

POVERTY REDUCTION AND LOCAL DEVELOPMENT PROGRAM

(HO-0161)

EXECUTIVE SUMMARY

Borrower: Republic of Honduras

Guarantor: Government of Honduras

Executing agency: Honduran Social Investment Fund (FHIS)

Amount and source:	(in thousands of U.S. dollars)		
	Phase I	Phase II	Total
IDB: (FSO)	25,000	35,000	60,000
Local counterpart :	2,800	3,900	6,700
Total:	27,800	38,900	66,700

Financial terms and conditions:

Amortization period:	40 years
Grace period:	10 years
Commitment period:	2 years
Disbursement period:	2.5 years
Interest rate:	1% first 10 years and 2% thereafter
Inspection and supervision:	1% of the loan amount
Credit fee:	0.5% per annum on undisbursed balances

Objectives: This program is in line with the Poverty Reduction Strategy (PRS), its general objective being to help improve the living conditions of the poor by providing greater access to basic social services with community participation. The program's specific objectives are: **Phase I** (i) to carry out the projects selected in the 1998 municipal social investment plans (PISMs), awaiting financing due to the backlog caused by Hurricane Mitch; (ii) to support FHIS participation in the PRS as a poverty reduction instrument, increasing its effectiveness and enhancing management capacity; and **Phase II:** (iii) to implement new intervention approaches devised from lessons learned with pilot programs executed in Phase I (paragraph 2.1).

Description: In line with the Honduran poverty reduction strategy (PRS), the program will help sustain the pace of social investment by increasing access by the poor to basic social services, while fostering community empowerment and a sense of ownership of service delivery. It is conceived as a multiphase operation using the new "multiphase lending" facility that affords flexibility by virtue of its medium-range view, transcending any one government's term in office. The program supports the transformation of the FHIS as an effective instrument for the PRS. In Phase I, financing will be provided for backlogged basic infrastructure projects and pilot programs. Phase II will use designs that proved successful in the pilot programs and apply lessons learned in Phase I. It will also act as an incentive for execution and timely evaluation of pilot programs conducted in the first phase. The move to Phase II is subject to attainment of targets denoted by specific process, outcome, and impact indicators that will signal whether the progress made is in line with the PRS's medium-term objectives. Phase I is scheduled to take 24 months and Phase II, 36 months.

With respect to allocation of program funds, the 1998 poverty map will be used for Phase I of the operation. In order to target it even more closely and give priority to municipalities with the largest numbers of poor people, the allocation formula has been improved to give greater weight to poverty and less to size of population.

Phase I of the program (US\$25.8 million) will finance:

1. **Social infrastructure investment commitments** (US\$24.2 million): comprises backlogged infrastructure projects with organization and financial specifications regarding maintenance of the works (paragraph 2.8).
2. **Pilot programs to strengthen local communities** (US\$900,000): experiment in participatory planning, operational delegation of the project cycle, and maintenance (paragraph 2.13).
3. **Institutional strengthening of the FHIS** (US\$400,000): financing of a Technical Support Unit and technical-administrative strengthening activities (paragraph 2.34).
4. **Evaluation of Phase I** (US\$300,000): consists of an evaluation by an independent firm acceptable to the Bank, as a requirement for qualifying for Phase II financing (paragraph 2.38).

Phase II (US\$35.9 million) will finance extension of the practices shown to be successful in the evaluation of the pilot programs in the previous phase, incorporating them into the priority projects in the new Municipal Social Investment Plans (PISMs). Phase II will be compatible with the PRS design and implementing arrangement (paragraph 2.39).

This document requests the Board of Executive Directors' approval of the program concept, the proposed multiphase mechanism, and a loan for Phase I. Management would recommend approval of Phase II of the program to the Board in a memorandum containing an evaluation of qualitative and quantitative aspects of what is accomplished vis-à-vis the project backlog and the pilot program outcomes. It will also include a revised cost table and procurement plan.

