports. See <http://www.bch.hn/exportaciones.php>.

³ In 2016, Moody's Investors Service upgraded its rating from B3 to B2 and maintained a positive outlook. Likewise, Standard & Poor's upgraded its rating from B+ to BB-. In 2018, Moody's and Standard & Poor's maintained a positive rating of B1 with a stable outlook and BB-, respectively, for Honduras.

⁴ The Fiscal Responsibility Law establishes a threshold for the total nonfinancial public sector deficit (as a percentage of GDP) of 1.6% for 2016, 1.5% for 2017, 1.2% for 2018, and 1% for 2019 and thereafter, in addition to limits on increases in current account spending and measures to improve transparency.

⁵ The principle of subsidiarity dictates that public utilities are to be provided by the administrative unit closest to the citizens.

unit, the National Water and Sanitation Council (CONASA);⁶ (ii) creation of the National Water and Sanitation Service Regulator (ERSAPS); (iii) SANAA is directed to transfer service delivery responsibilities to the 33 municipal governments where it previously operated, including the Central District;⁷ and (iv) SANAA becomes a provider of technical assistance to the country's 298 municipios. The Framework Law stipulated that the systems could only be returned if the employment benefits of the displaced personnel were paid by the State.

- 1.4 **Challenges in the sector framework at the national level.** The sector institutions created are limited in their ability to act because they lack the necessary resources to fully assume their responsibilities. The delegated authority and exercise of governance by CONASA is tied to its capacity to formulate, organize, and direct national policy for the water and sanitation sector, so as to improve the efficiency, effectiveness, and equity of water and sanitation services by strengthening national and municipal structures. Since its creation, CONASA has taken some limited governance actions through its Executive Secretariat, notably the National Water and Sanitation Plan (PLANASA) in 2014, in which the sector's strategic pillars and coverage and financial targets were determined. However, that plan has not been monitored or updated. The reasons for this include: (i) the structure of the Board of Directors is very weak from an operational standpoint; (ii) the Board's operations are not regulated; (iii) CONASA was created as a board made up of both ministers and representatives from civil society, without an administrative structure to which a budget can be directly allocated; and (iv) there is a limited number of personnel to carry out the responsibilities of CONASA. For its part, ERSAPS does not have the capacity to fulfill its duties in all of the country's 298 municipios, including the Central District.⁸ At present, SANAA has surrendered the responsibility of providing services in 29 of the 33 municipios it originally served. The four remaining municipios are the Central District, La Ceiba, Amapala, and El Progreso. The transfer of services has not been finalized because of the difficulty financing the labor liabilities and consolidating its role as the provider of technical assistance.
- 1.5 **Institutional framework of the water and sanitation sector in the Central District.** Pursuant to the Law, the Municipal Water and Sanitation Committee (COMAS) was created in the Central District to set local policy governing services. The technical arm of COMAS is the Municipal Water and Sanitation Management Unit (UGASAM), which according to municipal policy is responsible for planning and formulating programs and projects, in addition to the temporary responsibility of supporting the transfer of services from SANAA to the municipal government.
- 1.6 **Sector economic policy in the Central District.** Substantial progress has been made of late to consolidate the decentralization of services in the Central District.

⁶ CONASA is made up of the Ministers or Deputy Ministers from the Ministry of Health, Ministry of the Interior, Justice, and Decentralization, Ministry of the Environment (MiAmbiente), and Ministry of Finance. In addition, it is comprised of the Chairman of the Honduran Municipios Association, a representative from the Water Boards (JAA), and a representative of the end users of water services. The Executive Secretary is the Manager of SANAA (for further details see [CONASA structure](#)).

⁷ The Central District is the capital of the Republic of Honduras and is comprised of Tegucigalpa and Comayagüela.

⁸ Given its limited capacity, ERSAPS is only able to receive and retain information on the services of a small number of urban service providers. Its most recent Urban Indicators report (2017 Edition) covers service providers for 16 municipios, which represent just 18% of the country's urban population.

The local authorities are aware of the role that water and sanitation services play in the city's economic development. In 2015, the Municipal Water and Sanitation Unit (UMAPS) was created with the purpose of having a services unit with administrative and financial autonomy to provide quality services. UMAPS will report to a board of directors that includes representatives from various sectors (including the Chamber of Commerce and Industry of Tegucigalpa (CCIT) and the JAAs). UMAPS is not yet a functioning unit because the labor liabilities have not been covered, as required for the transfer of services from SANAA to the Municipal Government of the Central District (AMDC), which, combined with the lack of a sound sector framework, is an impediment to improving the provision of water and sanitation services. A recent report⁹ estimated that as of April 2019 labor liabilities amount to a total of US\$85.5 million. Although UMAPS is not yet operational, the AMDC has financed investments that have immediate impacts on the delivery of services in critical areas of the Central District (such as pipe restoration and water loss controls). Services will be transferred gradually through the payment of labor liabilities by department, as established in the Framework Agreement for the Gradual Transfer of Services signed by SANAA and the AMDC.

- 1.7 **Current situation and challenges for the water and sanitation sector in the Central District.** The water and sanitation sector faces significant challenges in terms of service coverage and quality, as well as support for consolidating the institutional reform process, strengthening service providers and sector entities, and managing water resources. Of the 1.2 million inhabitants of the Central District (13% of the country's total population), only 72% have water connections, which means that 30% of the population relies on costly, low-quality alternatives such as cistern trucks, where the unit cost is 50 times higher than the amount paid by households with connections.¹⁰ Moreover, only 47% of the population has access to the sewer system, and just 17% of wastewater is treated.¹¹
- 1.8 **Outdated financial policy.** While the rates currently applied by SANAA in the Central District have remained constant in nominal terms since January 2010, inflation in the metropolitan area over the last 8 years (as of December 2018) was 54%, which evidences the need for rates to be updated. Current water and sanitation rates do not cover operating and maintenance costs, generating an estimated operating deficit of more than 10%.¹² It is estimated that there are nearly 30,600 clandestine users in the Central District, and many users have not been properly classified, which affects the company's billings.¹³ Physical losses¹⁴ are calculated at nearly 35%, which is considered high given the intermittent supply.¹⁵ Although meter coverage is 62%, only 31% of total users are actually billed based on meter readings (approximately 50% of installed meters).¹⁶ Without meters, water use charges are

⁹ PKF (2019).

¹⁰ Tegucigalpa and Comayagüela Action Plan, IDB Emerging and Sustainable Cities Initiative, 2015.

¹¹ Idem.

¹² The operating deficit ((operating expenses – operating income) / operating expenses) was 12% (US\$3.7 million or L 83.7) in 2016 (World Bank, 2018).

¹³ CETI (2018). UMAPS Business Plan.

¹⁴ Water lost through all leaks, ruptures, or overflows.

¹⁵ CETI (2018). UMAPS Business Plan.

¹⁶ UMAPS Revised Business Plan, CETI 2018.

based on fixed consumption estimates, which is a disincentive to sensible water use. The investment gap, poor management of services, low labor productivity,¹⁷ and the lack of planning and adequate charges make it necessary to develop a sector institutional framework, a management framework, planning instruments, and a financial policy to help improve and expand water and sanitation services.

