

POST HURRICANE HOUSING PROGRAM

(HO-0146)

EXECUTIVE SUMMARY

Borrower and guarantor:	The Republic of Honduras			
Executing agency:	Secretary of Public Works, Transport and Housing			
Amount and Source:	IDB:	(FSO)	US\$	10.39
	Local:		US\$	1.16
	Total:		US\$	11.55
Financial terms and conditions:	Amortization Period:	40	years	
	Disbursement Period:	12	Months, plus 3 months for auditing expenses	
	Grace Period	10	years	
	Interest Rate:	1%	during grace period	
		2%	thereafter	
	Supervision and Inspection:	1.0	%	
	Credit Fee:	0.5	%	
Objectives:	<p>The goal of the present program is to support in an initial stage the Government's strategy to develop housing solutions for those low income households made homeless by Hurricane Mitch, and to establish the basis for the long-term development of the housing sector. The specific objectives of the Program are to:</p> <ul style="list-style-type: none">(a) speed the definitive resettlement of the affected population;(b) speed the initiation of housing reconstruction, as well as the repair and rehabilitation of damaged housing;(c) ensure housing reconstruction in safe areas by strengthening municipalities' capabilities to manage natural hazard risks(d) improve the formulation and implementation of housing policy by strengthening the technical capacity of the public sector, and by expanding the role of NGOs, municipalities, and other representative organizations;(e) establish a mechanism for mobilizing additional donor resources for housing and for more effective donor coordination throughout the period of reconstruction;(f) lay the foundation for a possible second Bank operation to aid the development of the housing sector.			

Description:

Overview: The principal instrument the Program will use to meet its objectives is a demand side subsidy. The low income projects financed with the subsidies will perform much like a social investment fund. This means that approved project formulators (an NGO, municipality, cooperative, or other agent) will work with households to prepare project proposals which identify apt land, and include plans for housing, physical works, land regularization, and financial arrangements. The Bank's funds will be used to finance not a simple land purchase but a package of housing and resettlement services. That is, the Program will offer households a way of moving out of existing shelters onto a permanent site with secure title, an orderly sub division, and institutional help to improve infrastructure and housing

In addition, the Program will undertake focused activities to support local capacity for housing reconstruction, and technical studies and dialogue to increase capacity of Government to develop housing policy and institutional framework.

The components described below have been designed both as instruments to meet the immediate objective of facilitating the resettlement of people displaced by Hurricane Mitch, and as the foundation for the long-term development of the housing sector.

Components

1. The Complementary Subsidy for Housing (\$8.39 million) will provide demand side grants to displaced households to help them resettle rapidly, and to repair damaged housing. In the most basic projects, these grants will help them acquire plots of land, access water and a latrine, and to erect basic shelters.
2. Institutional Development of the Complementary Fund for Housing (\$1.32 million) will set up the institutional arrangements and procedures for the Fund operations at the national and local levels, will finance the subsidies for the pilot period, and the Fund's execution for the entire period of the loan.
3. Housing Reconstruction Support (\$650,000) will (a) set up an information clearinghouse to facilitate contacts between formulators of housing projects and possible beneficiaries through information and outreach activities, and (b) will finance maps of local jurisdictions that outline areas unsuitable for settlement, and introduce simple but effective measures to reduce natural hazard risk.
4. Technical Assistance for Housing Policy and Institutional Reform (\$560,000) will finance a small technical team for the housing policy unit within SOPTRAVI and technical studies and dialogue to help establish the policy and regulatory

capacity for the housing sector.

Relationship of project in Bank's country and sector strategy:

The Bank's country strategy (now under preparation) in the post disaster period is to give priority to: (i) supporting the Government in development of its national reconstruction plan and promoting international cooperation to finance the plan; and (ii) financing the physical reconstruction of the country, including roads, bridges, sanitation infrastructure, schools, health centers and housing.

Cofinancing:

The Complementary Housing Fund provides a vehicle through which donors may contribute additional resources and coordinate their activities in the housing reconstruction. Alternatively, donors may work directly with local agencies to design and execute housing projects. These projects, if they met the Fund criteria, may qualify for complementary subsidies

Environmental/social review:

The Program's strategy for identifying areas at high and moderate risk to natural hazards, and encouraging housing reconstruction in safe locations is explained under the Environmental Component (par. 2.17-2.20). The minimum requirements for infrastructure in new settlements and the estimated resources necessary for these are found in para. 2.8. The methods envisioned for avoiding land speculation and ensuring transparency in land transactions are outlined in para. 4.6, a – f. The measures that the Program will take to ensure women's access to Program benefits are explained in paras. 3.31-3.34.

Benefits:

The principal benefits of the Program will be to:

- (a) Support the speediest possible transition of households from emergency shelter to permanent resettlement. The subsidies are expected to help approximately 8,400 households to resettle including most urgently the 5,000 to 6,000 households in shelters. This will minimize the social deterioration that can afflict households residing for long periods in shelters, and will avoid the high cost of constructing long term temporary shelters. As a result, households will be able to begin contributing to the permanent improvement of their housing conditions more quickly and scarce government resources can be directed to the permanent solutions.
- (b) Focus resources on the key bottleneck of land acquisition. This will provide a “platform” on which national and international donors, local agencies and private sector firms can play a role in planning, financing and constructing better facilities and improved housing.
- (c) Give a key role to municipalities in ensuring that households get registered land title. This is a role, which plays to their institutional strengths and avoids tasks such as providing credit for housing, where they have no comparative advantages.
- (d) Encourage economical use of public resources to be invested in housing, laying the basis, if the government so chooses, for a more permanent program to help low income households become owners.
- (e) Help develop and implement a process that ensures that resettlement projects take full account of environmental risk.

Risks:

The two most critical risks relate to price inflation and corruption in the purchase of land as a component of the housing projects financed with the complementary subsidy. Both are linked to the fact that, in most localities, land markets are thin, uncompetitive and non-transparent. As a result, the fund’s operation in a particular locality to purchase land for resettlement is very likely to lead to a spike in land prices, resulting in windfall rents for the owner, and the erosion of the purchasing power of the Funds resources. This could be exacerbated by corruption, since land transactions are bedeviled by problems of covert price agreements, kickbacks and similar practices. A preliminary list of measures to help mitigate these risks have been identified (para. 4.6, a-f), and these will be developed and adopted in the Fund’s operating procedures.

Special contractual conditions:

Conditions prior to Disbursement:

The hiring of the Fund's manager is a condition prior to first disbursement (para. 3.9) of Component 2. The legal establishment of the Fund and the proposal of the project parameters satisfactory to the Bank are conditions prior to the first disbursement under Component 1, the Complementary Subsidy for Housing Component (para. 3.9).

Other special conditions:

When the property vender is a public authority (national, departmental, or municipal), all monies they receive for the sale of the property must be invested in on-site infrastructure in order for the project to be eligible for subsidy funds (paras. 2.27, c). An external audit of the measures to mitigate the land purchase risks will be done at month 6; if this audit reveals these have not been implemented to the satisfaction of the Bank, no new subsidy commitments (component 1) will be permitted until the required changes have been implemented (para. 3.11). SOPTRAVI will present for the Bank's approval the policy development strategy, including the terms of reference and work plan, before any commitments of resources for any of the technical studies and workshops can be made (para. 3.22).

Poverty-targeting and Social Sector Classification:

This Program is classified as poverty targeted and qualifies as a social equity/poverty reduction project, as described in the indicative targets mandated by the Bank's Eighth Replenishment. The median income for urban households in Honduras is under \$200 a month, and 80% of the houses destroyed or damaged in Honduras are estimated to belong to low income households. The Program's direct subsidies are designed to benefit 8,400 of these low income households.

Exceptions to Bank Policy:

Disbursements will be made using a revolving fund, with ex-post verification. However, as this is a one year operation and the size of the loan is relatively small, it is proposed that an exception be granted to allow the revolving fund to be up to 25% of the loan amount (see para. 3.26).

Procurement:

International competitive bidding will be used to procure consulting services in excess of US\$200,000 or goods in excess of \$250,000. It is not envisioned that the SOPTRAVI or the Housing Fund will contract any works. The Bank's standard procedures will apply to the procurement of all goods and services, with the exception of two consultancy contracts for which application of the Bank's simplified procedures for projects in emergency situations is proposed. (paras. 3.28, 3.29).

