



1. Project Data

Project ID	Project Name		
P103881	HN WATER AND SANITATION PROGRAM		
Country	Practice Area(Lead)	Additional Financing	
Honduras	Water	P144357	
L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)	
IDA-43350,IDA-52700	31-Dec-2013	35,000,000.00	
Bank Approval Date	Closing Date (Actual)		
21-Jun-2007	31-Dec-2016		
	IBRD/IDA (USD)	Grants (USD)	
Original Commitment	30,000,000.00	0.00	
Revised Commitment	40,000,000.00	0.00	
Actual	39,867,350.77	0.00	
Prepared by	Reviewed by	ICR Review Coordinator	Group
Katharina Ferl	George T. K. Pitman	Christopher David Nelson	IEGSD (Unit 4)

2. Project Objectives and Components

a. Objectives

According to the Project Appraisal Document (PAD, p. 3) and the Financing Agreement of November 16, 2007 (p.6) the objectives of the project were: “a) to improve the sustainability, efficiency, and reliability of the recipient’s Water Supply and Sanitation (WSS) services in eligible municipalities; and b) to improve the performance of the recipient’s WSS sector institutions in the exercise of their respective roles in conformity with the WSS sector framework law.”

In 2013 the project received Additional Financing and the PDO of the project was revised to: “a) to improve the sustainability, efficiency, and reliability of the recipient’s Water Supply and Sanitation (WSS) services in



eligible municipalities; and b) to improve the performance of the recipient's WSS sector institutions in the exercise of their respective roles in conformity with the WSS sector framework law; and c) to improve the recipient's capacity to respond promptly and effectively to an eligible emergency".

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval

12-Jul-2013

c. Will a split evaluation be undertaken?

No

d. Components

The original project included four components. The fifth component was added when the project received Additional Financing in May 2013.

1: Support to medium-size municipalities to create autonomous service providers and invest in efficiency, rehabilitation, and expansion of service delivery (appraisal estimate US\$21.2 million, Additional Financing US\$8.8 million, actual US\$ 24.20 million): This component was to finance the implementation of the Ley Marco and the Strategic Plan for Modernization of the Potable Water and Sanitation Sector (PEMPAS) in medium-size cities through a combination of technical assistance for reforms and investments for infrastructure by using a demand-based stepped approach (Step 1: municipalities would receive technical assistance focused on designing a management model. Once the proposed model had been sent to and reviewed to ERSAP (the regulator), municipalities become qualified for Step 2 assistance including support to provide the service providers with tools (institutional and operational), enabling them to start improving the efficiency of service provision. Once services were transferred, municipalities move to Step 3 and qualify for investments in system rehabilitation and expansion. The additional financing was to finance the expansion of eligibility to small-size municipalities and focus on municipalities that were classified as C or D in terms of poverty according to the Municipal Development Index.

2: Tegucigalpa non-revenue water reduction (appraisal estimate US\$ 4.5 million, actual US\$7.71 million): This component was to finance a performance-based service contract with a private company to reduce technical and commercial losses in a limited geographical area of the municipality of the metropolitan district to improve the operative situation of the WSS in Tegucigalpa.

3: Institutional strengthening of national and regional sector institutions (appraisal estimate US\$7.7 million, Additional Financing US\$0.7 million, actual US\$8.86 million): This component was to finance technical assistance to strengthen the National Council for Water and Sanitation (CONASA) as a sector planning entity, the regulating agency (ERSAPS) and the national water utility (SANAA) to fulfill their new roles in a timely, efficient, and transparent manner. Also, this component was to finance severance payments of the over-staffed SANAA and preparatory activities for the transfer of service delivery from



SANAA to the municipality of Tegucigalpa. Under the Additional Financing activities of this component were slightly modified to reflect the support to the Sector Framework in a clearer and broader manner.

4: Project Management (appraisal estimate US\$1.6 million, additional financing US\$1.42 million, actual US\$4.06 million): This component was to finance the overall operating costs of the project management unit, monitoring and evaluation (M&E) activities, audits, and other project management activities on governance and transparency and strengthening of the implementing agencies through participation in study tours, purchase of vehicles and equipment, and upgrading of the work environment.

