

PROFILE I

HONDURAS

19TH JULY, 2000

Project name:	Supplement to Potable Water and Sanitation Investment Program		
Project number:	HO-0174		
Project team:	Sergio Deambrosi (CHO), Ana Maria Linares (LEG), Mercedes Rochac (EN2) and Christopher Jennings (EN2), team leader.		
Borrower:	The Government of Honduras		
Implementing agency:	The Ministry of Finance		
Financing plan:	IDB, FSO:	US\$ 20,000,000	
	Counterpart financing:	US\$ 2,300,000	
	Total:	US\$ 22,300,000	
Tentative dates:	Analysis mission:	October 2000	
	Presentation to the IDB Board:	November 2000	

I. BACKGROUND

- 1.1 In December 1999, the Board of the IDB approved a US\$26 million loan for a Potable Water and Sanitation Investment Program in Honduras (project number HO0072, loan number 1048/SF-HO). The Program is designed to be easily replicated and, as it is modular, its size can be changed without losing integrity. The size of the Program was originally set at US\$45 million, of which US\$40 million would be loaned by the IDB, based on the project proposals from twenty-one municipalities. Because insufficient resources were available from the Fund for Special Operations (FSO) in 1999, management submitted a loan for the smaller amount to the Board. The Loan Proposal approved by the IDB Board states that, at the request of the Government of Honduras, the project team will process a second operation, when FSO resources become available, so that all of these municipalities can be covered. With the approval of the second loan, the Program can be implemented as originally designed, allowing projects in all municipalities to commence. Significant economies in scale in the management of the Program accrue if it is implemented as a single operation.
- 1.2 The Minister of Finance has written to the IDB formally requesting the preparation of the supplemental loan to enable the two to be implemented together as a single operation.

II. COMPATIBILITY WITH IDB STRATEGY

- 2.1 The Program is a cornerstone of the IDB strategy for promoting reform of the potable water and sanitation sector as well as expanding services, to those not at present covered. It is compatible with the IDB's Public Utilities Policy. The mix of technical assistance and civil works investment is designed to ensure that the municipalities, who are ultimately responsible for potable water and sanitation, are equipped to sustain the services at an adequate level.

III. THE PROGRAM

- 3.1 The Program finances technical assistance and civil works for municipalities that agree to modernize the way potable water and sanitation services are provided. Support to the municipalities is carefully staged, beginning with technical assistance to develop and publicize a new water policy and support for the creation of the new institutional framework. Once the new institutional framework is in place, the Program finances technical assistance to strengthen the operators. Finally, after the technical assistance has helped the municipalities and operators raise the performance of the services provided by existing facilities, the municipality can borrow for civil works to further improve and expand services.
- 3.2 Twenty-one municipalities have submitted proposals, have formally committed themselves to make institutional changes to improve the services and have been pre-selected for the Program.
- 3.3 The supplement is indistinguishable from the Program approved by the Board in 1999. No component is foreseen for the supplement that was not included in the original design. The supplement will ensure that projects can be implemented in all twenty one municipalities.

IV. ISSUES

- 4.1 The Potable Water and Sanitation Sector Law. The loan contract between the IDB and the Government of Honduras stipulates that disbursements under the original loan will be conditional on an adequate potable water and sanitation law being submitted to Congress for discussion (a condition precedent for disbursement for technical assistance) and approval (a condition precedent for disbursement for civil works). The *Comisión Presidencial de Modernización del Estado* has drafted a law and submitted it to a Congressional committee for study. While the law in its present form is not entirely adequate, the IDB is working with the committee to improve the draft before discussion.

V. PREPARATION

- 5.1 As a Profile II for the Program has been considered and approved by the Loan Committee, no Profile II will be prepared for the supplemental loan. This procedure has been utilized previously for supplemental loans. The project team will produce a short Project Report for discussion by the Loan Committee and submission to the IDB Board as the Loan Proposal for approval.
- 5.2 The loan contract for US\$26 million (1048/SF-HO) has been approved by the Congress of the Republic of Honduras and signed by the Executive. It awaits only formal ratification by Congress. In the meantime, the Ministry of Finance has commenced work on the Program and is actively engaged in contracting the Program Manager to be responsible for implementation and the private bank to manage the trust fund that will channel funds to the municipalities. The IDB has undertaken an initiation mission.