- 1.9 **Lack of planning.** In this institutional context, planning is inadequate, which has affected water resource management and increased the vulnerability of the Central District to climate change. The supply of water resources does not meet the city's demand. SANAA has a production capacity in the dry season of 1.8 m³/s from its four main sources (Picacho, Los Laureles, Concepción, and Miraflores) and wells, while demand for services is approximately 4 m³/s, which results in severe service interruptions.¹⁸ During the rainy season (May to October), water is only available an average of six hours a day, while in the dry season (November to May), rationing results in water only being supplied once every three days.¹⁹ Depending on the neighborhood, the situation can be even worse. According to the 2001 master plan (outdated), the city needs to incorporate two new sources of supply before 2025 to keep up with the pace of demand. However, the most recent water source incorporated into the city's supply was the Concepción dam and treatment plant in 1992. The lack of access to water and sanitation means that the Central District has annual losses equivalent to 1.27% of GDP, affecting areas such as manufacturing and construction.²⁰
- 1.10 In addition, climate change and changes in land use are expected to affect water supply for the Central District.²¹ The decrease in water infiltration resulting from deforestation causes a reduction in the base flow, increasing surface runoff and, consequently, accelerating erosion. This is of utmost importance in the Central District where all the basins supplying water are under the influence of those phenomena because its water mainly comes from surface sources: (i) La Concepción dam, Grande River to the southwest (45% of supply, with 36 million cubic meters stored); (ii) Los Laureles reservoir, Guacerique River to the west (30% of supply, with 10 million cubic meters stored; however, it is estimated that 15% of its storage capacity has been lost due to sedimentation); and (iii) the Picacho River, La Tigra National Park (20% of supply, generating approximately 30 million cubic meters each year).
- 1.11 Given the marked fluctuation in the volume of river flow between the rainy season and dry season in this region of the country, in recent decades several dams have been built to store water and ensure its continued availability during the dry season.

¹⁷ A customary indicator of efficiency is the number of employees per connection, given that more employees mean higher administrative costs. Leading companies in the world have one employee for every 1,000 connections. Between two and three is considered a reasonable number (IDB, 2017). SANAA has 13 employees for every 1,000 connections. Concept Project Information Document - TEGUCIGALPA: WATER SUPPLY STRENGTHENING PROJECT, World Bank 2019.

¹⁸ Bases para Asistir al Gobierno Local en la Toma de Decisiones en torno a Nuevas Obras de Abastecimiento de Agua Potable para la Ciudad de Tegucigalpa 2018-2030, Pedro Serrano, 2018.

¹⁹ Tegucigalpa and Comayagüela Action Plan, IDB Emerging and Sustainable Cities Initiative, 2015.

²⁰ Análisis económico y financiero de la situación actual de los servicios públicos en Tegucigalpa, Gonzalez 2011. This analysis showed that the construction and manufacturing industries have been limited by the lack of water supply.

²¹ Vignola, et al., 2015.

However, the sedimentation levels in many of them and changes observed in the seasonality of the water cycle limit their storage capacity, resulting in storage problems for the Central District during extended periods of drought. Climate change is expected to exacerbate this problem.²²

- 1.12 In response, the Ministry of Natural Resources and Environment (SERNA), together with the Centro Agronómico Tropical de Investigación y Enseñanza [Tropical Agricultural Research and Higher Education Center] (CATIE) and the United Nations Environment Programme (UNEP) developed an adaptation strategy for the Guacerique River basin with various thematic pillars and in which a group of adaptation measures are prioritized. Specifically, this includes reforestation around water sources, reclamation of river zones, support for legal strengthening of the JAA, and organization and improvement of the presence and management of SANAA in the subbasin communities. The benefits of these actions will be magnified when implemented in the framework of basin management plans that ensure integration of actions for both mitigation and adaptation to climate change.²³ In fact, Vignola et al. (2015) indicate that the net economic benefit resulting from implementation of the Guacerique basin management plan²⁴ to supply water is approximately US\$28.6 million (in 2012 dollars) under an optimistic climate change scenario, and approximately US\$76.1 million (in 2012 dollars) under a pessimistic scenario. This estimate is based on benefits materializing between 2019 and 2035.
- 1.13 **Main causes of the problems.** The main causes of the problems related to coverage and quality of water and sanitation services in the Central District are: (i) a sector framework has not been established that makes it possible to finalize the transfer of services from the national level to the municipal level, and to ensure adequate planning, regulation, and governance (paragraph 1.4); (ii) ineffective management of services in the Central District because the company created is not operational and does not have adequate operation and management tools (paragraph 1.6); (iii) weak financial policy that prevents the necessary revenues to cover administrative, operating, maintenance, and investment costs (paragraph 1.8); and (iv) lack of effective planning instruments for the Capital District making it possible to plan the required investments in water, sanitation, urban drainage, and availability of the water supply, taking climate change into account (paragraph 1.9).
- 1.14 **Country strategy.** In 2014, CONASA approved PLANASA, which set the following strategic guidelines: (i) decentralization of services by transferring water and sanitation systems to the municipal governments, where the latter become autonomous entities; (ii) citizen participation and sector audits by establishing

²² Local climate change adaptation strategy (ELACC) in the middle basin of the Guacerique River, Honduras; Climate Change and Watersheds Program, and Development Practice Program, CATIE (2014).

²³ National Adaptation Plan, Ministry of the Environment, 2018. The water resources pillar has three objectives: (i) promote the restoration and conservation of sources that produce and supply water; (ii) improve the country's water, meteorological, morphological, and climate data; and (iii) strengthen the national framework for management of water resources with a climate change focus and from a human rights perspective.

²⁴ The national water supply company, SANAA, and ICF developed a Guacerique Basin Management Plan aimed at ensuring the long-term availability of water and reducing sediment loads so as to maximize the usefulness of the basin as a source of clean water for the Central District.

COMAS and Local Supervision and Control Units (USCLs);²⁵ (iii) institutional framework and sector governance, with a view to strengthening the powers of the sector entities so as to permit good governance; (iv) the provision of services, stipulating that service providers must ensure financial solvency, have updated rate systems that enable them to meet their growth, service quality, and efficiency targets, and promote management models that generate economies of scale and scope; (v) strengthening of service delivery capabilities, with the goal of enhancing the management capacity of providers and municipal governments; (vi) development of sustainable and climate resilient infrastructure to ensure that water supplied is suitable for human consumption, as well as to make progress in achieving universal access to water and sanitation services; and (vii) financing of the sector, which addresses the objective of ensuring budget availability to meet the targets set in PLANASA.

- 1.15 **Lessons learned.** The Bank has financed a number of policy reform programs in the region.²⁶ Lessons learned include the need to: (i) strengthen coordination between sector stakeholders and civil society; (ii) partner with and finance institutions in developing new regulatory instruments with programs for dissemination, training, and improving performance; (iii) link loan programs to reform programs so as to enhance the impacts and results of the interventions; (iv) strengthen information systems and define monitoring indicators; (v) include technical cooperation operations that support preparation of the operations, which help the sector institutions fulfill the reform commitments; (vi) continually update information sources for program monitoring and evaluation; and (vii) continue to provide assistance in these strengthening processes because achieving financial sustainability is a medium- and long-term process. The above lessons learned were inputs for preparing this operation and were taken into consideration when designing the policy matrix.
- 1.16 **Conceptual design of the program.** The program was developed to help increase access and improve the quality of water and sanitation services in the Central District through reforms that permit decentralization of those services, thereby enhancing sector governance and management in a context of climate change and with a view to achieving water security. The program has been structured around five pillars that reflect the legal requirement that the transfer of services be gradual and orderly, ensuring that the municipio and provider (UMAPS) have the necessary management, planning, financial, technical, and governance tools to assume the new responsibilities. These are: (i) macroeconomic stability; (ii) operational and management development; (iii) financial policy; (iv) planning instruments; and (v) a sector framework. Gender and climate change considerations are also addressed in the various reform outputs. The policy matrix is structured around the sector's development goals. The population benefiting from the programmatic policy-based loan (PBP) will be the 1,225,043 inhabitants of the Central District whose vulnerability to the impacts of climate change on the availability of water resources will be reduced through improvement in the provision of water and sanitation

²⁵ The USCLs are created in small municipios. However, it was decided that ERSAPS would be strengthened to enable it to regulate services in the Central District rather than creating a USCL.

²⁶ Bolivia: (4769/OC-BO, 2771/BL-BO, and 3667/BL-BO); Brazil: (3138/OC-BR); Colombia: (2064/OC-CO, 2158/OC-CO); Haiti: (3176/GR-HA); Peru: (1878/OC-PE, 1878/OC-PE-1, 2157/OC-PE, 2455/OC-PE); (1920/OC-PE, 2049/OC-PE, 2218/OC-PE); (2449/OC-PE, 2604/OC-PE, 3292/OC-PE).

services. Likewise, policies are being developed under this PBP that have a national scope due to the importance and weight of the Central District in the country.