Added Component 5: Immediate Response Mechanism (no funds were allocated to this component): This component was to provide support to respond to an eligible emergency, as needed. Including the use of simplified procedures and rapid restructuring to meet crisis and emergency needs.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The project was estimated to cost US\$35.00 million. Actual cost was US\$44.83 million. Component 4 costs increased due to institutional challenges – the final cost of US\$4.06 million was significantly above the appraisal and additional financing estimate of US\$3.03 million. The increase in costs was due to about US\$1.0 million to recruit specialized consultants as well as professional service contacts for the project implementation unit (PIU).

Financing: The project was to be financed by US\$30.00 million credit by the International Development Agency (IDA). The project received IDA Additional Financing in the amount of US\$10.00 million.

Borrower Contribution: The Borrower agreed to contribute US\$5.00 million that was revised to US\$5.13 million. Actual contribution was US\$4.88 million.

Dates: The project was restructured three times:

- Level-2. **On November 9, 2010 the project was restructured to:** i) trigger the Bank's safeguard policy for Involuntary Resettlement (OP/BP 4.12) and put appropriate measures to address involuntary resettlement in place; ii) revise indicators in the Results Framework, and iii) modify the allocation of proceeds.
- Level-1. **On May 14, 2013 the project was restructured to:** i) receive Additional Financing in the amount of US\$10 million to cover the financing gap of Component 1, the scaling up of the project to incorporate new municipalities and to include additional institutional strengthening activities; ii) add the third objective of the PDO; iii) incorporate an Immediate Response Mechanism component; iv) trigger the Bank's Safeguard policy on International Waterways (OP/BP 7.50); v) revise the description of Components 1 and 3; vi) update the Results Framework; vii) reallocate project funds and viii) extend the closing date by three years until December 31, 2016.
- Level 2. **On October 6, 2016 the project was restructured to:** reallocate funds between disbursement categories to enhance financing of additional investments, technical assistance and supervision.

3. Relevance of Objectives & Design



a. Relevance of Objectives

Substantial: At the time of project appraisal, 50% of Honduras' population was living under the poverty line. Decentralization and participation of local government was part of the government's strategy to reduce poverty. The objectives of the project were in line with the country's 2003 Drinking Water and Sanitation Sector Framework Law which mandated the decentralization of the National Autonomous Water and Sewer Service to the municipalities by 2008. Also, the objectives were in line with the government's priorities as detailed in the Country Vision (2010-2038) and the National Plan (2010-2022) both aiming to decentralize public investments to the municipalities.

The Bank's Country Assistance Strategy (FY2007-FY2010) focused in its second pillar "Strengthen Governance through State Modernization and Participation" on fostering decentralization. At the time of project closing, the Bank's Country Assistance Strategy (FY2016-FY2020) does not include a specific objective on water either; however, the water sector fits under pillar 1 which focuses on fostering inclusion by expanding coverage of social programs and under pillar 3 which aims to reduce vulnerability. Furthermore, the Bank's Systematic Country Diagnostic (2016) highlights the lack of access to potable water and improved sanitation as critical factors limiting inclusion and equal distribution of wealth.

Rating
Substantial

Revised Rating
Not Rated/Not Applicable

b. Relevance of Design

The project was built on lessons learned from previous projects and programs in the country that allowed for continuity. Activities to improve the sustainability, efficiency, and reliability of the recipient's WSS services in eligible municipalities included the provision of technical assistance for reforms and investments for infrastructure by using a demand-based stepped approach (described in section 2c). Also, activities included the implementation of a performance-based service contract with a private company to reduce technical and commercial losses in the WSS of Tegucigalpa. Activities to improve the performance of the recipient's WSS sector institutions in the exercise of their respective roles (in conformity with the WSS sector framework law) included the provision of technical assistance to strengthen the capacity of CONASA as a sector planning entity, ERSAPS as the regulating agency, and SANAA as the national utility.