- Special Aspects:** The grant subsidies to be financed by the Bank and the Government will cover, among other costs, the cost of acquiring land on which to erect a basic shelter. Although the Bank has traditionally followed a policy of requiring land or property rights needed for projects to be financed with local counterpart resources, this Housing Program builds on other projects that have been approved pursuant to the Bank's new Urban Development and Housing Policy (OP-751), which explicitly authorizes the financing of new housing solutions and of subsidies for housing, without distinguishing between Bank and counterpart resources. This policy issue is discussed in detail in paras. 2.24-2.26.
- Retroactive Financing:** It is recommended that up to \$1.5 million of expenses incurred before the approval of the loan, but after January 25, 1999, be eligible for reimbursement with the proceeds of the Loan as long as IDB procedures and policies have been followed (para. 3.27).

I. BACKGROUND

A. Logic of the Document Presentation

- 1.1 In laying out the emergency housing program, the present document crystallizes worldwide experience of housing recovery after disasters and brings this experience to bear in the situation in Honduras. It also lays out in considerable detail the process of learning by doing for establishing and initiating quickly a housing fund to complement private investments in housing.
- 1.2 The nature of an emergency operation means that key project parameters have been assessed given the best information available in the short-run. These parameters will be systematically and thoroughly revised as information comes in from the pilot projects in the first quarter of the operation's execution (see the execution matrices in Annex II).

B. Impact of Hurricane Mitch in the Housing Sector

- 1.3 Hurricane Mitch first struck the northeast coast of Honduras on October 26, 1998 with winds up to 250 kph. Its rains lasted for four days, causing severe flooding in all 18 departments of the country, especially on the Atlantic coast, the southern departments and the capital, Tegucigalpa. Hurricane Mitch left 5,700 people dead, 11,000 injured, and over 8,000 people missing. During the storm, over 2 million people were evacuated from their homes. By December, 80,000 people (16,000 families) were still living in emergency shelters – most of them school buildings – and another 150,000 people (30,000 families) were estimated to be staying with family and friends unable to return home. The best assessment estimates that Mitch destroyed 32,000 houses and damaged 46,000 structures.
- 1.4 Today, more than five months after the disaster, Honduras is facing its shelter crisis. The people sheltered in school buildings have to leave as the schools reopen for the new term in March. The people who have been accommodated with family and friends are under increasing stress. With limited resources, churches, private groups, and local governments are trying to help displaced people find alternative, temporary shelter. But costs to build and sustain this shelter are high. USAID and the UN system are financing the construction of macro-shelters primarily in Tegucigalpa and their maintenance for the next 6 months, costing over 4 million dollars. However, other international appeals for a replenishment of humanitarian assistance have fallen short of projected need. It is now clear that people may be facing an extended stay in temporary housing – as long as 12 to 24 months if worldwide experience is any guide.
- 1.5 Already, households are responding to their critical situation by returning to high-risk areas and by illegally occupying vacant land. In Tegucigalpa, the recent announcement of the municipality's intent to build and move families from the existing 100 plus shelters to 5 large shelters triggered protests and land invasions. People are seeking permanent solutions, not another temporary shelter.
- 1.6 However, permanent housing solutions are, and will be, slow to come on line. The NGOs and donors who are able to help households build permanent houses and infrastructure even at an accelerated rate still require beneficiaries to have land

before resettlement and construction can begin. Government support to resolve the problem of land acquisition is critical at this juncture.

C. Rebuilding: Activities of Donors, and Non Governmental Organization, and Municipalities

- 1.7 Municipalities have undertaken a variety of activities to help facilitate access to permanent housing solutions. All have counted or registered, in one form or another, the displaced households in their jurisdictions. Many municipalities have taken proactive role in identifying available and apt land for resettlement; some have purchased land outright and others have assumed considerable debt to do so. There are instances of municipalities attempting to develop housing projects, including organizing credit schemes using their own funds. All are courting NGOs and donors to provide housing, requesting that the housing projects be complete with land and municipal services, whenever possible.
- 1.8 A wide array of NGOs, churches, and international donors are offering housing solutions for those who were displaced by the disaster. The offers vary in terms of type of housing solution (size, value, number of units), beneficiary selection, project organization (self-build, contractor), treatment of cost recovery and subsidy issues, and long-term community development aspects. Many are still trying to complete the missing components of their projects, and have requested that the municipalities contribute land and basic services, while they recruit beneficiary households to design and build housing.
- 1.9 Available information suggests that some of the more remote and smaller municipalities are receiving less offers of housing solutions, and even the larger, more visible concentrations of displaced people – such as Tegucigalpa and San Pedro Sula – still need considerable help to relocate their displaced populations.

D. The Lessons of Experience: Housing Reconstruction after Natural Disasters

- 1.10 In the aftermath of a natural disaster, short-term, stop gap measures are needed to shelter and relocate people. Local communities themselves are the primary responders in this period, with support from outside relief providers (Red Cross, UN, NGOs) as they arrive. Immediately after an event, the numbers of people needing shelter can be very large. Within the first few weeks and months, however, the number in shelters will shrink dramatically as people return to their homes, find shelter with friends and families, or acquire new permanent housing.
- 1.11 It is only later, when the number of displaced people has plateaued and it has become clear that these people will need shelter assistance for a considerable period of time before permanent housing is available, that the Government is faced with the question of whether to build temporary housing. Honduras has been a “text-book” case, in this sense.
- 1.12 Temporary housing is often semi-permanent structures that last longer and is more comfortable than tents or makeshift shelters, but it is not permanent housing in all three of the important ways: materials, services, and location. The structure may be of pre-fabricated shelter stockpiled for emergency situations, or may be newly built larger structures also built for temporary use of multiple families but nevertheless more akin to a warehouse than a house. The location of the temporary shelter is more

often than not on land not intended for housing settlement, and its ownership is not intended to be transferred to the temporary occupants. As such, temporary housing is just that – temporary.

- 1.13 World experience has provided very clear lessons about investing in this kind of temporary housing: The cardinal rule for reconstruction and development assistance is don't do it, if at all possible. This temporary housing is expensive, reduces the resources available for permanent solutions, postpones decisions necessary for long-term solutions, and almost always becomes permanent itself. At its worst, people remain in temporary housing for years; at its best, it is a terribly inefficient means to reconstruct permanent housing.
- 1.14 There is, however, an alternative to the traditional reliance on costly temporary housing. This alternative strategy focuses on the immediate relocation of displaced households onto permanent sites, providing households with registered ownership of the sites and incentives for intermediary groups – NGOs, private enterprises, municipalities – to help households leverage their ownership into a sustainable process of housing construction and improvement.

E. Government and IDB Strategy in the Housing Sector

1. Immediate Response

- 1.15 Shortly after the disaster, the government created its Reconstruction Cabinet, approved the *Ley de Facilitación Administrativa* that permits the modification of public expenditures, and simplified the procurement process to address the emergency needs. December 10 and 11, the Cabinet presented its most urgent needs and the outline of a master plan for national reconstruction which included the housing sector to the Regional Consultative Group in Washington, DC.
- 1.16 A Bank mission was sent in December to help the Government address the housing crisis caused by Hurricane Mitch, and to lay the foundation for a sustainable housing strategy that would promote the development of the sector. The Mission's report to the Reconstruction Cabinet developed the concept of the Complementary Housing Fund, and on January 25, the Government formally requested the Bank's support to initiate this Fund, asking for special assistance in expediting its implementation.
- 1.17 The Government established the Unit for Housing Programs and Projects in the Sub Secretary of Public Works and Housing (within SOPTRAVI) to be responsible for establishing policies and regulatory framework for the housing sector. A person has been placed in charge, and the Unit's operating budget is currently in negotiation for approval with the 1999 agency budget.

2. Housing Reconstruction Strategy

- 1.18 The Government has adopted the alternative reconstruction strategy that emphasizes households' immediate resettlement to definitive locations – an important toehold in the reconstruction process. The strategy supports the transition to permanent housing by providing resources for ownership of the site and construction of minimum services.
- 1.19 The present operation is designed to get this strategy underway as quickly as possible. An important consideration in the rapid establishment of the Fund is to

have an operating mechanism for mobilizing additional donor resources for housing and for more effective donor coordination throughout the period of reconstruction by the time the Regional Consultative Group meets in Stockholm at the end of May.