**The Bank's
country and
sector strategy:**

In line with the PRS, the Bank's strategy for Honduras is geared to poverty reduction. To that end, the Bank will support initiatives aimed at enhancing the equity, efficiency, and reach of public programs. The objectives and activities proposed in this operation, as well as those of other programs being prepared and executed, are also concordant with the PRS. They include: (i) the sector program (HO-0185), dealing with compliance with policy and expenditure measures; (ii) the rural economy reactivation program (HO-0144); (iii) the urban poverty program now in preparation (HO-0184); (iv) the family allowance program (PRAF) (1026/SF-HO); and (v) the Honduran Social Investment Fund (FHIS 3) program (1028/SF-HO). These programs constitute an integrated package of measures to reduce and alleviate poverty. The operation described here is supported by the program for efficiency and transparency in government procurement (1059/SF-HO), which will supervise and strengthen the FHIS procurement system (paragraph 1.21).

**Environmental
and social
review:**

The FHIS project cycle requires an environmental assessment of projects. Standard projects (education and health) are audited to ensure that the criteria specified in the prototypes are built in and/or satisfied. In all other projects, an environmental diagnostic assessment and/or environmental impact assessments are carried out, depending on the case. The project also provides for systematic incorporation of FHIS requirements with regard to gender equity and respect for the particular needs of ethnic minorities (paragraph 2.15). Also planned are training and initiatives to heighten awareness of these issues among the personnel of the FHIS, municipalities and beneficiary communities (paragraph 4.8).

Benefits:

This program is expected to lower costs by increasing the efficiency, effectiveness and useful life of works. In the specific case of

investment in human capital, there are expected to be improvements in productivity and direct positive impacts on income, as well as indirect effects on the generation of national wealth. In addition, the adjustment to the resource allocation formula, favoring poorer municipalities, will help raise the return on social investment. It is also hoped that operational delegation of the project cycle (DOPC) will help strengthen municipal capabilities (paragraph 4.14).

Risks:

The FHIS menu may be restrictive for some communities, with certain basic social needs considered priorities for them being left unmet. To allay this risk, a negative menu will be tried out during Phase I. In Phase II, which will draw on experience acquired in Phase I, the menu will be adjusted accordingly. There is also a risk that the DOPC process might not progress at the desired pace because of the need to develop new procedures and fine-tune working methods. To minimize this risk the program will introduce DOPC gradually, starting with a pilot scheme of manageable proportions (paragraph 4.19).

**Special
contractual
conditions:**

The first disbursement will be subject to the following being presented to the Bank's satisfaction:

(i) the revised FHIS Operations Manual (paragraph 2.8), including operational guidelines for execution of the pilot initiatives (paragraph 2.14); (ii) the agreement signed by the FHIS and the Ministry of Finance for the transfer of: (a) maintenance incentives (paragraph 2.24) and (b) the program funds (paragraph 3.41); (iii) the agreement that the FHIS has presented to the Ministry of Natural Resources and the Environment (SERNA) for its signature, that includes the creation—where they do not exist—of new municipal environmental units in the DOPC pilot municipalities (paragraph 2.33); (iv) the final selection of municipalities for the pilot initiatives (paragraph 2.13); (v) the agreement that the FHIS presented to the Association of Honduran Municipalities (AMHON) for signature, whereby AMHON undertakes to support participation of the chosen municipalities in the pilot projects (paragraph 3.27); and (vi) the model of the agreement to be signed by each municipality participating in the various pilot projects under the program, on the terms agreed upon with the Bank (paragraph 2.14).

**Poverty-
targeting and
social sector
classification:**

This operation qualifies as a poverty targeted investment given that it supports the activities of a social investment fund (automatic sector classification) (paragraph 4.19). Moreover, because it involves the social sector, the operation qualifies as a social equity enhancing project as described in the indicative targets for the Bank's activities set out in the Eighth Replenishment report (document AB-1704).

Exceptions to Bank policy: None.

Procurement: Procurements under the program will conform to Bank policy. International competitive bidding will be required for construction contracts worth over US\$1,500,000, US\$250,000 for related goods and services, and US\$200,000 for consulting services

Procurement of goods, construction work, and services for which FHIS is responsible and which fall below the above thresholds will be governed by the FHIS Procurement Operations Manual (paragraph 3.37).