A significant shortcoming of the design was that it did not identify the risk of municipalities opposing the installation of micrometers and raising tariffs. The ICR (p. 21) highlights that two pre-conditions that could have been used to select eligible municipalities: i) the degree to which the providers were measuring water consumption and utilizing meters; and ii) willingness to consider tariff adjustment. Activities to enable the WSS sector institutions to improve their capacity to respond promptly (simplified procedures and measures to enable timely restructuring) were relevant. However, activities to improve emergency response effectively had no activities to improve or train/build capacity to tackle emergency situations.

Rating

Revised Rating



Modest

Not Rated/Not Applicable

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To improve the sustainability, efficiency, and reliability of the recipient's Water Supply and Sanitation (WSS) services in eligible municipalities:

Rationale

Outputs:

- Seven autonomous service providers were created.
- Diagnostic studies, investment plans and designs for each municipality/provider were developed.
- Investment and business plans were developed for service providers.
- Nine utilities have published their financial statements on a website, surpassing the target of five utilities.
- Small works or water system rehabilitation were contracted.
- Micro and macro-meters, tools to manage the water systems, work vehicles, tanker trucks and office equipment were purchased.
- Communication/outreach material on water conservation and metering was developed.
- Drinking water lines, storage tanks, sewerage systems, offices for water service providers and pipelines were constructed. Water treatment plants were constructed and rehabilitated. Leaks in the water network were repaired.
- Water wells were drilled and equipment was purchased.
- Under the performance-based contract 10,731 meters were installed.
- Six of the WSS utilities share indicators in the regional benchmarking database of IBNET according to their protocols, achieving the target. This indicator lacked a baseline.

Outcomes:

Reliability was improved.

- Overall, the water providers indirectly benefitted about 650,000 people (108,000 families) with improved WSS services (not including the beneficiaries of the non-revenue water contracts in Tegucigalpa).
- 13,167 households benefited from new piped water connections, surpassing the target of 2,000 households. This indicator lacked a baseline.
- 3,786 people in urban areas (covering semi-urban or small urban areas) were provided with access to improved sanitation under the project, not achieving the original target of at least 10,000 people but achieving the revised target of 3,700 people. This indicator lacked a baseline.

Efficiency was improved.



- The number of WSS utilities reaching cost-recovery (ratio total revenue/total operative cost equal to one) increased from four WSS utilities in 2008 to eight WSS utilities in 2016, surpassing the target of seven WSS utilities.
- Seven out of 16 urban areas covered by the contract increase service continuity from category C (from six to less than 12 hours per day) in 2013 to category B (from 12 to less than 18 hours of service per day), not achieving the target since the indicator referred to all urban areas covered by the contract.
- Six of the WSS utilities increased by 20% the ratio of revenues per volumetric unit of water produced, surpassing the original target of five WSS utilities and achieving the target of six WSS utilities. This indicator lacked a baseline.
- The collection per cubic meter of water supplied to the project area increased by 25%, achieving the very low target of 20%.

Rating

Substantial

Objective 2

Objective

To improve the performance of the recipient's WSS sector institutions in the exercise of their respective roles in conformity with the WSS sector framework law:

Rationale

Outputs

- Nine design proposals of autonomous service providers were approved by ERSAPS, surpassing the original target of six proposals and achieving the revised target of nine proposals. This indicator lacked a baseline.
- 16,899 people were trained to improve hygiene or sanitation practices, surpassing the target of 5,000 people.
- 5,536 of the people trained were female, surpassing the target of 3,000 women.
- SANAA/Tegucigalpa complied with the legal requirements for the transfer of water delivery to the municipality, achieving the target.
- SANAA has at least one regional unit operating under the new model, thus achieving the target.
- SANAA established a technical assistance and training center in Siguatepeque.
- Indicators regarding utilities' performance are published by ERSAPS, achieving the target.