- 1.20 The Bank will also work with the GOH to prepare this year a possible second, more comprehensive loan operation that is intended to build on this first operation to further support the housing reconstruction needs, as well as the long-term policy and institutional development of the sector.

3. Coordination with Other Donors

- 1.21 The December mission report was sent to a number of international donors interested in supporting housing in Honduras. Briefings on this proposed program to support the Government's housing reconstruction strategy have also been held with various bilateral donors and the program will be presented to the Regional Consultative Group in Stockholm. The Complementary Housing Fund provides a vehicle through which donors may contribute additional resources and coordinate their activities in the housing reconstruction. Alternatively, donors may work directly with local agencies to design and execute housing projects. These projects, if they meet the Fund Criteria, may qualify for the complementary subsidy. The Swedish International Development Cooperation Agency (Sida) indicated its possible interest in co-financing the rapid establishment of the Fund.

II. THE PROGRAM

A. Objectives

- 2.1 The objective of the proposed program is to support in an initial stage the Government's strategy to develop housing solutions for those low income households made homeless by Hurricane Mitch, and to establish the basis for the long-term development of the housing sector. More specifically, the Program seeks to:
- a. speed the definitive resettlement of the affected population;
 - b. speed the initiation of housing reconstruction, as well as repair and rehabilitation of damaged housing;
 - c. ensure housing reconstruction and resettlement in safe areas by strengthening municipalities' capabilities to manage natural hazard risks;
 - d. improve the formulation and implementation of housing policy by strengthening the technical and institutional capacity of the public sector, and by expanding the role of NGOs, municipalities, and other representative organizations; and
 - e. establish a mechanism for mobilizing additional donor resources for housing and for more effective donor coordination throughout the period of reconstruction.

B. Program Overview

- 2.2 As an emergency program, this operation aims to respond to the demand for housing during 12 months of the reconstruction period. The bulk of the resources of the loan are for demand side subsidies, which are expected to help approximately 8,400 beneficiary households to resettle or repair damaged houses (when located outside of high risk areas) – including most urgently the 5,000 to 6,000 households presently in shelters. Complemented by donor resources, the coverage would of course be greater. The Housing Fund itself will be established and, with its operations piloted very early, should be approving 30 projects per month on a countrywide basis by month six. As a result, the Fund should provide an attractive conduit through which donors may contribute additional resources and coordinate their activities in the housing reconstruction.
- 2.3 The Program will also finance institutional strengthening and technical and policy advice, which will help SOPTRAVI most immediately to manage donor resources, and over the course of the operation to assume its new, forward-looking role as the policy and regulatory agency for the housing sector. The Fund's operations will also provide valuable experience for the Government as it seeks to introduce more efficient public subsidies for the development of the housing sector.
- 2.4 Finally, the Program will undertake focused activities to support local capacity for promoting safe housing reconstruction. The disaster has brought into stark relief the population's vulnerability to natural hazards – to landslides and flooding, in particular. The environmental component will assist municipalities to identify the location and nature of these risks in their jurisdictions, to evaluate what is acceptable

risk, and to promote public safety through location incentives, preparedness information and the adoption of low-cost mitigation measures.

C. Components

2.5 The Program will consist of 4 components that are designed to provide support to the rapid establishment and initiation of the Fund and to the Government's strategy for supporting resettlement and housing reconstruction. The components will help build expertise in the area of low-cost housing development and improvements throughout the regions affected by Hurricane Mitch. They will also support an increase in the direct investments in housing.

2.6 The components described below have been designed both as instruments to meet the immediate objective of facilitating the resettlement of people displaced by Hurricane Mitch, and as the foundation for the long-term development of the housing sector.

1. Component 1: The Complementary Subsidy for Housing (\$8.39 million)

2.7 The component will offer small grants directly to households (the complementary subsidy) to facilitate their resettlement. The projects financed with the subsidies will be developed by local institutions, generally by the NGOs, private groups, or municipalities ("project formulators") using procedures similar to those developed for social investment funds. The targeting of the subsidies would give priority to the resettlement of any families still in shelters. Other families who cannot return to their houses, those with damaged houses, and those living in areas designated as uninhabitable (at high risk to natural hazards) would be the next priority. This component may complement other programs in the housing sector.

2.8 To be eligible for subsidy financing, the projects must ensure, at a minimum, that each participating household has access to a plot of land, water, latrine, and materials to erect or rehabilitate a minimal housing unit. The plot must come with registered land title and be located outside a designated "uninhabitable" area. Preliminary estimates indicate that a grant of \$1,000 per household from the Fund will be sufficient. It is likely that other government sources of subsidized project finance will be involved in some of the resettlement projects. To ensure that public resources are used economically, and to encourage the use of credit where possible, it is proposed to limit the total government subsidy to no more than \$2,000 per households. These estimates – for the complementary subsidy and the total amount of government subsidy – will have to be revised after experience with the first pilot projects and will be included in the Program Operating Regulations.

2.9 For many projects, the subsidy will provide a complement to other donor resources (being executed by project formulators), beneficiaries' own resources, and loans. The demand side subsidy will promote competition between project formulators since it is the beneficiaries who can select between different projects that may be offered by different formulators, and bring their complementary subsidies with them. Households join with a project formulator and together they will identify an apt land, negotiate its purchase and plan the subdivision, the construction of the housing unit, as well as other services. This is to ensure that the solution produced reflects the diverse needs of the beneficiaries.

- 2.10 Some resources will be made available to facilitate projects in areas where project formulators need special assistance. In these cases, the Fund can contract experienced consultants to help agencies design and implement the resettlement projects (project facilitation contracts). Similarly, project formulators who have already acquired land and have eligible beneficiaries resettling can be reimbursed according to the same eligibility criteria.

2. Component 2: Institutional Development of the Fund (\$1.32 million)

- 2.11 The Complementary Housing Fund will be established as a “deconcentrated entity” under the Secretaría de Obras Públicas, Transporte y Vivienda (SOPTRAVI) – the same kind of semi-autonomous legal figure as is the Honduran Social Investment Fund. The Government will hire the Fund Manager to establish and manage the Fund. This component will set up the institutional arrangements and procedures for the Fund operations at both the national and local levels.
- 2.12 Draft Terms of Reference for contracting the team to set up the Fund and initiate its operations in pilot areas are included in the project files. As part of the local operating regulations of the project development process, a number of measures will be implemented to mitigate the risk of price inflation and corruption in the land transactions (see the Benefits and Risks Section following).
- 2.13 The component will also finance up to \$250,000 for the direct subsidies issued during the pilot phase, as well as the administration cost of the Fund’s execution for 12 months, including office rental, equipment, and vehicles.

a) Organizational Arrangements of the Fund: National Level

- 2.14 These activities will include the creation of the following functions and assignments: (i) management and governance structure (including, external consultative group), (ii) technical unit to receive projects prepared by the local committees, and to manage resource assignment, (iii) financial management and control systems (including designation of local Fund Administrator to issue the complementary subsidy), and (iv) management information system for program reporting. These functions will be developed within a framework that gives priority to efficiency and the cost-effectiveness of the required procedures.

b) Organizational Arrangements of the Fund: Local Level

- 2.15 These activities will include the setting up of the Fund’s organizational capacity and development of simple operating procedures at the local level for project development and implementation. In five pilot areas, these activities will include: (i) the formulation of a project, (ii) local review of the project, (iii) supervision of project implementation (including resettlement, and issuance/registration of property titles), (iv) contracts and disbursement of funds, and (v) outreach and promotion with municipalities and project formulators. The draft operating procedures produced on the basis of this experience will be reviewed and revised within three months of their operation.