- 1.17 **Effectiveness of sector policy reforms.** According to the Organisation for Economic Co-operation and Development (OECD),²⁷ the water and sanitation sectors are highly sensitive to and dependent on multilevel governance in a country. Water connects across sectors, places, and people, and in most cases hydrological boundaries and administrative perimeters do not coincide. These sectors are capital intensive and monopolistic, with market failures where planning, coordination, governance, and monitoring are required. The OECD defines three principles for effective water governance: (i) effectiveness, through public policies and regulations that define goals, roles, and responsibilities (adequate sector framework); (ii) efficiency, through instruments that help maximize the benefits of access to water and sanitation at the lowest possible cost, achieved through promoting financial sustainability and planning instruments; and (iii) trust and engagement, through tools that promote transparency and ensure the inclusiveness of stakeholders (effective management of services). According to the [OECD \(2010\)](#), regulatory reforms are a complement to fiscal and monetary policies in creating healthy conditions for sustainable development in the countries. Without an effective institutional framework, regulation, and management, the impacts of these sectors on health, education, and economic development are limited.
- 1.18 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is aligned with the development challenges of: (i) Social Inclusion and Equality, by strengthening governance and management and building capacities to increase and improve access to water and sanitation services in the Central District; and (ii) Productivity and Innovation, through the use of tools like Hydro-BID. It is also consistent with the following crosscutting themes: (i) Climate Change and Environmental Sustainability, through the incorporation of climate change considerations in plans (paragraph 1.21); (ii) Institutional Capacity and Rule of Law, through creation and strengthening of regulatory frameworks for better management of water and sanitation services; and (iii) Gender Equity, through the inclusion of specific gender activities in different policy reforms, as well as development of a Gender Action Plan (paragraph 1.20). The program is aligned with the Bank's Country Strategy with Honduras 2019-2022 (document GN-2944) through the dialogue area of water and sanitation where the need for institutional and operational management interventions that contribute to proper management of resources, sustainability, and quality and access to services is emphasized. In the framework of that dialogue, recent substantial progress has been confirmed in consolidating the transfer of water and sanitation services from SANAA to the AMDC. This operation is included in the update of Annex III to the 2019 Operational Program Report (document GN-2948-2). The program is also aligned with the Plan of the Alliance for Prosperity in the Northern Triangle through the strategic pillar of human capital development, by promoting reforms geared toward improving access to drinking water, and through the institutional pillar, by strengthening the capacity of the AMDC for decentralized management of water resources.

²⁷ [OECD \(2015\)](#).

- 1.19 The program is consistent with the Water and Sanitation Sector Framework (document GN-2781-8) inasmuch as it aligns with all the dimensions of success by promoting universal access to water and sanitation services, strengthening sector governance and management, and incorporating climate change, water security, and risk management considerations. The program is consistent with the objectives of the Public Utilities Policy (document GN-2716-6) insofar as it contributes to meeting basic access needs through improvements in investment planning (paragraph 1.30), and sector capacities are strengthened in the lead agency and the regulatory agency (paragraph 1.31) as well as the service provider with a business perspective (paragraph 1.28). The financial sustainability of the service provider is also ensured (paragraph 1.29). With respect to the economic evaluation, a cost-benefit estimate has been calculated for the proposed program reforms ([optional link 1](#)).
- 1.20 **Gender.** With respect to gender, the instruments currently used by the AMDC and SANAA to deliver services do not include gender considerations or have institutionalized gender policies or practices. According to the World Bank,²⁸ the participation of women in high-level positions in this sector in Honduras is 48.5% nationwide. However, in the case of SANAA, that percentage is lower at 15.2%. For technical positions, of a total of 1,318 male permanent employees, 52 are engineers and 45 are managers. In contrast, of 244 women, 21 hold technical positions and only 13 are managers. The biggest difference is at the systems operation and maintenance level where there are 705 men and only 55 women.²⁹ With respect to human resources and training in gender issues, the company has not addressed the prevention of violence or sexual harassment in the workplace. Moreover, the company offers maternity leave, but not paternity leave. Rules, regulations, and policies have not been implemented to prevent sexual harassment in the workplace, and targets have not been set for gender makeup by pay grade or department. With the above in mind, this operation incorporates specific activities in the guidelines for formulating the Human Resources Plan, the Water and Sanitation Master Plan, the Drainage Plan, and the Operation and Maintenance Plan, and it is complemented with the development of guidelines for a Gender Action Plan at the institutional level. This will ensure that the needs of both men and women will be considered in the future in the sector's public administration, as well as in the generation of works and at the operations level with concrete actions ([optional link 6](#)).
- 1.21 **Climate change.** With respect to climate change, an evaluation will be made of the surface water supply of the 26 subbasins that drain into the Central District, which are grouped into three main units converging at the Grande River or Choluteca River, including climate change scenarios. The Policy Matrix is structured around the sector's development goals and some of the commitments in the policy matrix help create adaptive capacity in the sector (e.g. the National Adaptation Plan and the Water and Sanitation Master Plans). In addition, 28% of the IDB's funding for the operation is invested in climate change adaptation activities that help create adaptive capacity in the sector, according to the [joint methodology of the multilateral development banks \(MDBs\)](#) for tracking climate change adaptation finance. Those

²⁸ World Economic Forum. 2017. The Global Gender Gap Report 2017. "Global Study on Female Employment in Water Utilities." World Bank.

²⁹ Human resources questionnaire delivered by the operations team.

resources support the IDB Group's target of increasing financing for climate-related projects to 30% of approvals by the end of 2020.

- 1.22 **Innovation.** Various policy measures took innovation considerations into account. Hydro-BID, a water resources simulation tool created by the IDB,³⁰ was used to evaluate surface water supply in the 26 subbasins. In addition, innovative technology solutions are needed to deliver services in periurban neighborhoods because of the city's topography. Accordingly, the policy measures of the Improvement Plan include creation of a Periurban Neighborhood Service Unit, which is responsible for researching and implementing those solutions.
- 1.23 **Sustainable infrastructure.** The program is aligned with the Sustainable Infrastructure for Competitiveness and Inclusive Growth Strategy (document GN-2710-5), particularly with the priority area of promoting continuous improvements in infrastructure governance to increase efficiency in the provision of services. The program also includes elements that are aligned with the Bank's General Framework for Sustainable Infrastructure (technical note IDB-TN-01388), in particular the following principles: (i) economic and financial sustainability in terms of economic and social returns by promoting service access and efficient operation of public utility companies; (ii) environmental sustainability, including climate resilience, by supporting the sustainable use of water resources and improving watershed planning to enhance water security; (iii) social sustainability by striving to increase and improve the coverage of water and sanitation services in the Central District, and by promoting gender equality through specific guidelines; and (iv) institutional sustainability by providing national and local strategies that strengthen the operations of UMAPS.
- 1.24 **Support for the sector in Honduras.** The Bank has been providing support to the water and sanitation sector for 40 years, working in the metropolitan, greater urban, and rural areas. It has promoted the national dialogue around decentralization of services, which led to the Water and Sanitation Framework Law, enacted in 2003 and still in effect. Recent operations include: (i) Potable Water and Sanitation Investment Program (1048/SF-HO) and its supplemental program (1793/SF-HO); and (ii) the Rural Potable Water Program (GRT/WS-12850-HO). Those three operations, completed between 2015 and 2018, totalled US\$80 million and supported nearly 30 urban municipios and 28 rural municipios, providing them with sanitation infrastructure and creating and strengthening municipal water and sanitation committees and social supervision and control units. Through these operations, the IDB financed the following in the Central District:³¹ (i) prefeasibility study for the Hombre River reservoir project and related works; (ii) inventory of the sewer and stormwater system in one sector of the city; and (iii) water projects in periurban neighborhoods. Within this line of action, the proposed operation seeks to support the provisions of the Water and Sanitation Framework Law, especially concerning the transfer of services from SANAA to the AMDC, providing the

³⁰ Hydro-BID: An Integrated System for Modeling Impacts of Climate Change on Water Resources. Part 2 [IDB \(2014\)](#). Since 2016, through the Hydro-BID Support Center, the tool has been implemented in 15 countries in the region and is being used as a standard tool for water resource management at various agencies such as the National Water Agency in Peru, the Water Secretariat in Ecuador, the Water Division of the Ministry of the Environment in Costa Rica, the Pernambuco Water and Climate Agency, and the Bermejo River Regional Corporation.