SANAA:



- A regional SANAA technical assistance center in Siguatepeque was established to offer classes and workshops to service providers, laboratories to test water quality, and technical assistance for WSS providers in need of assistance.
- SANAA executed a pilot project to reduce non-revenue water in an area that covers 200,000 residents, using a performance-based contract.
- Severance payments, in the amount of approximately US\$5 million, for the transfer of SANAA systems to the municipalities of Danli, Siguatepeque and Comayagua were made, benefitting 156 people.
- Consulting firms were contracted for the preparation of studies to support the transfer of the Tegucigalpa system from SANAA to the municipality.
- The General Manager of SANAA publicly opposed the WSS framework law and SANAA's labor union protested and blocked decentralization efforts actively and therefore negatively impacted the incorporation of the new meters in the organization's daily operations and knowledge exchange between the firm and SANAA staff.
- Even so, PROMOSA's autonomous municipal service providers highlighted the utility of beginning micro-metering programs in pilot zones, showing the tangible benefit of the meters and gradually extending metered areas outwards to cover their service area.

ERSAPS:

- Regulations in different areas such as the quality of WSS services, attention to inquiries and complaints from users, infractions and sanctions, fees for supervision etc. were published.
- Support to ERSAP's outreach efforts to build monitoring and regulatory capacity at a local- level through financing capacity- building activities and equipment for the Supervision and Control Units was provided.
- Equipment was purchased for offices to carry out water tests at the 11 municipal control units.

CONASA:

- A post-decentralization organizational structure for SANAA was developed.
- A WSS information system (SISAPS) was developed and implemented to support CAONASA's outreach efforts to build the capacity of the Water and Sanitation Municipal Committees.
- The Sector Financial Policy, the National Plan for Water and Sanitation (PLANASA) and the 2016 Monitoring Country Advances in WSS (MAPAS) Report was developed and published.

Outcomes:

- CONASA issues the new financial policy of the sector, achieving the target. CONASA's new financial policy aims to ensure that there are adequate funds to achieve sector goals and sector roles and responsibilities are clearly defined. The center-piece of the policy is a National Fund for WSS that service providers/municipalities can apply to for financing.
- All municipal providers supported by the project were converted into autonomous service providers,



surpassing the target of 50% of municipalities.

- The number of water service providers supported increased from seven providers in 2013 to 9 providers in 2016, achieving the target.

The overall outcome is rated Substantial but there were modest shortcomings due to the intransigence over decentralization, metering and tariff reform by SANAA.

Rating

Substantial

Objective 3

Objective

To improve the recipient's capacity to respond promptly and effectively to an eligible emergency:

Rationale

The Immediate Response Mechanism (IRM) component was never activated because emergency funds were not required during implementation. Consequently achievement of this objective is non-evaluable.

Rating

Not Rated/Not Applicable

5. Efficiency

Economic and Financial Efficiency

A sample of potentially participating municipalities was selected at appraisal. Thus the PAD included a cost-benefit analysis of eligible investments during project implementation (sub-components 1b and 1c, US\$17.5 million) and component 2 (US\$4.5 million), together accounting for 63% of the total project costs. Potential benefits included: resource savings due to better water usage, improvement in service provision, cost savings in operation, and reduction in coping costs faced by population due to poor service and health savings. The cash flows were discounted over 20 years, using a discount rate of 12%. Expected returns varied between 13% and 61% across the selected municipalities. The wastewater sub-project did not return positive results. A financial analysis was also conducted for eligible water sub-project however, the results showed that many of them were expected to be financially unfeasible.

The ICR also included a cost-benefit analysis. Actual costs and benefits were compared with the forecast at appraisal. Benefits included: operating cost savings from the reductions in non-revenue water, water supply



and quality improvement and decrease of rationing, savings of operating costs and increase in revenues due to improvement of water distribution and billing practices. The analysis included five out of nine municipalities in component 1, representing 70% of total costs of works under component 1. Not enough information was available to assess component 2. The analysis estimated an Internal Rate of Return of 22%, indicating that the investment was worthwhile.

Possible reasons for the Internal Rate of Return being higher at appraisal than at project closing are that not all of the municipalities, which were evaluated at appraisal, received investments under the project. Also, health benefits were not included in the ICR's analysis. Furthermore, metering and improvement of volume billed were not included in the ICR's analysis since micro (household) metering was opposed by customers.