3. Component 3: Activities to Support the Housing Reconstruction (\$650,000)

- 2.16 The component will finance two activities that will support the local housing reconstruction process.

a) Environmental Management: Mapping Uninhabitable Areas (\$400,000)

- 2.17 The Law of High Risk Zones, passed in November 1998, requires municipalities to prepare risk maps of their jurisdictions that outline areas unsuitable for settlement. All new settlements must be outside these areas designated as “uninhabitable” and only families located outside such areas will be eligible for the Complementary Housing Subsidy.
- 2.18 This component will set up a strategy of defining uninhabitable areas in municipalities throughout the country and, in the municipalities participating in the housing program, will finance their delineation on easy to manage maps. The mapping will involve three steps: (i) development of guidelines for risk mapping, in particular highlighting distinctions between high risk areas and those of moderate risk where low-cost, community level measures can mitigate risk; (ii) the preparation of municipal maps of natural hazard risks, and (iii) the delineation of uninhabitable areas, which will involve the participation of local government officials, technicians and the population to define what is acceptable risk for human settlement.
- 2.19 The Fund and local authorities will make these uninhabitable areas and their exclusion from program benefits known to potential beneficiary households and project formulators. In the review of project proposals for the Complementary Subsidy, the Fund will deny program benefits to all projects that are located or proposed to locate, in areas mapped as uninhabitable.
- 2.20 In the case where existing communities occupy areas at high risk to natural hazards (floods and landslides, for example), they will be provided with information about the risks they face, their options for alternative locations which would be supported by the complementary subsidies, and the immediate measures they can take to prepare for an emergency, should they not relocate. Beyond the cost of the maps, the component will finance the development of informational material for project formulators and the public.

b) Information Clearinghouse for Housing Reconstruction (\$250,000)

- 2.21 This component would finance the establishment and running of an independent information clearinghouse (non-governmental organization) that will receive, maintain, and make available information regarding the housing sector and the reconstruction. The purpose of the Clearinghouse is two fold: First, it is to facilitate contacts between formulators of housing projects and possible beneficiaries in order to accelerate the delivery of definitive housing solutions and second, to encourage dialogue among the project formulators and municipalities about solutions being offered. Information may include: the location of eligible households and local points of contact, a directory and brief description of housing projects that are proposed or being implemented, guidelines for housing design and self-help construction, indicators of construction sector performance (prices, for example), as well as government policies affecting the sector, how to access the Complementary Fund and progress reports. The Clearinghouse will also conduct monthly information sharing meetings in at least four regions of the country and have information available for distribution by brochure, fax, and email. The Clearinghouse will also publish monthly bulletins containing news in the sector.

4. Component 4: Technical Assistance for Housing Policy and Institutional Reform (\$560,000)

- 2.22 The Government has designated the Secretary of Public Works, Transport, and Housing (SOPTRAVI) as the policy and regulatory agency for the housing sector. In order to assume this role, SOPTRAVI has established a Unit for Housing Programs and Projects, which is under the Sub Secretary of Public Works and Housing. It is anticipated that this Unit will become a new Sub Secretary for Housing in the next 6 months. This component will finance the contracting of a minimal technical team for the Unit, as well as the technical and policy studies to support the development of a housing policy for the country and the institutional framework to implement it.
- 2.23 The technical studies and other activities will be defined and carried out to support this development. These will include analyses of, among others: (i) the housing market for low income households in Honduras; (ii) housing finance and mortgage market development; (iii) land markets, tenure and registration of low-cost housing lots; and (iv) the legal and institutional arrangements necessary for the housing sector.

D. Treatment of Land in Bank Housing Operations

- 2.24 The Bank's policy and practice have always regarded land transactions with considerable caution. The Bank has traditionally required land or property rights-of-way needed for Projects to be financed with local counterpart resources rather than the Bank's loans.
- 2.25 More recently, however, in housing projects that provide eligible households with subsidies to help acquire new houses (and thus necessarily to purchase land), no distinctions between Bank and counterpart resources have been made (e.g., Guatemala Housing Program 1048/OC-GU; paragraph 2.35). In this case, the use of program resources to purchase land owned by the government was explicitly excluded. These housing projects followed the adoption by the Board, in June 1995, of a new Urban Development and Housing Policy (OP-751) that explicitly authorized operations that finance new housing solutions and subsidies for housing.
- 2.26 Like other subsidy funds financed by the Bank, the present Fund will cover a package of housing services, including land improved by only a planned and orderly subdivision, and very basic infrastructure and housing construction. It is important to note that in some cases it will be advisable for the land to be purchased from available municipally owned (rather than privately owned) sites. While some municipalities may be willing to donate the land, it is hard to generate a good reason for requiring resource poor municipalities to divest themselves of a valuable asset without reasonable compensation.
- 2.27 Regarding the present Program, the proposed use of Bank resources to finance subsidies which cover among other costs, the cost of acquiring land, is based on the following considerations:
- a. The target population requires assistance to purchase land themselves for permanent settlement. In providing grants that cover land purchase, the proposed Fund leverages the beneficiaries' contributions to the

installation of infrastructure and the construction of dwellings using their own labor, and eventually, savings or credit.

- b. The Banks funds will be used to finance not a simple land purchase but a package of housing and resettlement services. That is, the project will offer households a way of moving out of existing shelters onto a permanent site with secure title, an orderly sub division, and institutional help to improve infrastructure and housing.
- c. The issue of municipal (and other publicly owned) properties will be handled as follows: the program will require legal arrangements such that when the property vendor is a public authority, the purchase price will be held in an account that can only be used to finance the construction of infrastructure on the housing site, in order for the project to be eligible for subsidy financing.

E. Cost and Financing

1. Program Costs

- 2.28 The total cost of the Program components will be \$10.92 million. Unallocated funds amounting to approximately 8% of the estimated costs of the institutional and reconstruction support activities (\$260,000) have been included to allow for unanticipated cost variations. The Program does not fix a numerical limit on the total number of subsidies provided (other than the total resources available for component 1), and therefore it is not necessary to estimate cost variations for these items. Inspection, commission, and interest costs for the 12 months of Program execution have been capitalized into the Program cost table. The total Program cost is therefore estimated to be \$11.55 million.

2. The Emergency Program and Sources of Financing

- 2.29 As an emergency program, this operation seeks to respond to the demand for housing during 12 months of the reconstruction period. The size of the subsidy will determine how many households can be resettled. A subsidy of \$1,000 per household would permit approximately 8,400 beneficiary households to resettle or repair damaged houses – including the 5,000 to 6,000 households presently in shelters. Smaller subsidies, such as \$500 per household, would double the coverage.
- 2.30 According to initial estimates, additional government support for housing reconstruction will be needed. To help meet this demand, the Fund has been conceptualized to be easily expanded where additional resources are contributed, and indeed donor co-financing of the Fund will be sought at the Regional Consultative Group meeting in Stockholm in May. The Bank loan of \$10.39 million will be in US dollars from the FSO. In addition, it is anticipated that a second loan operation would be prepared over the course of the year both to finance the Fund to continue the housing reconstruction, and to support the longer-term development of the housing sector.

3. Housing Sector Reform and Local Counterpart Resources

- 2.31 By creating a program instrument (the subsidy Fund) and providing strategic technical and policy support, the present Program has been designed to help the

Government to lay the foundation for the reform of the housing sector. The experience which will be gained with demand side subsidies and the technical analyses and policy dialogue over the course of the year will provide the critical input for the preparation of the second operation. To help strengthen this commitment to housing sector reform, the present Program will establish two parameters for local counterpart resources: They must (i) fund at least 10 percent of the direct subsidies, and (ii) support the development of housing policy and institutional reform. The cost table has been prepared to reflect this priority.