Procurement method	Construction	Goods	Consulting services
International competitive bidding	1,500,000 or more	250,000 or more	Over 200,000
Local competitive bidding	75,000 to 1,499,000	75,000 to 149,999	75,000 to 200,000
Limited bidding	37,000 to 74,999	37,000 to 74,999	37,000 to 74,999
Short list of providers	Under 37,000	Under 37,000	Under 37,000

Procurement of goods, works, and services for which the municipalities are responsible will be governed by Honduran legislation provided that it does not contravene the Bank's basic principles.

I. FRAME OF REFERENCE

A. Economic and social framework

- 1.1 In the 1990s, the Honduran economy made considerable progress in terms of stability and macroeconomic equilibrium. Nevertheless, little was achieved with respect to poverty reduction. Poverty is still a recurrent phenomenon, associated with moderate GDP growth (averaging 3% per annum). Another important factor is the natural population growth rate of 2.6% per annum, which largely offsets the modest gains in GDP.
- 1.2 According to the available statistics, two thirds (66%) of Hondurans are poor, with the figure reaching 75% in rural areas. Children, households headed by women, and, in general, households with too heavy a family burden, are the most vulnerable segments. Between 1993 and 1999, the percentage of persons living below the poverty line fell by less than 2%. Over 40% of first-grade schoolchildren suffer from some kind of malnutrition and that figure has actually been increasing over the past decade.
- 1.3 Access by the poor to social services (education and health) is deficient, indicating the need for programs to expand coverage and focus on the poorest groups. In education, the most glaring problems are coverage and the performance of the poor in the system (repetition rate, backwardness, dropouts, and late entry). As for health, the trend is shifting, albeit slowly, toward expansion of primary care, which is still in short supply. At the same time, more attention has begun to focus on environmental health issues (access to safe water and sanitation services). As the poor are those with least access to basic health care, properly planned and well-chosen social interventions should yield very favorable cost/benefit ratios.
- 1.4 The institutions responsible for providing social services, especially education and health, are weak. In practical terms, the two ministries are not attentive to their planning and regulatory activities. To that extent, they could not on their own ensure and/or promote a judicious and orderly expansion of services reflecting the legitimate priorities of the communities and the country. Given the institutional conditions prevalent in Honduras, alternatives to the Honduras Social Investment Fund (FHIS) would involve high direct costs and likely delays in execution.

B. History of the FHIS

- 1.5 The FHIS was founded in 1990 as a decentralized, temporary, social compensation institution attached to the Office of the President. It mainly engages in execution of social infrastructure projects included in a limited "menu" of small-scale construction works in the education, health, potable water, sanitation and road construction sectors. In 1999, a Presidential Decree of the Government of Honduras extended the institutional life span of the FHIS to the year 2012, because the government considers it a key institution for executing social policy.

- 1.6 During an initial phase from 1990 to 1994, the FHIS executed projects proposed by the sector institutions involved or else worked through local contractors and/or agents. Starting in 1994, the FHIS entered a second phase in which it began applying mechanisms to target resources more closely, based on a poverty map in which the minimum unit was the municipality. At the municipal level the mayor was responsible for selecting and assigning priority to projects, based on uncertain forms of consultation with the local community that gave rise to problems of lack of transparency.
- 1.7 In 1997, the FHIS launched a third stage in which it encouraged community participation with a pilot program financed by the World Bank. In 1998, based on the preliminary results of an unfinished participatory planning (PP) pilot, the FHIS promoted and organized a similar process at the national level. For the first time, municipal governments and communities systematically joined forces to identify and prioritize projects. The fruit of this exercise were Municipal Social Investment Plans (PISMs). Although this was a major step forward, there is a broad consensus regarding the need to improve this process, in order to ensure greater transparency and representativeness and to base priorities on more technical criteria. The damage wrought by Hurricane Mitch and the demands posed by the emergency and reconstruction forced the government to re-direct funds originally earmarked for the PISM and interrupt the above-mentioned pilot. Experience with project cycle delegation barely had time to get off the ground and studies on works maintenance were left unfinished.