Operational and Administrative Costs

Due to an unstable political environment and a coup in June 2009, project financing of most ongoing contracts paused. Bank disbursement resumed in December 2009. However, due to elections and a new incoming administration, project implementation was further delayed. Also, the government delayed the establishment of deadlines for the decentralization of SANAA and limited its funding for ERSAPS and CONASA which limited the impact on institutional strengthening activities. Furthermore, the UAP experienced a high turnover of staff which had a negative impact on procurement activities.

Overall, the project cost far more than planned to manage, and was administratively inefficient as a number of key activities were frustrated by staffing and resistance to reforms that were not completed. In addition the leak reduction program cost far more than expected with very modest results. This may be indicative of an inefficient use of project funds. Taking all efficiency indicators together, however, leads to a rating of Modest.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 <input type="checkbox"/> Not Applicable
ICR Estimate	✓	22.00	70.00 <input type="checkbox"/> Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

Relevance of the objective is rated as Substantial given the importance of local governments' participation in the country's poverty-reduction efforts. Relevance of the design is rated Modest, as the design did not mitigate the risk of municipalities opposing the installation of micrometers and raising tariffs. The achievement of the objective to improve sustainability, efficiency and reliability is rated Substantial. Achievement of the objective to



improve the performance of the recipient's WSS sector institutions in the exercise of their respective roles in conformity with the WSS sector framework law is rated Substantial. The objective to improve the recipient's capacity to respond promptly and effectively to an eligible emergency cannot be rated as an emergency did not occur. Efficiency is rated Modest. Taking everything together, and given the moderate shortcomings, the overall outcome rating is Moderately Satisfactory.

a. Outcome Rating

Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating

Substantial: The government continues to be committed to the decentralization of the sector and is currently working with the Bank on a potential follow-up project which would aim to build on the progress that was made under this project. Also, the new project would aim to continue the support of sector institutions, which are critical for the success of the country's decentralization efforts.

In order to maintain the gains that have been made through the decentralization so far, service providers need political support to keep tariffs at an adequate level and political uncertainty has put tariff increases on hold. Also, the sector's institution such as ERSAPS have limited enforcement power and require outside financing to operate. Furthermore, the deadline for decentralizing the remaining system operated by SANAA has been missed without any consequences. A financial analysis (see Efficiency section for more details) that was conducted for eligible water sub-projects, showed that many of them were expected to be financially unfeasible, the shortfall to be covered subsidies from the Global Partnership for Output Based Aid Fund, indicating a high risk to their sustainability. Taking everything together, the risk to development outcome rating is Substantial.

a. Risk to Development Outcome Rating

Substantial

8. Assessment of Bank Performance

a. Quality-at-Entry

Due to a tight deadline to access available IDA funds, the Bank team only had eight months to prepare the project. Even so, the Bank team conducted an in-depth analysis of the Honduran water sector and built the project on lessons learned from previous projects in the sector and in other regions in the world.

The Bank identified relevant risks such as project implementation delays, lack of transparency in the project implementation, weak implementation capacity at the local-level for component 1, and opposition to reform. A key risk was SANAA resisting downsizing and wanting to remain the lead institution in the sector due to high-ranking officials within SANAA not wanting to step-back, and administrative changes/staff turnover after elections hampering implementation of component 4. The mitigation efforts for most risks, except the



one related to SANAA, were adequate. However, the risk of municipalities opposing the installation of micrometers and raising tariffs was not identified.

The Results Framework had several shortcomings (see section 10a for more details).