Cost Table

POST HURRICANE HOUSING PROGRAM (US\$ MILLIONS)				
Cost Category	Source of Financing			
	Total Cost of Component	Gov. of Honduras	IDB	Percentage of Total Cost
COMPLEMENTARY SUBSIDY FOR HOUSING	8.39	.84	7.55	73%
Direct Subsidies	8.19	.84	7.35	
Project Facilitation Contracts Window 3	.20		.20	
INSTITUTIONAL DEVELOPMENT OF THE FUND	1.32	.10	1.22	11%
Organizational Arrangements of the Fund: National and Local Levels				
Consulting Firm to set up and refine operating procedures (months 1 – 6)	.30		.30	
Individual consultants for Fund operations	.45	.10	.35	
MIS	.10		.10	
Office Equipment, Furniture and Vehicles	.12		.12	
Monitoring and Evaluation	.10		.10	
Direct Subsidies for pilot phase	.25		.25	
ACTIVITIES IN SUPPORT OF HOUSING RECONSTRUCTION	.65	0	.65	6%
Mapping of Uninhabitable Areas	.40		.40	
Information Clearinghouse for Housing Reconstruction	.25		.25	
HOUSING POLICY AND INSTITUTIONAL REFORM	.56	.06	.50	5%
Technical Team	.25		.25	
Studies and Workshops	.25		.25	
General Administrative Support	.06	.06		
TOTAL COMPONENTS	10.92	1.00	9.92	95%
AUDITING	.20		.20	2%
UNALLOCATED	.26	.14	.12	2%
PROGRAM COSTS	11.38	1.14	10.24	99%

POST HURRICANE HOUSING PROGRAM (US\$ MILLIONS)				
Cost Category	Source of Financing			
FINANCING COSTS	.17	.02	.15	1%
Interest	.05		.05	
Credit Commission	.02	.02		
Inspection	.10		.10	
TOTAL COST OF OPERATION	11.55	1.16	10.39	100%
Percent of Total Cost	100%	10%	90%	

III. ORGANIZATION AND EXECUTION

A. Overview of the Program's Execution Mechanisms

- 3.1 The Program will require the creation of the Complementary Housing Fund through Congressional legislation and the contracting of the Fund's Manager. As a decentralized financing scheme, the Housing Fund will function much like a Social Investment Fund. This means that approved project formulators (an NGO, municipality, cooperative, or other agent) will work with households to prepare project proposals which identify apt land, and include plans for housing and physical works, land regularization, and financial arrangements. In many cases, these project formulators will be experienced housing project developers or have had experience with developing and executing FHIS projects. Moreover, the scheme for developing projects and accessing the direct subsidies will be very easy to implement, and the program will make resources available to help project formulators put the projects together when needed. The project proposals will be reviewed by local Pro-Housing Committees, which will be made up of local actors authorized by the Fund, who will verify they meet the minimum program requirements. If the project is approved, the project formulator will be responsible for executing the project. The Complementary Housing Fund's role is to approve subsidy requests and supervise project execution.

B. Principal Operating Units

- 3.2 The executing agent for the emergency housing program is the Sub Secretary of Public Works and Housing and the Complementary Housing Fund, once it is legally established, both of which are under SOPTRAVI. The Sub Secretary/Fund will be responsible for all aspects of project execution, including the interface with the Bank and disbursement of program resources.

1. The Policy Unit

- 3.3 The newly-created policy unit, the Unit for Housing Programs and Projects, under the Sub Secretary of Public Works and Housing has provided the counterpart team in Program preparation. The director of the Unit will be responsible for the execution of activities to develop the policy and regulatory capacity for the reconstruction period and beyond (Component 4).

2. The Complementary Housing Fund

- 3.4 The Fund's operations will be significantly decentralized in order to help ensure that the all areas affected by Hurricane Mitch will have access to the housing subsidies. Local Pro-Housing Committees will be responsible for verifying the eligibility of projects proposed by project formulators, and for supervising the disbursement of the housing subsidies. At the national level, the Technical Unit of the Fund will be responsible for processing eligible projects sent from the local committees, which includes submitting them for approval to the Fund's National Pro Housing Committee and, upon approval, assigning resources to the local level.
- 3.5 The Fund's Technical Unit will also be responsible for contracting project promoters and facilitators. The Environmental Coordinator for risk mapping will report directly to the Fund Manager.

C. Program Initiation

1. Rapid Set Up and Consolidation of the Complementary Housing Fund

- 3.6 As the first step, the Manager of the Fund will be contracted who will oversee the rapid set up and initiation of the Fund. In order to quickly make resources available for resettlement and housing rehabilitation, the Complementary Housing Fund will adopt draft operating procedures and a learning by doing approach. At the local level, the Fund will contract program promoters to work with municipalities, NGOs, donors and households (“project formulators”) to develop eligible projects. The participants will evaluate the experience after three months and the definitive operating procedures will be produced and disseminated.
- 3.7 The Fund’s implementation, detailed in the execution matrices in Annex II, will progress in three broad phases:
- a) Phase I (months 1-3): Creation of Fund and Pilot Projects:**
- 3.8 A team of consultants will work with the Fund Manager to establish the Fund at the national level, and to start Fund operations in 5 municipalities within the first three months. They will have draft operating procedures that they will revise to guide the development of the pilot projects to be financed by the Fund. Minimal staff and material support will be contracted to have the Fund making its first grants within 6 to 8 weeks. The draft Terms of Reference for this team are included in the Project Files.
- 3.9 *The hiring of the Fund Manager is condition prior to first disbursement of Component 2. The legal creation of the Fund, and the proposal of the project parameters satisfactory to the Bank – understood to comprise (i) maximum size of subsidy per household provided by the Fund; (ii) maximum size of total subsidy per household provided by the Government (see para.2.9); (iii) eligibility criteria for beneficiaries; (iv) eligibility criteria for project formulators; (v) menu of uses for the subsidy; and (vi) maximum value of eligible solution – is a condition prior to first disbursement under Component 1 (Complementary Subsidy for Housing).*
- b) Phase II (months 4-6): Consolidation of Fund Operating Procedures and Outreach in New Areas:**
- 3.10 Towards the end of the pilot phases, the operating procedures and project development process will be reviewed and revised. The definitive operating manual, including model documents will be prepared. The project promoters – municipalities, NGOs, private agencies, and households – and Fund staff will participate in the review. An outreach and promotion program will introduce and train project formulators in additional municipalities.
- 3.11 At month 6, an external audit will report on the result of the measures to mitigate the risks involved in the purchase of land (see issues section), and proposed operating changes will be adopted as required by the Bank. *If the audit reveals these measures have not been implemented to the satisfaction of the Bank, no new subsidy commitments (component 1) will be permitted until the required changes have been implemented.*

c) Phase III (months 7-12): Nationwide Operation of the Fund:

- 3.12 The Fund will respond to project proposals from affected municipalities throughout the country. Additional program promoters may be contracted to work with project formulators to prepare projects.

D. Execution of Program Components

1. Complementary Housing Subsidy

- 3.13 The low income projects financed under this component will perform much like a Social Investment Fund. This means that approved project formulators (an NGO, municipality, cooperative, or other agent) will work with households to prepare project proposals which identify apt land, and include plans for housing and physical works, land regularization, and financial arrangements. These project proposals are reviewed by the Fund's designated local Pro-Housing Committees who will verify they meet the minimum program requirements, placing special attention on the eligibility of beneficiaries, the commitments of any additional funds, the location of the land outside of the uninhabitable zones, and the commitment of the municipality to process the registration of the titles. (More detailed discussion about ensuring eligibility can be found in the Project Files.) If the project is approved, the project formulator will be responsible for executing the project. The Complementary Housing Fund's role is to approve subsidy requests and supervise project execution.
- 3.14 On project approval, a tripartite agreement will be signed between the local committee, the seller of the land, and the agency acting as project formulator in the name of the beneficiaries. The contract will be given to the Fund Administrator (a private bank) who upon receipt from the seller of the land title, will issue the agreed price to the seller and the purchase agreement to the beneficiary household along with the municipalities commitment to process registration of the title in the Property Registry. The Fund Administrator will send to the Fund the names of the beneficiary households to avoid subsidy duplications. Any portion of the funds that were not used for land purchase, but to construction and services, will be issued to the project formulator executing the project. In the case where the project formulator is a municipality, the remainder funds will be kept in a trust (escrow) account with the Fund Administrator in the name of the agent. The project formulator then proceeds to implement the project.
- 3.15 The urgency of getting the subsidy program underway quickly requires that draft operating procedures and experience in 5 pilot areas be initiated quickly. A consulting firm with experience in setting up similar funds will be contracted, and the process for developing definitive operating procedures was described above.
- 3.16 To help ramp up the execution of these subsidies, the Fund may use program resources to identify communities of potential beneficiaries and to contract "project formulators," individuals or firms to prepare projects. By month 6, an estimated 30 projects (30 to 50 households each) will be approved monthly.

2. Institutional Development of the Complementary Housing Fund

- 3.17 The preceding section, Rapid Set Up and Implementation of the Fund, describes in detail the execution of Component 2.