³¹ The total amount invested in the Central District with these operations was US\$2.5 million.

institutions with the tools needed for operational management, financial policy, planning, and sector framework strengthening in order to make concrete improvements in the quality of the services provided at present to the residents of that metropolitan area. Technical cooperation resources and resources for preparation of the operation financed most of the required inputs for the reforms carried out in this programmatic policy-based loan.

- 1.25 **Coordination with other donors.** Alongside preparation of this operation, the World Bank approved a loan ([P17046-9](#)) to support the sector and the transfer of services from SANAA to the Central District. That operation and this PBP were designed in coordination with all the institutions involved (World Bank, AMDC, SEFIN, and the IDB). In that way, substantial reforms could be included in both operations. The World Bank project is aimed at helping to increase the efficiency and reliability of water services in select areas of Tegucigalpa through infrastructure investments and policy support, while the proposed operation complements these policy measures by providing operational, financial, and planning tools for the new operating mechanism. The activities to be financed by the World Bank include improving the production capacity and efficiency of water distribution networks through the: (i) rehabilitation and optimization of treatment plants; (ii) sectorization; (iii) reduction of unaccounted-for water; (iv) strengthening of management of the Los Laureles and La Concepción reservoirs; and (v) development of tools to improve watershed management and climate resilience. The World Bank will also prepare an emergency-response operations manual, and the IDB will work together with the World Bank to develop the gender plan. The World Bank operation also includes commitments by SEFIN and the municipal government to allocate the necessary resources to cover the labor liabilities that must be settled in order to transfer services (paragraph 1.6).

B. Objectives, components, and cost

- 1.26 **Objective.** The objective of this programmatic series is to help increase access and improve the quality of water and sanitation services in the Central District through a process of reforms that permit decentralization of those services to the municipal level, thereby enhancing sector governance and management in a context of climate change and with a view to achieving water security. The objective of this first operation is to contribute to the design and enactment of legal and sector instruments. The specific objectives are: (i) to promote operational and management development so as to increase the efficiency of water and sanitation services provided by UMAPS; (ii) to help increase the financial sustainability of services provided by UMAPS; (iii) to strengthen UMAPS planning; and (iv) to strengthen the sector framework through better governance, regulation, and management of resources in a context of climate change, and improve service delivery to better meet demand.
- 1.27 **Component 1. Macroeconomic stability.** This component will focus on the consistency of the macroeconomic framework with the program objectives and will include monitoring to ensure alignment with the policy matrix.
- 1.28 **Component 2. Development of the operational and management framework for water and sanitation services in the Central District.** The objective of this component is to establish the institutional framework for the operation and management of water and sanitation services in the Central District. This will be

achieved through: (i) preparation of instruments for UMAPS to become operational, focusing on its regulations and institutional framework, organizational structure and responsibilities, management and governance, and scope of water and sanitation services to be delivered; (ii) investments to strengthen operations management with a focus on provision of water and sanitation services; (iii) establishment of a corporate governance action plan; (iv) approval of an improvement plan, including the periurban area; (v) development of guidelines for formulating the human resources plan and strengthening UMAPS with a gender focus; (vi) development of a business plan with strategic guidelines for management and operation of UMAPS; (vii) approval of a Sector Plan for Water and Sanitation in the Central District to attain the Sustainable Development Goals; and (viii) approval of guidelines for formulating the Gender Action Plan. The following commitments are trigger mechanisms for the second operation: (i) consolidation of UMAPS based on implementation of its Operating Regulations; (ii) implementation of the Corporate Governance Action Plan; (iii) establishment of an improvement agreement between ERSAPS and the municipal government; (iv) implementation of the human resources plan with a gender focus; (v) implementation of a strategic plan for UMAPS with a focus on mission, vision, and performance indicators; (vi) implementation of the Sector Plan for Water and Sanitation in the Central District; and (vii) implementation of the Gender Action Plan.

- 1.29 **Component 3. Establishment of the rate policy for water and sanitation services in the Central District.** The objective of this component is to promote the financial sustainability of the water and sanitation services of the AMDC, ensuring the sustainability of services and increasing sector investments to close the gap in access and quality of water and sanitation services in the Central District. This will be achieved through: (i) reclassification of users based on the Operating Regulations; (ii) completion of an analysis of operating and maintenance costs; and (iii) approval of an initial rate schedule with a focus on equity. Implementation of the initial rate schedule for water and sanitation in the AMDC will be a trigger mechanism for the second operation. These actions are consistent with the requirements of the the Public Utilities Policy (document GN-2716-6).
- 1.30 **Component 4. Strengthening of water and sanitation planning instruments in the Central District.** The objective of this component is to improve the planning of investments in water, sanitation, and drainage for the AMDC, and to establish policy guidelines to ensure their sustainability and water security. This component also aims to enhance the efficiency of services by defining plans to strengthen sector capacities. Specifically, this component will achieve: (i) approval of the estimated valuation of existing fixed assets used for municipal water and sanitation services in order to take stock of the available physical infrastructure; (ii) preparation of an evaluation of surface water supply in the 26 basins that drain into the Central District, with a climate change perspective, so as to generate inputs that ensure the water security of the Central District; (iii) approval of guidelines for developing the Water and Sanitation Master Plan with a gender and climate change focus; (iv) approval of guidelines for developing the Drainage Master Plan with a gender and climate change focus; (v) approval of a Rapid Impact Plan for managing supply and demand, including a climate change focus; and (vi) approval of guidelines for developing the operations and maintenance plan with a gender and climate change focus. The following were identified as trigger mechanisms for the second operation:

(i) preparation of a water supply/demand survey for the Central District so as to generate inputs that ensure water security; (ii) approval of a Water and Sanitation Master Plan with a gender and climate change focus; (iii) approval of a Drainage Master Plan with a gender and climate change focus;³² (iv) implementation of the Rapid Impact Plan; and (v) implementation of the Operations and Maintenance Plan with a gender and climate change focus.

- 1.31 **Component 5. Modernization of the national water and sanitation sector framework to help improve water and sanitation services in the Central District.** The objectives of this component are to finalize the transfer of services from SANAA to the AMDC, assist with modernization of the sector structure and organizational strengthening of the sector entities responsible for the governance, regulation, and delivery of services, and promote incorporation of climate change adaptation measures. This will be achieved through: (i) strengthening of the process of gradual transfer of systems from SANAA to the AMDC; (ii) approval of a Framework for the Gradual Transfer of Systems from SANAA to the AMDC; (iii) provision of resources to complete the transfer of human resources in the framework of the transition from SANAA to the AMDC; (iv) approval of the Institutional Strategic Plan of ERSAPS, with a special focus on the regulation of water and sanitation services in Tegucigalpa (UMAPS); (v) drafting of a proposal for the restructuring and sustainability of sector governance; (vi) development of guidelines for updating and reformulating PLANASA; and (vii) development and dissemination of a National Plan for Adaptation to Climate Change that strengthens the sector framework and establishes measures to make headway in adaptation to climate change while preserving the environment. The trigger mechanisms identified for the second operation are: (i) implementation of the Framework for the Gradual Transfer of Systems from SANAA to the AMDC; (ii) approval of a Strengthening Plan for ERSAPS; (iii) implementation of a mechanism to strengthen municipal sector planning and to formulate water and sanitation projects; (iv) updating of PLANASA based on the strategic guidelines approved, with a focus on the financing strategy; and (v) development of a Climate Change Adaptation Plan for the Central District.

C. Key results indicators

- 1.32 In order to measure the expected effects of the reform measures in the medium term, a results matrix was developed with the borrower that lists the outputs, outcomes, and expected impacts of the program. A summary of results is presented in Table I. In order to achieve those results, it is assumed that UMAPS will invest the resources identified in the various instruments and will implement the approved policy measures. The program's impacts include an expected increase in access to water and sanitation services.