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

Even though the project had three different Task Team Leaders (TTLs), the transition between TTLs was smooth and did not lead to any implementation disruption. The Bank team adapted project activities when the policy environment changed. The Bank team successfully restructured the project three times and applied for Additional Financing to expand the scope of the project. However, after the approval of the Additional Financing the project lacked close Bank supervision that slowed Bank procurement oversight/approvals and implementation progress. Once the project was supervised by a locally-based Bank team, implementation picked up again. Throughout project implementation, the Bank provided financial management, procurement and safeguard support to the project which was adequate.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. Assessment of Borrower Performance

a. Government Performance

Even though the country went through changes in administration and a coup in 2009, the government showed its commitment to the project by its continuous aim to decentralize the water sector and by assigning the responsibility of being the lead Implementing Agency to the Secretariat of Finance (SEFIN), an institution with high capacity outside the water sector. However, despite changes in administration, the government supported the reform of the WSS. Also, the government provided counterpart funding and approved the National Plan for Water and Sanitation (PLANASA) and Sector Financial Policy. However, some sector institutions showed less commitment to the implementation of the Framework Law. The government delayed the establishment of deadlines for the decentralization of SANAA and restricted its funding for ERSAPS and CONASA which limited the impact of institutional strengthening activities.

Government Performance Rating

Moderately Unsatisfactory

b. Implementing Agency Performance

The Secretariat of Finance (SEFIN) was responsible for the implementation of the project due to its



procurement and financial management capacity and experience in leading WSS projects supported by international financing. The Project Administration Unit (UAP) within SEFIN was responsible for managing all project funds and procurement processes. Also, the UAP was responsible for the implementation of components 1, 3b, and 4. SANAA was responsible for the implementation of components 2 and 3c and CONASA and ERSAPS for the implementation of component 3a. An Inter-Institutional Coordination Group (GIC) including representatives from SEFIN, SANAA, CONASA, the Honduras Municipalities Association (AMHON) and ERSAPS was in charge of monitoring project progress and institutional coordination.

According to the ICR (p. 20) the UAP and SEFIN showed little commitment to project implementation given their obligations outside the project and limited interest in the sector. However, the commitment increased over time. The UAP experienced a high financial management and procurement staff turnover although they did overcome adequately challenges related to procurement and M&E. The UAP conducted supervision activities and coordinated project activities. However, austerity measures, led the government to confiscate UAP's vehicles resulting in reduced field-supervision activities. Also, the government's decline of UAP's request to reimburse the costs of using private vehicles to conduct field visits led to a drop in staff morale.

SANAA successfully managed the implementation of the Performance-Based contract in component 2. Even so, due to the resistance of SANAA's labor union, activities such as the incorporation of the new meters in the organization's daily operations and knowledge exchange between the firm and SANAA staff, were negatively affected. Additionally, the General Manager of SANAA publicly opposed the law and SANAA's labor union protested and blocked actively decentralization efforts.

CONASA successfully managed the development and approval of the sector financial policy which is critical for the country's water supply sector.

Implementing Agency Performance Rating

Moderately Unsatisfactory

Overall Borrower Performance Rating

Moderately Unsatisfactory

10. M&E Design, Implementation, & Utilization

a. M&E Design

The original Results Framework included six PDO indicators and nine Intermediate Outcome Indicators. The objectives were clearly specified and to some extent were well reflected in the selected indicators. The indicators were measurable in terms of numbers, timing and location. However, the Results Framework had some shortcomings. For example, the indicator "at least 90% of SANAA systems transferred to the municipalities" went beyond the project's scope. Also, the indicator "Five of the participating WSS utilities increase service continuity (hours of service per day) by six hours or more" was overly ambitious given that at project appraisal no baseline had been established. Overall, several indicators lacked a baseline.

Proposed data collection methods included a baseline and follow-up household survey, participatory focus



group discussions, and consumer satisfaction surveys.

b. M&E Implementation

The Results Framework was revised during the 2010 restructuring to better reflect the PDO and project activities and in 2013 to reflect the increase of project scope due to the Additional Financing.

A reliable baseline was not established until 2013, five years after the project became effective.

At the beginning of project implementation the municipalities could not ensure high quality data since they lacked data on the status of service in their areas. However, data quality improved once service providers became more experienced in the utilization of their systems. The UAP developed annual reports and published and distributed informational bulletins on implementation progress. Also, ERSAPS, the Water and Sanitation Regulator, produced reports on service provider performance and published performance indicator on its webpage.

c. M&E Utilization

M&E activities promoted the sharing of service provider's performance, benchmarking their performance and posting providers' financial statements online. Also, six of the municipalities started to share performance data with the international benchmarking database IBNET. All these activities promoted transparency and the compliance with the 2006 Law of Transparency and Access to Public Information.