3. Activities to Support the Housing Reconstruction

- 3.18 The Information Clearinghouse. Currently a number of organizations are working to unify information about housing, and to make it available both to organizations developing housing project, as well as to municipalities and households. The International Organization for Migration together with USAID have begun to set up an information clearinghouse operation in Tegucigalpa to help matching of public and private resources with eligible households to find permanent housing solutions. SOPTRAVI will contract the housing information clearinghouse which will be national in scope, and which will complement as well as help link the existing operation in Tegucigalpa with its own and any other local efforts. Beginning in the first month, information sharing meetings will be held in at least 4 regions of the country, and by month 2 a newsletter will be published both of which will be continued through the execution of the Program.
- 3.19 Environmental Management: Mapping Uninhabitable Areas. The Fund will contract the preparation of municipal maps that delineate uninhabitable areas for all municipalities that have requested to participate in the complementary housing subsidy program, beginning with the five pilot municipalities. Once the map is prepared for a particular municipality, the Fund's regulations will require all subsidy applications to comply with the map's designated exclusion zones.
- 3.20 The procedure for preparing the maps will require the consultants to first identify and map the different natural hazards and any priority environmental protection criteria applicable to the municipal area. Then, together with the local authorities and community representatives, the areas at high risk to natural hazards (those that cannot be mitigated with low-cost, community level measures) and a limited number of areas selected as having the highest priority for protection will be mapped as "uninhabitable areas."
- 3.21 During the pilot phase, pamphlets will be produced for municipalities that describe the steps for the preparation of maps of "uninhabitable areas" and their distribution. Also, public information material will be prepared about low-cost, community level hazard mitigation measures and will be disseminated to municipalities participating in the subsidy program.

4. Technical Assistance for Housing Policy and Institutional Reform

- 3.22 This component will finance four housing specialists for 12 months to staff SOPTRAVI's new policy Unit. This technical team will define and implement a strategy for developing a national housing policy. This will include defining, preparing terms of reference for and contracting technical studies, workshops and other activities necessary to inform recommendations for policy and regulatory reform. *SOPTRAVI will present for the Bank's approval the policy development strategy, including the terms of reference and work plan for workshops, before any commitments of resources for any of the technical studies and workshops can be made.* The Bank will participate in all aspects of policy development and dialogue.
- 3.23 This technical assistance component will help the Government to lay the foundation for the reform of the housing sector, and will provide the primary input for the preparation of the Bank's second operation.

E. Monitoring Program Performance: Reporting, Benchmarks, Disbursements and Procurement

1. Monitoring and Benchmarks

- 3.24 The activities and results (benchmarks) expected from each of the program components are set out in the execution matrix in the Annex. Given the short execution period, the arrangements for monitoring and reporting are intended to provide a clear account of what is expected from each component of the program and the calendar of activities, as well as to provide the means for the executors of the Program in consultation with the Bank to make systematic, thorough, and timely adjustments, as needed.
- 3.25 The information to monitor these benchmarks will come from the quarterly performance studies carried out by independent consultants on a sample of housing projects financed by the Complementary Housing Fund, the management information system, and the semi-annual performance studies of the environmental management and information clearinghouse components. Regarding the housing policy and institutional reform component, the Bank will participate directly in the technical studies and policy dialogue.

2. Disbursements and Retroactive Financing

- 3.26 Because this emergency program will execute for only 12 months, it is critical that the resources are available in a timely manner. Disbursements therefore will be made using a revolving fund, with ex-post verification. In addition, because of the short disbursement period and the relatively small amount of the loan, it is proposed that an exception be made to standard Bank practice to allow the revolving fund to be up to 25% of the loan amount (instead of the usual 5%). This proposed exception is consistent with the Bank's policy on Emergencies Arising from Natural and Unexpected Disasters (GP-92-15), which provides that the Bank may consider, among other measures, an increase in the revolving fund for disbursements in rehabilitation projects. To further help ensure efficient disbursement as well as transparency of eligible expenses, a concurrent audit will also be conducted (see para. 3.30). The tentative disbursement schedule for the Program is in the Program Files.
- 3.27 It is recommended that Government expenditures used to establish the Complementary Housing Fund, as well as the initiation of other Program components (after January 25) be recognized for retroactive financing at first disbursement. The expenditures agreed upon for retroactive financing include: (i) consultants to design and set up the Fund and initiate operations in five pilot areas; (ii) the first disbursements of subsidies; (iii) contracting of technical team for the Unit of Housing Programs and Projects in SOPTRAVI; and (iv) the setting up of the Information Clearinghouse. Reimbursable expenditures will not exceed \$1.5 million. *The Terms of Reference for the consulting contracts and the selection of the firms will be satisfactory to the Bank.* (Draft Terms of Reference are in the Project Files.)

3. Procurement of Goods and Consulting Services

- 3.28 Procurement of goods and contracting of consulting services will be governed by the Bank's standard procurement procedures, with the exception of two consultancy

contracts for which application of the Bank's simplified procedures for projects in emergency situations (Document GP-92-15, Annex A) is proposed, as explained in paragraph 3.29 below. International competitive bidding (ICB) will be used to procure consulting services in excess of \$200,000 or goods in excess of \$250,000. It is not envisioned that the SOPTRAVI or the Housing Fund will contract any works. For goods and consulting services under the amounts requiring ICB, the applicable Bank procedures and the public competitive bidding procedures established in Honduran legislation will apply; if the amount of the contract is less than \$100,000, private bidding involving three or more offers or candidates may be used.

- 3.29 It is proposed that the simplified international competitive selection procedures for projects in emergency situations be applied to the consulting contract for the setting up and initiation of the Complementary Housing Fund (\$300,000) and to the consulting contract for the setting up of the Information Clearinghouse (\$250,000), which are the two consultancies urgently required for the start-up of this Emergency Housing Program. As described in Document GP-92-15, this procedure would involve: (i) A one-time publication of the General Procurement Notice (GPN) in "Development Business" which will indicate that the related specific procurement notices will not be published in "Development Business" but will be published instead in the nationally circulated newspapers specified in the GPN. The respective specific notices in the national press will specify that there will be no restrictions on participation of firms from the Bank's member countries; (ii) The specific procurement notice will invite expressions of interest from consulting firms, accompanied by background information on their qualifications for the services to be performed. SOPTRAVI will analyze the background information received and, based on pre-established criteria agreed upon with the Bank, will select the consulting firm to be invited to submit a technical proposal and subsequently to negotiate the contract. The Bank will supervise the application of this procedure on an ex ante basis.

4. Accounting and Auditing

- 3.30 SOPTRAVI will be required to establish and maintain adequate accounts and records in accordance with accepted accounting practices. In addition to the normal annual audit, a concurrent audit will be conducted for the duration of the operation. A firm of independent auditors will be engaged to audit on a quarterly and annual basis the financial statements of the Project and the use of the funds financed by the Bank, ensuring the Executing Agency's compliance with all Bank requirements. Quarterly audit reports must be submitted to the Bank within 30 days after the close of each quarter. Annual financial statements will be submitted by the Executing Agency within 120 days after the close of each fiscal year, beginning with the fiscal year when Project execution is initiated, and during Program execution. Before the presentation of any disbursement request to the Bank, the documents supporting the disbursement will be examined by a firm of independent auditors. Accordingly, each disbursement request submitted by the Executing Agency to the Bank must be certified by the external auditor, who will carry out the concurrent audit according to the terms of reference previously agreed with the Bank. The cost of all audits will be paid using proceeds of the Bank loan.

F. Women and Housing Program Benefits

- 3.31 The most recent census of the sheltered population (International Organization on Migration, January 1999) finds that many of displaced population opting to reside in shelters are the most vulnerable populations, including women headed households. This visible population is a priority to resettle and, thus, is receiving considerable attention from formulators of housing projects.
- 3.32 Women's housing preferences will be accommodated in the direct subsidy scheme. As the one-time housing subsidy is tied to the beneficiary, households have an incentive to shop carefully for the package of housing services offered by project formulators that best suits their needs. This allows households to express their preferences for such services as proximity to social and basic services, as well as construction schemes that accommodate their available time and resources – both of which may be important to women.
- 3.33 There are no formal legal impediments to women owning land. The Fund operating regulations will specify that the housing solutions receiving the complementary subsidy will be in the name of both spouses, or in the woman's name alone should she be a single head of household.
- 3.34 The major sources of inequity for women headed households are likely to reside in poor information about the housing options available. The Project will finance an Information Clearinghouse that works with municipalities to facilitate contacts between formulators of housing projects and all possible beneficiaries. The Fund's outreach activities will be designed to reach both men and women. At least one of the pilot projects the Fund will work with the population presently in shelters, and the consultants drafting the operating regulations for accessing the Fund will propose procedures and materials that include women.