³² The incorporation of a gender focus into the Water and Sanitation and Drainage Master Plan assumes that the needs of both men and women will be incorporated and taken into account in the preparation and execution of the plans. The actions will promote the participation and leadership of women and young people as key actors at the level of the beneficiary populations of the services as well as within the company. With this in mind, methodologies with a gender focus will be considered during preparation.

Table I. Expected Impacts and Outcomes

Impact	Indicator
Improve quality and increase access to clean water and sanitation	Households with access to clean water in the Central District (coverage)
	Households with access to sanitation in the Central District (coverage)
	Households with access to clean water at least 12 hours a day, 7 days a week in the Picacho sector
Outcomes	Indicator
Organizational development of the municipal water and sanitation services provider (UMAPS) is strengthened	UMAPS is operational ³³
Financial sustainability of water and sanitation services of the AMDC is improved	Number of users reclassified in 127 sectors ³⁴
	Operating efficiency of service delivery by metropolitan systems ³⁵
UMAPS planning is strengthened	UMAPS has projects identified based on approved plans ³⁶
Sector framework is established	UMAPS is receiving supervision, oversight, and advice from ERSAPS

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 **Financing instrument.** This operation, the first loan in a series of two consecutive operations that are technically related to one another but independently financed, has been designed as a PBP based on the guidelines and directives established in the lending framework (document GN-2200-13) and in Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2). The programmatic modality is justified by: (i) the complex and progressive nature of the reforms; (ii) the various timelines for implementing the reforms; (iii) the coordination required between the institutions involved; (iv) support for policy dialogue in the country; and (v) the tracking required for implementation of the reforms, as well as monitoring and feedback of the outcomes. This PBP provides for the design (in the first tranche) and consolidation (in the second tranche) of the policy guidelines, institutional changes, and regulatory changes that are required to achieve the operation's objective. This PBP incorporates the challenges of the sector's regulatory framework in the transfer of services and will make it possible to achieve substantial reforms during the 2019-2021 period.

³³ UMAPS is considered to be operational when the transfer from SANAA to the municipal government has been completed and UMAPS is responsible for the operation, management, and maintenance of all water and sewer systems in the Central District.

³⁴ One hundred and twenty-seven (127) sectors are considered based on the sector divisions for water distribution in the Central District's water supply system. Reclassification means appropriately classifying users based on their legal status (i.e. residential, industrial, commercial, government).

³⁵ Includes systems that supply the Central District and calculated as operating costs / operating income.

³⁶ The plans included are: (i) water and sanitation master plan; (ii) drainage master plan; and (iii) rapid impact plan.

2.2 **Scale of the operation.** In accordance with paragraph 3.27 (b) of Policy-based loans: Guidelines for Preparation and Implementation (document CS-3633-2, as updated), the scale of the operation is based on the magnitude of the country's fiscal needs. This operation will be financed with US\$60 million in resources from the regular Ordinary Capital (17.5%), Concessional Ordinary Capital (32.5%), and the Korea Infrastructure Development Cofinancing Facility for Latin America and the Caribbean (50%), which will be disbursed via a sole disbursement in 2019. According to the Ministry of Finance, a central government deficit equivalent to 3.3% of GDP is anticipated in 2019, and financing needs are projected at US\$450 million. This operation would cover 7.4% of the central government's net financing needs and 13.3% of external financing.³⁷

B. Environmental and social risks

2.3 Under Directive B.13 of the Environment and Safeguards Compliance Policy (document GN-2208-20 and operational policy OP-703), an environmental impact classification is not required. This operation will not finance infrastructure, and the proposed reforms will not have negative social or environmental impacts.

C. Fiduciary risks

2.4 No fiduciary risks associated with the operation were identified. A financing instrument is used that does not include procurement. In addition, the funds for this operation will go directly to the Treasury Single Account to cover financing needs, for which the executing agency has the necessary financial management instruments and control systems in place. The loan proceeds will be disbursed once the policy measures established in the loan contract are fulfilled.

D. Other key issues and risks

2.5 The following medium-level risks were identified: (i) risks related to development, and the lack of government capacity to execute reforms, which is mitigated through confirmation of a high level of commitment by SEFIN and the AMDC, as well as with the technical cooperation operation to support implementation of the reforms; and (ii) risks related to public administration and governance: (a) delays in implementing the reforms due to a lack of coordination among the institutions involved (SEFIN, AMDC, ERSAPS, CONASA, and SANAA), which is mitigated by forming an interagency technical group to support the executing agency in fulfilling its commitments; and (b) possible resistance to the change by current SANAA employees, which is mitigated by confirming the inclusion of union representatives in COMAS, where the key reforms are validated.

2.6 **Sustainability of reforms.** The sustainability of the policy actions developed in the programmatic series is based on: (i) the commitment of the Government of Honduras to the reforms and the priority given to the sector, specifically to the transfer of services to the Central District; (ii) the request of SEFIN and the AMDC to move forward with a programmatic series comprised of two operations in order to continue and deepen the sector reforms; and (iii) the fact that the policy instruments developed have the required levels of approval, and they will remain in effect for the medium and long term. The Bank will continue to support the sector with technical cooperation funds. Meanwhile, in accordance with the responsibilities transferred to

³⁷ Ministry of Finance. Medium-Term Macro-Fiscal Framework 2019-2022.

the AMDC, large investments to fund medium- and long-term solutions that arise following preparation of the master plans will be the responsibility of the AMDC,³⁸ such that the feasibility of recovering investment costs with rates or other financing options should be studied once substantial improvements have been achieved in the quality of the services.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower is the Republic of Honduras, and the executing agency will be SEFIN, which through the Macro Fiscal Policy Bureau and periodic analysis and monitoring meetings will coordinate fulfillment of the scheduled commitments and consolidation of the sector reforms with the AMDC, UMAPS, CONASA, ERSAPS, and SERNA. As executing agency of the program, SEFIN will have the following responsibilities: (i) drive achievement of the policy objectives; (ii) provide evidence of fulfillment of the agreed-upon policy conditions; and (iii) compile and supply information that enables the government and the Bank to measure and evaluate the program results.
- 3.2 The AMDC will be the technical body in charge of activities such as: (i) coordinating with the various government entities responsible for adopting measures or for technical execution of activities; (ii) monitoring progress and supporting fulfillment of the program activities to ensure execution; (iii) serving as official interlocutor with the Bank regarding technical issues; (iv) preparing the requisite reports by the corresponding due dates and with the expected quality; and (v) anticipating and resolving strategic, technical, and coordination risks and problems relating to program execution.
- 3.3 **Special contractual conditions precedent to the sole disbursement of the loan. The first and sole disbursement of the proceeds for the first operation in the series is subject to fulfillment of the policy reform conditions set out in the Policy Matrix (Annex III), the [Policy Letter](#), and the remaining conditions specified in the Loan Contract.**

B. Summary of arrangements for monitoring results

- 3.4 The AMDC will coordinate fulfillment according to the schedule of commitments corresponding to this first operation, in addition to all other commitments and the scope of the reform. It will be responsible for reporting on progress against the Policy Matrix and the Results Matrix, and delivering to the Bank the supporting evidence for the means of verification. The Results Matrix indicators will guide the evaluation of program implementation progress, and will be used for the final evaluation to be conducted upon completion of the last programmatic operation. The borrower and the Bank have agreed to monitor program execution through monitoring meetings on dates to be set by the executing agency and the Bank. The monitoring and the agreed-upon trigger mechanisms will help determine when it is time to prepare the second programmatic operation. The AMDC will ensure the timely fulfillment of the indicators of this PBP, and of the commitments and scope of the reform, and will be responsible for providing information on progress and evidence with respect to the Policy Matrix and Results Matrix. The Bank has formed an internal team to

³⁸ The initial rate schedule will enable the UMAPS to invest in rapid-impact measures with their rate revenue.

