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Honduras: PROMOSAS Water



Overview

In 2007, the World Bank committed to provide financing to support the modernization of the water sector in Honduras and promote decentralization of water services, through a project called PROMOSAS. The Tegucigalpa Performance Based Contract—to address non-revenue water—was created under this project to help the city's water public utility to manage twin problems of a deficient water network and severe water deficit. Not only did the World Bank provide funding assistance it also assisted the city in project structuring and executing the tender process. In 2011, the contract was awarded to a winning bidder and since then the city has seen an increase in metered consumption and an improvement in continuity of service.

This series showcases how the World Bank Group supports the development and implementation of public-private partnerships. This support comes in the form of public sector loans, private sector finance, sector and transaction advice, guarantees, and output-based aid.

Background

By 2007, heavy internal migration had produced a dramatic rise in the population of Tegucigalpa—the capital of Honduras—which increased from 400,000 in 1980 to 1,300,000 in 2008. This growth was not matched by an expansion in urban infrastructure services and the city suffered from a severe water deficit and a deficient water network. As a result, there was no continuous water service in any part of the city, and the situation was worse in the outskirts, where water was supplied by private and public tanker trucks. Non-revenue water (NRW) was estimated to amount to around 60 percent.

Although a number of performance-based contracts had been implemented to control water losses, they merited redesigning to address the water supply system for the city of Tegucigalpa and the main public water services provider, the National Autonomous Water and Sewerage Service (SANAA). A hurricane in 1998 had also caused severe damage to the existing water infrastructure in the city. To further compound problems, SANAA had been operating under an unclear legal framework. A 2003 framework law had envisioned the transformation of SANAA to a technical agency and the devolution of its operational powers to local municipalities by 2008 and then eventually postponed to 2013. However, the political support for this devolution was not consistent.

Thus, in 2007, the World Bank committed to provide financing to support the modernization of the water sector in Honduras and promote decentralization of water services, through a project called PROMOSAS. Because of the high visibility and complexity of the decentralization in the case of Tegucigalpa, it was agreed that support to Tegucigalpa would be limited to efficiency and service quality improvement activities in a pilot area, and would not directly address institutional issues. Based on the successful experience of past performance-based contracts, the World Bank team suggested that activities under PROMOSAS be implemented in the form of a performance-based contract, with payments directly linked with results, and the Government of Honduras (GoH) and SANAA agreed to explore the concept.

Project Description

Fundamentally, the Tegucigalpa Performance Based Contract (PBC) objective was to demonstrate that quick, visible improvements in service continuity and NRW management could be achieved even in a challenging situation such as Tegucigalpa. Those improvements would be achieved by the contractor through better demand management (metering),

leakage reduction, and an optimization of key elements of the network's structure and operation.

However, due to Honduras' unclear water sector institutional situation and in part because of the lack of information on the baseline situation in the city, the PBC was designed as a hybrid model where the performance-based remuneration would only be a relatively small part of overall remuneration (15 percent).

Because of the limited funding available (around \$6.5 million) and innovative nature of the PBC contract, it was decided to focus the contract on a pilot area in Tegucigalpa covering around 40,000 connections. The area represented a diversity of socio-economical and service level conditions. The 30 month contract was divided in to three phases:

- **Engineering Services (6 months):** Contractor expected to develop a technical and commercial diagnostic of the project area.
- **Implementation Services (18 months):** After approval of the diagnostic plan, the Contractor implements the improvements.
- **Maintenance Services:** Contractor begins to withdraw its team but is expected to focus intensely on capacity building and knowledge transfer to ensure the utility can continue providing the higher level of services after the PBC.

The 15 percent PBC payments would be triggered by demonstrated improvement in service continuity and improvement in metered water consumption.

World Bank Group Role

Apart from providing a \$6.5 million line of credit for the Tegucigalpa PBC, the World Bank also led the competitive, transparent tendering process. The tender process took around 13 months from the publication of first call for prequalification, to the award of the contract. The procurement of the contract was conducted under World Bank rules as the contract was largely funded out of PROMOSAS. The World Bank pre-qualified six Joint Ventures and Companies based on international standards. Eventually three bids were submitted and the contract was finally awarded and signed in June 2011.

Outcomes

- 100 percent of water connections in the targeted area with metered consumption (against a 30 percent target).
- Increased continuity of service of five hours per day.

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