IV. BENEFITS AND RISKS

A. Program Benefits

- 4.1 The program will support the speediest possible transition of households from emergency shelter to permanent resettlement. This will minimize the social deterioration that can afflict households residing for long periods in shelters, and will avoid the high cost of constructing long term temporary shelters. As a result, households will be able to begin contributing to the permanent improvement of their housing conditions more quickly and scarce government resources can be directed to the permanent solutions.
- 4.2 The program focuses resources on the key bottleneck of land acquisition. This will provide a “platform” on which national and international donors, local agencies and private sector firms can play a role in planning, financing and constructing better facilities and improved housing.
- 4.3 The program gives a key role to municipalities in ensuring that households get registered land title. This is a role, which plays to their institutional strengths and avoids tasks such as providing credit for housing, where they have no comparative advantages.
- 4.4 The program will encourage economical use of public resources to be invested in housing, laying the basis, if the government so chooses, for a more permanent program to help low income households become owners.
- 4.5 The program will help develop and implement a process that ensures that resettlement projects take full account of environmental risk.

B. Program Risks

- 4.6 Corruption and Inflation. Two critical risks relate to price inflation and corruption. Both are linked to the fact that, in most localities, land markets are thin, uncompetitive and non-transparent. As a result, setting up a fund in a particular locality to purchase land for resettlement is very likely to lead to a spike in land prices, resulting in windfall rents for the owner, and the erosion of the purchasing power of the Funds resources. This could be exacerbated by corruption, since land transactions are bedeviled by problems of covert price agreements, kickbacks and similar practices. The project team has identified a preliminary list of measures to help mitigate these risks. These measures include the following:
 - a. Create a bank of baseline data about recent land transactions. Local expertise, although generally informal, can often be used to get surprisingly reliable numbers.
 - b. Encourage competition among vendors. Rather than promote a single large project to resettle every affected household in a locality on a single site, encourage more and smaller projects. Purchases of unimproved land will restrict the likelihood of oligopolistic behavior among landowners within or on the edge of existing infrastructure networks. On site sanitation technologies (latrines and septic tanks) will be preferred to sewage drain connections. Sites will often have to

leap frog areas currently designated for urban expansion where price premia are likely to be at a maximum.

- c. All land purchase decisions must be conducted in public session with designated outside “observers” present as well as a representation of different local interests (church, NGOs, private sector, local government etc.). Different regulations will be developed to provide the specific safeguards needed when: a) the vendor is a private individual. Business links to local banks will need to be carefully overseen in such cases as well as covert links to municipal office holders. b) the vendor is a municipality when the valuation of the land may present particular difficulties. It is proposed that such municipal vendors be required to invest all monies so received in on site infrastructure.
- d. Publication of Transaction Data. Detailed information from each transaction, including the vendor’s name, the gross purchase price, the effective sales price, the site location and characteristics should be published locally within 24 hrs of each purchase. The national funds will aggregate such data and make it available for comparative scrutiny among different localities.
- e. Empower beneficiaries. Subsidies should be regarded per capita grants to specific individual households. Regulations regarding procedures for assigning and effecting subsidies will do everything possible will be done to give beneficiaries (not the project sponsoring organizations, not the local government officials) effective veto power. Information about land prices other project parameters will be provided to households.
- f. The national fund will begin a program of random external audits of all transactions within 4 months of the first transaction financed with Fund resource.

4.7 Leakage of Benefits. While the priority group of households whose houses have been destroyed is a reasonably well defined population set, the households whose houses, although usable, fall within areas designated as high risk, constitute a more problematic target. The problem will be to ensure that providing these households with access to the program does not open up a serious source of benefit leakage to non-priority populations. The best means of avoiding this problem will be to require the greatest transparency in the identification of the eligible households. The general criteria used for designating high risk areas, the boundaries of the specific areas that are so classified, and the lists of households that would thus be eligible for resettlement benefits, will all be published in local and national media.

PROCUREMENT PLAN

ITEMS	FUNDING	BIDDING PROCEDURE	PRE- QUALIFICATIO N	DATES Quarter/Year
A. GOODS				
1. Office Equipment, Furniture and Vehicles: Total: US\$ 120,000	IDB/100%	Private bidding	No	II/1999
B. CONSULTING SERVICES				
<u>Consulting Firms</u>				
1. Contract for Fund set-up and operating procedures in pilot areas US\$300,000	IDB/100%	ICB	No	II-III/1999
2. Management services contract: MIS Unit US\$100,000	IDB/100%	NCB	No	II/1999 – II/2000
3. Contracts for Project Facilitation Total: US\$200,000 Each contract: US\$10,000 (average) Number of contracts: 20	IDB/100%	Private bidding	No	II/1999 – I/2000
4. Mapping of Uninhabitable Areas: Map preparation Total: US\$350,000 Each contract: US\$14,000 (average) Number of contracts: 25	IDB/100%	Private bidding	No	II/1999 – II/2000
5. Mapping of Uninhabitable Areas: Emergency preparedness materials preparation and dissemination US\$50,000	IDB/100%	Private bidding	No	II/1999 – II/2000
6. Information Clearinghouse US\$250,000	IDB/100%	ICB	No	II/1999 – II/2000
7. Policy and Institutional Development: Technical Studies and Workshops Total: US\$250,000 Each contract: US\$50,000 (average) Number of contracts: 5	IDB/100%	Private bidding	No	III/1999 – II/2000
8. Quarterly Performance Studies: Total: US\$60,000 Each contract: US\$20,000 (average) Number of contracts: 3	IDB/100%	Private bidding	No	II,III,IV / 1999
9. Final Evaluation US\$40,000	IDB/100%	Private bidding	No	I/2000

EXECUTION MATRIX

1 and 2: The Complementary Subsidy for Housing AND the Institutional Development of the Complementary Housing Fund				
<p>Context: Hurricane Mitch displaced population resettled in housing.</p> <p>Objective: Support the Government's housing strategy to develop housing for those made homeless by the hurricane.</p>		<p>Specific Purposes:</p> <ul style="list-style-type: none"> (i) reduce the building of additional temporary shelter for the displaced population by facilitating acquisition and the definitive resettlement of affected population (ii) speed the initiation of housing reconstruction and the repair/rehabilitation of damaged housing (iii) establish a mechanism for mobilizing additional donor resources for housing and for donor coordination throughout the period of reconstruction 		
Months 1-3 Creation of Fund and Initiation of Projects		Months 4 – 6 Evaluation and Consolidation of Fund Procedures and Outreach to New Areas	Months 7 – 12 Nationwide Operation of Fund	Institutional Re- Information Sources and
<p><u>Month 1</u></p> <p>Contract Fund Manager</p> <p>Contract consultants (including promoters) to set up Fund and begin operations in 4 - 5 pilot areas</p>		<p><u>Month 4</u></p> <p>Hire up to 5 additional promoters.</p>	<p>Continue contract of consultants or contract new Fund staff to replace.</p>	<p>Fund informs Bank about Manager.</p>
<p>Establish <u>Initial Fund Parameters</u> for IDB approval.: max. subsidy per household provided by Fund; max. total government subsidy per household; eligibility criteria for beneficiaries; eligibility for project formulators; menu for allowable uses of the subsidy; max. value of eligible solution.</p> <p>Produce pamphlet for potential beneficiaries</p>		<p>Review <u>Initial Fund Parameters</u> and recommend adjustments</p>		<p>Draft parameters sent to Bank for approval.</p>
<p><u>Month 1</u></p> <p>Establish the Fund as legal entity.</p> <p><u>Month 2</u></p> <p>Selection and support to develop pilot projects.</p> <p>Set up Fund Operations at national and local levels (draft regulations are in Project Files).</p> <p><i>National Level:</i> Draft operating regulations (manual) including: Fund management and governance structure, financial management and control procedures; procedures for provision of subsidies to projects and for expenditure control and reporting by project developers.</p> <p><i>Local level:</i> Draft operating procedures to establish the local project development process.</p> <p><u>Month 3</u></p> <p>Report to the Bank/GOH to summarize the pilot</p>		<p><u>Month 4</u></p> <p>Marketing plan for the fund's services which includes a strategy for providing local support following the pilot phase.</p> <p><u>Month 5</u></p> <p>Participatory review of the Fund's draft operating procedures and project development process .</p> <p>Revised operating manual, including model documents, submitted to the Bank for approval.</p> <p>Begin outreach and promotion program to introduce and train project formulators in additional municipalities.</p> <p><u>Month 6</u></p> <p>Continue outreach and promotion program.</p>	<p>The Fund will be issuing subsidies for 30 projects monthly.</p>	

experience, and recommend measures to support the development process.			
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1 and 2: The Complementary Subsidy for Housing AND the Institutional Development of the Complementary Housing Fund