- permanently monitor fulfillment of commitments and their means of verification. The Policy Matrix and Means of Verification are presented to monitor and evaluate the scope of the PBP objectives. The aforementioned instruments and the Results Matrix will be used to track progress in program implementation and for the final evaluation.
- 3.5 The project completion report will be prepared at the end of the second operation within six months after the date of the last disbursement. It will evaluate the impact achieved by the two operations comprising the program and the degree of fulfillment of the proposed objectives. The borrower has agreed with the Bank on the indicators and baseline for the final evaluation and will gather all the information needed for program monitoring and evaluation. It will also compile all information, indicators, and parameters needed to assist the Bank in preparing the project completion report.

IV. POLICY LETTER

- 4.1 The Bank has agreed with the government on the [Policy Letter \(required link 1\)](#), which describes the objectives and actions to be carried out during the entire programmatic series, reaffirming the government's commitment to the reforms and activities agreed upon with the Bank. The Bank has also agreed with the government on the Policy Matrix (Annex II), which describes the policy commitments under this program, and on the Results Matrix (Annex III) and Means of Verification ([required link 2](#)).

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	<ul style="list-style-type: none"> -Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law 	
Country Development Results Indicators	<ul style="list-style-type: none"> -Households with new or upgraded access to drinking water (#)* -Households with new or upgraded access to sanitation (#)* 	
2. Country Development Objectives		
Country Strategy Results Matrix	Yes	
Country Program Results Matrix	GN-2948-2	The intervention is included in the 2019 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		
3. Evidence-based Assessment & Solution	Evaluable	
3.1 Program Diagnosis	9.4	
3.2 Proposed Interventions or Solutions	2.4	
3.3 Results Matrix Quality	4.0	
4. Ex ante Economic Analysis	3.0	
5. Monitoring and Evaluation	N/A	
5.1 Monitoring Mechanisms	7.0	
5.2 Evaluation Plan	2.5	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Low	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B.13	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		
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	ATN/OC-17170-HO

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

This is the first operation in a series of two consecutive single-disbursement operations, independent, but technically linked, under the Policy-Based Programmatic (PBP) loan modality. The objective of the PBP is to contribute to improve quality and increase the access to Water and Sanitation (W&S) services in the Central District (CD) through a process of reforms that allow the consolidation of the municipalization of W&S services by improving the sectoral governance and service management, in a context of climate change and conducive to water security. The objective of the first operation is to contribute to the design and promulgation of legal and sectoral instruments. The specific objectives are: (i) to ensure a macroeconomic context consistent with the objectives of the program; (ii) promote an operational and management improvement that allows to increase efficiency in the provision of services; (iii) the Municipal Unit for Drinking Water and Sanitation (UMAPS) has tools to improve the financial sustainability of the services; (iv) strengthen UMAPS planning; and (v) strengthen the sectoral framework through better stewardship, regulation, and resource management in a context of climate change, and the provision of services to better meet the demand.

The documentation is well structured. A good summary of the regulatory and institutional framework is provided, the current challenges of the sector framework at the national and Central District levels are identified, and the challenges of the sector in the CD, in terms of Water and Sanitation coverage and the quality service provision, are identified and quantified.

The proposed solution is linked to the challenges identified. Five components will be implemented: 1) Macroeconomic stability; 2) Development of the operational and management framework of the W&S service in the CD; 3) Consolidation of the tariff policy for W&S services in the CD; 4) Strengthening of the W&S planning instruments in the CD; and 5) Modernization of the W&S Sector Framework at the national level that contributes to improving W&S services in the CD. The results matrix (RM) reflects the objectives of the operation and shows a clear vertical logic. The RM includes SMART indicators at the level of products, results, and impacts, with their respective baseline values, targets, and means to collect information.

The monitoring and evaluation plan propose a reflexive evaluation (Before-After), which will be complemented by a qualitative evaluation based on interviews with a sample of beneficiaries, and the main entities of the sector.

The risks identified in the risk matrix seem reasonable and are classified as Medium (3) and Low (1). Risks include risk management, responsible party, and triggers.

HONDURAS
CENTRAL DISTRICT WATER AND SANITATION SERVICES REFORM PROGRAM
POLICY MATRIX

Objective: The objective of this programmatic series is to help increase access and improve the quality of water and sanitation services in the Central District through a process of reforms that permit decentralization of those services to the municipal level, thereby enhancing sector governance and management in a context of climate change and with a view to achieving water security. The objective of this first operation is to contribute to the design and enactment of legal and sector instruments.

Components/Policy objectives	Policy commitments of programmatic loan I	Fulfillment status of conditions for programmatic loan I ¹	Trigger mechanisms for programmatic loan II
Component 1: Macroeconomic stability			
1. Stability of the general macroeconomic policy framework	1.1. The borrower's macroeconomic framework is stable and conducive to achieving the program objectives and complying with the guidelines established in the sector policy letter.	Fulfilled	1.1. The borrower's macroeconomic framework is stable and conducive to achieving the program objectives and complying with the guidelines established in the Sector Policy Letter.
Component 2: Development of the operational and management framework for water and sanitation services in the Central District			
2. Establish the institutional framework for operation and management of water and sanitation services in the Central District.	2.1. Preparation of instruments for operation of the Municipal Water and Sanitation Unit (UMAPS), focusing on its regulations and institutional framework; organizational structure and responsibilities; management and governance; and scope of water and sanitation services to be delivered.	Fulfilled, Q3 2019	2.1. Establishment of UMAPS through implementation of Operating Regulations.
	2.2. Investments to strengthen operations management with a focus on provision of water and sanitation services.	Fulfilled, Q3 2019	
	2.3. Establishment of a Corporate Governance Action Plan in order to strengthen ties between the Municipal Water and Sanitation Management Unit (UGASAM) and UMAPS for operation and management of water and sanitation services.	Fulfilled, Q3 2019	2.3. Implementation of the Corporate Governance Action Plan.
	2.4. Approval of an Improvement Plan that includes support for the periurban area.	Fulfilled, Q3 2019	2.4. Establishment of an Improvement Agreement between the National Water and Sanitation Service Regulator (ERSAPS) and the Municipality.

¹ Information is indicative as of the date of this document. According to document CS-3633-2 (Policy-Based Loans: Guidelines for Preparation and Implementation), fulfillment of all of the specific conditions specified for disbursement, including maintenance of an adequate macroeconomic policy framework, will be verified by the Bank when the borrower makes the corresponding disbursement request and will be reflected in a timely manner in the disbursement eligibility memorandum.

Components/Policy objectives	Policy commitments of programmatic loan I	Fulfillment status of conditions for programmatic loan I ¹	Trigger mechanisms for programmatic loan II
	2.5. Development of guidelines for formulating a Plan for Human Resources and Strengthening UMAPS with a gender focus.	Fulfilled, Q3 2019	2.5 Implementation of the Human Resources Plan with a gender focus.
	2.6. Development of a business plan with strategic guidelines for UMAPS for management and operation of water and sanitation services.	Fulfilled, Q3 2019	2.6 Implementation of a Strategic Plan for UMAPS with a focus on: (i) mission; (ii) vision; and (iii) management indicators.
	2.7. Approval of a Water and Sanitation Sector Plan in the Central District to Fulfill the Sustainable Development Goals.	Fulfilled, Q3 2019	2.7 Implementation of the Sector Plan for Water and Sanitation in the Central District.
	2.8. Approval of guidelines that support development of a Gender Action Plan.	Fulfilled, Q3 2019	2.8 Implementation of the Gender Action Plan.
Component 3: Establishment of the rate policy for water and sanitation services in the Central District			
3. Contribute to the financial sustainability of the water and sanitation services of the Municipal Government of the Central District (AMDC), ensuring the sustainability of services.	3.1. User reclassification activities.	Fulfilled, Q3 2019	3.1 Implementation of the initial rate schedule for water and sanitation of the AMDC.
	3.2. Development of an analysis of management, operating, and maintenance costs of UMAPS in order to determine its financial needs and to ensure its sustainability.	Fulfilled, Q3 2019	
	3.3. Approval of an initial rate schedule.	Fulfilled, Q3 2019	
Component 4: Strengthening of water and sanitation planning instruments in the Central District			
4. Help improve planning of investments in water, sanitation, and drainage by the AMDC, and establish policy guidelines to ensure sustainability and water security.	4.1. Approval of the estimated valuation of existing fixed assets used for municipal water and sanitation services in order to take stock of available physical infrastructure.	Fulfilled, Q3 2019	4.2 Preparation of a water supply/demand survey for the Central District so as to generate inputs that ensure water security. 4.3 Approval of the Water and Sanitation Master Plan with a gender and climate change focus. 4.4 Approval of the Drainage Master Plan with a gender and climate change focus.
	4.2. Preparation of an evaluation of the surface water supply in the 26 basins that drain into the Central District with a climate change perspective, so as to generate inputs that ensure the water security of the Central District.	Fulfilled, Q3 2019	
	4.3. Approval of guidelines for developing the Water and Sanitation Master Plan with a gender and climate change focus.	Fulfilled, Q3 2019	
	4.4. Approval of guidelines for developing the Drainage Master Plan with a gender and climate change focus.	Fulfilled, Q3 2019	
5. Help enhance the efficiency of services by establishing plans to strengthen sector capacities.	5.1. Approval of a Rapid Impact Plan for managing supply and demand, including a climate change focus.	Fulfilled, Q3 2019	5.1 Implementation of the Rapid Impact Plan.
	5.2. Approval of guidelines for developing the Operation and Maintenance Plan with a gender and climate change focus.	Fulfilled, Q3 2019	5.2 Implementation of the Operation and Maintenance Plan with a gender and climate change focus.