M&E Quality Rating

Substantial

11. Other Issues

a. Safeguards

The project was classified as Category B under OP/BP 4.01 Environmental Assessment and triggered three safeguard policies: OP/BP 4.04 (Natural Habitats), OP/BP 4.11 (Physical Cultural Resources), and OP/BP 4.10 (Indigenous People). At the time of project appraisal, the locations for project implementation had not been identified. Therefore, a broad environmental management and social framework was developed. Also, the government developed an indigenous people/ethnic community's policy framework. The PAU was responsible for overseeing the compliance of safeguard policies and hired an environmental and a social/communication specialist to implement relevant environmental, social, and communication activities. The project complied with the Bank's safeguard policies throughout its implementation (ICR p.10).

During implementation OP/BP 4.12 (Involuntary Resettlement) was triggered since service providers expressed the need to prioritize physical works that could potentially involve easements, construction on privately-owned or leased land and land acquisition. An Involuntary Resettlement Policy Framework was prepared. While OP/BP 7.50 (International Waterways) was triggered due to the potential location of new beneficiary municipalities, an exception to the riparian notification requirement was granted since the project



activities would only involve minor additions and rehabilitation without any adverse effects to the quality or quantity of water flows.

b. Fiduciary Compliance

Financial Management

The PAU was responsible for the project's fiduciary aspects which had a positive impact on the project's financial management due to the PAU's technical capacity. At project closing financial management was rated Moderately Satisfactory.

According to the Bank team, the project's institutional financial management arrangements were adequate. Financial reports were provided by an external audit firm and submitted on a regular basis.

Procurement

Overall, the Bank's procurement rules were followed. In 2012, a procurement post review was conducted and identified several shortcomings in UAP's management of files and administration of contracts. The UAP experienced a high turnover of staff which had a negative impact on procurement activities. At project closing, procurement was rated Moderately Satisfactory.

c. Unintended impacts (Positive or Negative)

N/A

d. Other

12. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	Substantial	Substantial	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Unsatisfactory	Some sector institutions showed little commitment, the government delayed the establishment of deadlines for the decentralization of SANAA



and restricted its funding for ERSAPS and CONASA. Implementing Agencies had high staff turnover and the General Manager of SANAA publicly opposed the law and SANAA's labor union protested and blocked decentralization efforts actively.

Quality of ICR

Substantial

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons

The ICR (p. 20-22) includes several useful lessons learned that IEG synthesizes as follows:

1. Choosing an Implementing Agency outside the sector can be beneficial for project implementation. In this project, the UAP, a non-water sector entity, was responsible for the overall project implementation due to its neutral position among sector entities with competing interests, its stronger capacity in financial management and procurement and its ability to mitigate conflict among different sector entities.

2 . Establishing selection criteria and utilizing competition to foster reforms can be useful tools to increase motivation about the project. In this project, participating municipalities were eligible for project funds based on size and their willingness to transfer their water supply or sanitation services to a municipal service provider as mandated by the Ley Marco. The ICR highlights that two pre-conditions could have been used: i) the degree to which the providers were measuring water consumption and utilizing meters; and ii) if tariffs had been adjusted during the last two years.

3 . Outreach activities and pilot projects are critical for overcoming resistance to water metering. In this project the communities opposed the introduction of household meters since it was believed that they would revision and probably an increase in tariff structure.

14. Assessment Recommended?

No

15. Comments on Quality of ICR

The ICR provides a good overview of project preparation and implementation. The ICR, despite some



shortcomings, is appropriately and usefully candid and includes an extensive Economic analysis. Also, the ICR provides several useful lessons learned. However, the ICR provides limited information on financial management and procurement and does not include any details on safeguard mitigation activities.

a. Quality of ICR Rating
Substantial