Months 1-3 Creation of Fund and Initiation of Projects			Months 4 – 6 Evaluation and Consolidation of Fund Procedures and Outreach to New Areas			Months 7 – 12 Nationwide Operation of Fund	Information Sources and Data Collection
<u>Projects/month</u>		<u>\$ Disbursed</u>	<u>Projects/month</u>		<u>\$ Disbursed</u>	Months 7 - 12: 30 projects per month disbursing at \$900,000 per month. Total of \$8,300,000 disbursed by month 12.	Number of projects, solutions total costs, type of construction, financing (subsidy-owned contribution) and as % of total solutions
<u>Month 1:</u>	5 (pilots)	\$150,000	<u>Month 4:</u>	20	\$600,000		
<u>Month 2:</u>	10	\$300,000	<u>Month 5:</u>	25	\$750,000		
<u>Month 3:</u>	15	\$450,000	<u>Month 6:</u>	30	\$900,000		
<i>Total</i>	30	\$850,000	<i>Total</i>	75	\$2,250,000		
The draft local project development procedures will include:			6 month: Fund performance study.			9 month: Fund performance study	The reports on program performance will involve work on a sample of projects, collect data on project-related information of solutions, targeting (solutions total costs, type of construction, financing (subsidy-owned contribution) and as % of total solutions)
i) measures to reduce risks of price inflation and fraud in land purchases of those projects benefiting from the Fund acceptable to the Bank.			External audit of land acquisition process; adopt any required changes.			Final evaluation of Fund execution in month 12.	
ii) Legal arrangements such that when the property vendor is a public authority (national, departmental, or local), the purchase price will be held in an account that can only be used to finance the construction of infrastructure on the housing site.							Final evaluation of Fund performance will also look at global number of grants, average cost of technical support, type of projects; location impact on the land development; participating municipalities.
							External audit of land acquisition process will report on the measures introduced to address the risks raised by the acquisition of land. Propose operating procedures to be adopted as required.

1: Risk Evaluation and Mapping of Uninhabitable Areas

<p>Hurricane Mitch displaced population resettled housing.</p> <p><u>Objective:</u> To aid municipalities to prepare maps of high risk areas as required under the Law of High Risk in November 1998.</p>		<p><u>Specific Purposes:</u></p> <p>(i) preparation of risk maps that distinguish between high and mitigatable risk</p> <p>(ii) promote participatory definition of acceptable risk for delineation of uninhabitable areas</p>		
	Months 1-3	Months 4 – 6	Months 7 – 12	Information Sources and
	<p><u>Month 1</u></p> <p>Contract environmental coordinator in the Fund (12 months).</p>			
e	<p><u>End of month 3</u></p> <p>Contract natural hazard risk mapping in pilot municipalities.</p> <p>Conduct participatory process to identify “uninhabitable” areas, and include in map.</p> <p>Print and distribute maps for municipalities.</p> <p>Develop and disseminate information materials on risk and mitigation measures.</p>	<p>Contract natural hazard risk mapping in participating municipalities.</p> <p>Conduct participatory process to identify “uninhabitable” areas, and include in map.</p> <p>Print and distribute maps for municipalities.</p> <p>Disseminate information materials on risk and mitigation measures</p>	<p>Contract natural hazard risk mapping in participating municipalities.</p> <p>Conduct participatory process to identify “uninhabitable” areas, and include in map.</p> <p>Print and distribute maps for municipalities.</p> <p>Disseminate information materials on risk and mitigation measures</p>	Number of municipalities
		<p><u>Month 6:</u> Performance studies:</p>	<p><u>Month 12:</u> Performance studies:</p>	<p><u>Performance studies:</u> ins of housing within “uninh areas; date of installation received? Awareness of c</p>

3.2: Information Clearinghouse for Housing Reconstruction

<p>1: Hurricane Mitch displaced population resettled housing.</p> <p>Objective: Establish and run independent clearinghouse that will receive, maintain, and make information regarding the housing sector and the t.</p>		<p>Specific Purposes:</p> <p>(i) facilitate contacts between formulators of housing projects and possible beneficiaries in order to acc delivery of definitive housing solutions.</p> <p>(ii) encourage dialogue among the project formulators and municipalities about solutions being offer</p>		
	Months 1-3	Months 4 – 6	Months 7 – 12	Information Sources and
	Contract independent agency to establish and run Clearinghouse			
d	<p>Information about:</p> <p>Eligible households: number, location, contact information</p> <p>Housing project formulators: directory, description of projects (beneficiary selection, location, financing scheme, solution offered, construction scheme)</p> <p>Local points of contact for housing project formulators, municipalities, Fund</p> <p>Complementary Housing Fund: access procedures</p>	<p>Update monthly information</p> <p>Collect and share secondary source information:</p> <p>Guides for self-help construction</p> <p>Indicators of construction sector performance</p> <p>Collection of Government policies affecting the sector</p> <p>Other technical information</p> <p>Census data</p>	Update monthly information	
	<p>Monthly information sharing meetings in at least 4 regions of the country</p> <p>Information available for distribution as brochures, by fax and email</p> <p>Monthly newsletter beginning in month 2.</p>	<p>Monthly information sharing meetings in at least 4 regions of the country</p> <p>Information available for distribution as brochures, by fax and email</p> <p>Monthly newsletter</p>	<p>Monthly information sharing meetings in at least 4 regions of the country</p> <p>Information available for distribution as brochures, by fax and email</p> <p>Monthly newsletter</p>	
		Month 6: Performance review:	Month 12: Performance review:	Performance review: ins of information available; projects; use of center; ev monthly meetings. Quest sample of Clearinghouse

4: Housing Policy and Institutional Reform

<p>1: Hurricane Mitch displaced population resettled housing.</p> <p>Objective: To support the development of housing legal and institutional framework to implement</p>		<p><u>Specific Purpose:</u> To help establish the policy and regulatory capacity for the housing sector.</p>		
	Months 1-3	Months 4 – 6	Months 7 – 12	Information Sources and
	Contract 4 technical professionals (12 months) for the Unidad de Programas y Proyectos de Vivienda, within SOPTRAVI			
	<p>Prepare a strategy for development of national housing policy which will include: defining, preparing terms of reference and calendar for technical studies, workshops and other activities necessary to develop recommendations for policy and regulatory reform</p> <p>The strategy for policy development (including TORs and work plan) will be provided to the Bank for approval.</p>	<p>Contract studies.</p> <p>Selection of consulting services will be submitted to Bank for approval.</p>	<p>Complete studies. A copy of all studies will be delivered to the Bank upon their completion.</p> <p>Policy workshops will include Bank participation.</p>	<p>Technical work will include others: (a) the housing market income households in Honduras; housing finance and mortgage development; (c) market registration of low-cost housing; (d) the legal and institutional arrangements for housing.</p> <p>The Bank will participate in studies and policy dialogues.</p>

PROPOSED RESOLUTION

**HONDURAS. LOAN ____/SF-HO TO THE REPUBLICA DE HONDURAS
Post-Hurricane Housing 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 República de Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Post-Hurricane Housing Program. Such financing will be for the amount of up to US\$10,390,000, or its equivalent in other currencies, except that of Honduras, which are part of the resources of the Bank's Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.