Components/Policy objectives	Policy commitments of programmatic loan I	Fulfillment status of conditions for programmatic loan I ¹	Trigger mechanisms for programmatic loan II
Component 5: Modernization of the National Water and Sanitation Sector Framework to help improve water and sanitation services in the Central District			
6. Help finalize the transfer of services from the National Autonomous Water and Sewer Service (SANAA) to the AMDC.	6.1. Establishment of the process of gradual transfer of systems from SANAA to the AMDC.	Fulfilled, Q1 2019	6.1 Implementation of the Framework for the Gradual Transfer of Systems from SANAA to the AMDC.
	6.2. Approval of a Framework for the Gradual Transfer of Systems from SANAA to the AMDC.	Fulfilled, Q1 2019	
	6.3. Provision of resources to finalize the transfer of human resources in the framework of the transition from SANAA to the AMDC.	Fulfilled, Q3 2019	
7. Contribute to modernization of the sector structure and organizational strengthening of the sector entities responsible for governance, regulation, and provision of services.	7.1. Approval of a Strategic Institutional Plan for ERSAPS with a special focus on the regulation of water and sanitation services in Tegucigalpa (UMAPS).	Fulfilled, Q3 2019	7.1 Approval of a Strengthening Plan for ERSAPS.
	7.2. Development of a proposal document for the restructuring and sustainability of sector governance.	Fulfilled, Q3 2019	7.2 Implementation of a mechanism to strengthen municipal sector planning and to formulate water and sanitation projects.
	7.3. Development of guidelines for updating and reformulating the National Water and Sanitation Plan of Honduras (PLANASA).	Fulfilled, Q3 2019	7.3 Updating of PLANASA based on the strategic guidelines approved, with a focus on the financing strategy.
8. Promote the incorporation of climate change adaptation measures.	8.1. Development and dissemination of a National Plan for Adaptation to Climate Change that strengthens the sector framework and establishes measures to make progress in adaptation to climate change, while preserving the environment.	Fulfilled, Q3 2019	8.1 Development of a Plan for Adaptation to Climate Change for the Central District.

RESULTS MATRIX

Objectives: The objective of this programmatic series is to help increase access and improve the quality of water and sanitation services in the Central District through a process of reforms that permit decentralization of those services to the municipal level, thereby enhancing sector governance and management in a context of climate change and with a view to achieving water security. The objective of this first operation is to contribute to the design and enactment of legal and sector instruments.

Impact Indicators

Impact	Indicator	Unit of measure	Baseline	Baseline year	Progress (2020)	Target (2022)	Comments / Means of verification
Increase access to clean water and sanitation	Households with access to clean water in the Central District (coverage)	%	72	2018	73.2	74.3	<p>Source of information: National Autonomous Water and Sewer Service (SANAA) and the Municipal Government of the Central District (AMDC)</p> <p>Calculation method: Households with access to water through plumbing / Total households in the Central District.</p> <p>Households are not considered to have water supply if they use unconventional supply systems, such as public faucets or cistern trucks.</p>
	Households with access to sanitation in the Central District (coverage)	%	47	2018	52.5	58	<p>Source of information: SANAA and AMDC</p> <p>Calculation method: Households with flush toilets connected to the sewer system / Total households in the Central District</p>
Improve service quality	Households with access to clean water at least 12 hours a day, 7 days a week in the Picacho sector	Household	0	2018	0	36,000	<p>Source of information: AMDC</p> <p>Calculation method: Households in the Picacho sector</p>

Outcome indicators							
Outcomes	Indicator	Unit of Measure	Baseline	Baseline year	Progress (2020)	Target (2022)	Comments / Means of verification
Specific objective 2: Promote operational and management development so as to increase the efficiency of services							
Organizational development of the Municipal Water and Sanitation Unit (UMAPS) is strengthened	UMAPS is operational	Company	0	2018	1	1	Source of information: AMDC Calculation method: UMAPS is considered to be operational when the transfer from SANAA to the municipality has been completed and UMAPS is responsible for the operation, management, and maintenance of all water and sewer systems in the Central District.
Specific objective 3: Help improve the financial sustainability of UMAPS							
Financial sustainability of water and sanitation services of the AMDC is improved	Number of users reclassified in 127 sectors ¹	Users	0	2018	2,067	6,201	Source of information: AMDC Calculation method: A user is considered to be reclassified when it has been assigned based on its legal status.
	Operating efficiency of services in metropolitan systems ²	%	174	2018	89	88	Source of information: AMDC Calculation method: Operating costs/operating income
Specific objective 4: Strengthen UMAPS planning							
UMAPS planning is strengthened	UMAPS has water and sanitation projects identified based on approved plans ³	Number of projects	0	2019	0	5	Source of information: AMDC Calculation method: Projects will be considered identified when they become feasible.

¹ A total of 127 sectors are covered based on sector divisions for water distribution in the Tegucigalpa water supply system, designed in the framework of the World Bank project for Modernization of Water and Sanitation (PROMOSAS) (AIF loan 4335-HO), Nonrevenue Producing Water Management Subproject in a Pilot Zone of Tegucigalpa and the Consolidated Master Plan for Optimization of Water Supply Services in the City of Tegucigalpa and Renovation of the Water Distribution System, Sectors: 15 September and 21 October, executed and financed through the Development Aid Fund/AQUARUM/Government of Spain.

² Includes systems that supply the Central District.

³ The plans included are: (i) water and sanitation master plan; (ii) drainage master plan; and (iii) rapid impact plan.

Specific objective 5: Strengthen the sector framework through better governance, regulation, and management of resources in a context of climate change, and improve service delivery to better meet demand for services.							
Sector framework is established	UMAPS is subject to supervision, oversight, and advice from the National Water and Sanitation Service Regulator (ERSAPS)	Company	0	2019	1	1	Source of information: ERSAPS Calculation method: UMAPS is considered to be subject to the supervision, oversight, and advice of ERSAPS when UMAPS reports periodically as agreed with ERSAPS.

Output indicators						
Component 2. Development of the operational and management framework for water and sanitation services in the Central District						
Indicator	Unit of Measure	Baseline	Baseline year	Target year	Target	Comments / Means of verification
2.1 Instruments prepared for UMAPS to become operational, focusing on its regulations and institutional framework; organizational structure and responsibilities; management and governance; and scope of water and sanitation services to be provided, are approved.	Instruments	1	2018	2019	3	The instruments are: 2.1.1 Certification of Agreement No. 43 approving the Operating Regulations of UMAPS. 2.1.2 Minutes of the initial board of directors meeting recording its formal constitution. 2.1.3 Contracting or appointment of the interim general manager.
2.2 Call for investments to strengthen operational management with a focus on provision of water and sanitation services.	Official letter	0	2018	2019	1	2.2 Note DFA-AMDC-926-2019 from the Office of Management and Finance to the Director of Management and Water and Sanitation of UGASAN remitting the call for investments, indicating the scope of the investments to strengthen operational management.
2.3 The Corporate Governance Action Plan to strengthen ties between the Municipal Water and Sanitation Management Unit (UGASAM) and UMAPS for operation and management of water and sanitation services is approved.	Plan	0	2018	2019	1	2.3 Official letter/Administrative proceeding of UGASAM to approve the technical report with the Corporate Governance Action Plan.
2.4 Improvement Plan that includes support for the periurban area is approved.	Plan	0	2018	2019	1	2.4 Official letter ERSAPS-133-2019 from ERSAPS approving the Improvement Plan that includes support for the periurban area.

2.5 Guidelines for formulating a Human Resources Plan and strengthening of UMAPS with a gender focus are developed.	Document	0	2018	2019	1	2.5 Official letter UGASAM-052-2019 of UGASAM approving the guidelines for the Human Resources Plan and Strengthening of UMAPS.
2.6 Business plan with strategic guidelines for UMAPS for management and operation of water and sanitation services is approved.	Plan	0	2018	2019	1	2.6 Official letter UGASAM-055-2019 of UGASAM documenting development of the Business Plan with strategic guidelines for UMAPS for management and operation of water and sanitation services.
2.7 Water and Sanitation Sector Plan in the Central District to Comply with the Sustainable Development Goals is approved.	Plan	0	2018	2019	1	2.7 Official letter UGASAM-049-2019 of UGASAM approving the Water and Sanitation Sector Plan in the Central District to Comply with the Sustainable Development Goals.
2.8 Guidelines that support development of a Gender Action Plan are approved.	Document	0	2018	2019	1	2.8 Official letter UGASAM-056-2019 of UGASAM approving the guidelines that support development of a Gender Action Plan.
Component 3. Establishment of the rate policy for water and sanitation services in the Central District						
3.1 Report on activities for the user reclassification process is prepared.	Document	0	2018	2019	1	3.1 Official letter AMDC DCS-483-2019 from the AMDC and SANAA remitting the progress report on user reclassification activities.
3.2 Analysis of the management, operating, and maintenance costs of UMAPS in order to determine its financial needs and to ensure its sustainability is approved.	Study	0	2018	2019	1	3.2 Official letter UGASAM-050-2019 from UGASAM approving the cost analysis for management, operation, and maintenance of UMAPS.
3.3 Initial rate schedule approved	Schedule	0	2018	2019	1	3.3. Official letter ERSAPS-132-2019 from ERSAPS approving the initial rate schedule.
Component 4. Strengthening of water and sanitation planning instruments in the Central District						
4.1 Estimated valuation of existing fixed assets used for municipal water and sanitation in order to take stock of available physical infrastructure is approved.	Document	0	2018	2019	1	4.1 Official letter/Administrative proceeding of the Municipal Finance Department approving the report on the fixed asset valuation.
4.2 Evaluation of surface water supply for the 26 basins that drain into the Central District in order to generate inputs that ensure the water security of the Central District is prepared.	Evaluation	0	2018	2019	1	4.2 Official letter UGASAM-057 from UGASAM approving the surface water supply evaluation for the 26 basins that drain into the Central District.

4.3 Guidelines for development of the Water and Sanitation Master Plan with a gender and climate change focus are approved.	Document	0	2018	2019	1	4.3 Official letter UGASAM-054-2019 from UGASAM approving the guidelines for development of the Water and Sanitation Master Plan with a gender and climate change focus.
4.4 Guidelines for development of the Drainage Master Plan with a gender and climate change are approved.	Document	0	2018	2019	1	4.4 Official letter UGASAM-053-2019 from UGASAM approving the guidelines for development of the Drainage Master Plan with a gender and climate change focus.
5.1 Rapid Impact Plan for managing supply and demand, including a climate change focus is approved.	Plan	0	2018	2019	1	5.1 Official letter UGASAM-051-2019 from UGASAM approving the Rapid Impact Plan for managing supply and demand, including a climate change focus.
5.2 Guidelines for developing the Operation and Maintenance Plan with a gender and climate focus are approved.	Document	0	2018	2019	1	5.2 Official letter UGASAM-058-2019 from UGASAM approving the technical report with guidelines for developing the Operation and Maintenance Plan.
Component 5. Modernization of the National Water and Sanitation Sector Framework that helps improve water and sanitation services in the Central District.						
6.1 Process of gradual transfer of systems from SANAA to the AMDC is established.	Agreement	0	2018	2019	1	The process is considered established when the certifications of minutes authorizing the municipal mayor and management of SANAA to sign the Framework Agreement for the Gradual Transfer of Water and Sanitation Systems have been signed (Commitment 6.1).
6.2 Framework for the Gradual Transfer of Systems from SANAA to the AMDC is approved.	Agreement	0	2018	2019	1	6.2 Framework Agreement for the Gradual Transfer of Systems is signed by SANAA and the AMDC.
6.3. Provision of resources to finalize the transfer of human resources in the framework of the transition from SANAA to the AMDC is approved.	Official letter	0	2018	2019	1	6.3. Official letter from the Ministry of Finance (SEFIN) documenting the signing of the loan agreement between SEFIN and the World Bank that includes allocation of resources to complete the transfer of human resources in the framework of the transition from SANAA to the AMDC.
7.1 Institutional Strategic Plan of ERSAPS for monitoring UMAPS is approved.	Plan	0	2018	2019	1	7.1 Resolution by the board of directors of ERSAPS approving the Institutional Strategic Plan.

7.2 Proposal document for the restructuring and sustainability of sector governance is prepared.	Document	0	2018	2019	1	7.2 Official letter SE-15-2019 from the Technical Secretariat of the National Water and Sanitation Council (CONASA) presenting the proposal document for the restructuring and sustainability of sector governance.
7.3 Guidelines for updating and reformulating the National Water and Sanitation Plan for Honduras (PLANASA) are approved.	Document	0	2018	2019	1	7.3 Official letter SE-15-2019 from the Technical Secretariat of CONASA presenting the guidelines for updating PLANASA.
8.1 National Plan for Adaptation to Climate Change that strengthens the sector framework and establishes measures to make progress in adaptation to climate change is approved.	Plan	0	2018	2019	1	8.1 Official letter from the Ministry of Natural Resources and Environment (SERNA) containing the National Plan for Adaptation to Climate Change currently in effect.

CENTRAL DISTRICT WATER AND SANITATION SERVICES REFORM PROGRAM

HO-L1207

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the operation received the non-objection for financing by the **Korea Infrastructure Development Co-Financing Facility for Latin America and the Caribbean (KIF)** for up to **US\$30,000,000** confirmed by Kim Hyun (ORP/GCM), September 19, 2019.

Certified by:

Signed original

9/19/2019

Sonia M. Rivera

Date

Chief

Grants and Co-Financing Management Unit
ORP/GCM

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Honduras. Loan ____/BL- HO to the Republic of Honduras
Central District Water and Sanitation Services Reform Program

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 Central District Water and Sanitation Services Reform Program. Such financing will be chargeable to the Bank's Ordinary Capital (OC) resources in the following manner: (i) up to the amount of US\$19,500,000, subject to concessional financial terms and conditions ("Concessional OC"); and (ii) up to the amount of US\$10,500,000, 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 ____ 2019)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Honduras. Loan ____/KI-HO to the Republic of Honduras
Central District Water and Sanitation Services Reform Program

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, acting as Administrator of the Korea Infrastructure Development Co-financing Facility for Latin America and the Caribbean (hereinafter, the "Facility"), 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 Central District Water and Sanitation Services Reform Program. Such financing will be for an amount of up to US\$30,000,000 from the resources of the Facility, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2019)