C. Challenges still to be solved

- 1.8 Two years after that forced postponement of the execution of projects selected with local community participation in September 1998, the citizens of Honduras now expect to see the PISMs implemented. If they are not, the loss of credibility of leaders and governors will impose evident constraints on future consultation and community participation initiatives. There is still a backlog of PISM projects worth approximately US\$80 million awaiting funding, because the needs they were supposed to meet for the most part still exist.¹
- 1.9 The FHIS promoted the establishment of Works Maintenance Organizations (ORMs) as bodies designed to ensure representative participation by local communities and authorities. The ORM's have not performed as well as they might due to poorly defined institutional responsibilities and only partial or insufficient funding. In fact, in Honduras today, there is no well-trying and widely used model for works maintenance.

¹ A survey of 107 municipalities, conducted in 2000, showed 67 municipalities confirming that the 1998 plans were still valid. The FHIS provided assistance to the remaining municipalities to help them update their priorities, but few changes resulted.

- 1.10 Inclusion of women in these processes began to be considered in 1996. As a result, specific gender standards exist in infrastructure projects. During the emergency, these standards were sometimes applied and sometimes not, and adoption of a gender variable in information technology systems was postponed.
- 1.11 According to an FHIS² study, the pre-established menu approach has proved to be an effective tool for targeting projects to poor segments of the population. Nevertheless, some communities consider this menu to be highly restrictive because, at times, it does not allow them to satisfy their most pressing needs.
- 1.12 The FHIS had planned to redraw the poverty map and revise the calculations used for municipal allocations in 2000, based on the results of the national census. However, the census was put off until 2001. Still, although it has not yet been able to amend the poverty map (the basis for distributing funds to the municipalities), the FHIS has made some improvements in the weightings of the allocation formula (giving less weight to population size and more to the poverty index), in an attempt to focus more sharply on priorities.
- 1.13 The previous operation (1028/SF-HO) envisaged an action plan that would induce improvements in the system for protecting the environment, by monitoring key phases in the project cycle. Using technical assistance funds approved by the Bank for reconstruction, the FHIS conducted studies related to the environmental impacts of its projects in order to assess the efficiency of its review processes. The FHIS and the Ministry of Natural Resources (SERNA) agreed on environmental impact assessment procedures and they are currently at the implementation stage, which requires training and increased awareness of the issues involved in communities and municipalities.
- 1.14 The FHIS's intervention record shows that it is capable of responding rapidly to urgent needs for execution. All the same, there is room for improvement in the management and monitoring of work construction. There are signs of discontent among users regarding the poor quality of the works, especially in potable water and education projects, attributable to weak supervision. There is also a need to improve the internal administration of the FHIS, basically in the areas of budgeting, expenditure control, and human resource management. In addition, now that community consultation processes and such issues as the environment and gender, among others, have become widespread, it is necessary to upgrade the social and environmental qualifications of FHIS human resources. Finally, an electronic network needs to be set up to link all the institutions involved and improve coordination. The FHIS needs to be boosted and to adapt its institutional ways so it can rise to the occasion of changing intervention approaches.

² Walker, Ian. "Evaluación ex post del Fondo Hondureño de Inversión Social (FHIS 2)" [Ex post evaluation of FHIS 2], ESA Consultores, 1999.

D. The impact of the FHIS

- 1.15 Progress in expanding social services in the 1990s was very largely due to FHIS interventions. Since its inception, the FHIS made a decisive contribution to the reduction of some manifestations of poverty: reductions in unmet basic needs (UBN), for instance.³ In the health care field FHIS had a strong impact with its construction of rural health centers (CESAR), which made a significant contribution to satisfying the demand for professional medical care. The FHIS has also clearly improved the coverage of sewer services, raising the percentage of areas with those services from 35% to almost 100%. This plays a major part in reducing the incidence of communicable diseases such as diarrhea (in a household survey, compared with a control group, there were 35% fewer cases). In education, over half the net increase in educational supply capacity between 1995 and 1998 was a consequence of projects executed by the FHIS. Moreover, the new classrooms built by the FHIS led to a sharp drop in the pupils per classroom (from 45 in 1993 to 37 in 1998), as well the transformation of single-teacher schools into two-teacher schools.

E. Financing by the IDB and other multilateral organizations

- 1.16 The programming of FHIS investments has mainly depended on the availability of funds from successive loans from the World Bank and the IDB. The IDB has supported the FHIS with three consecutive operations totaling US\$110 million for community and municipal investments. The funds have been invested in education (56%), health (14%), water and sanitation (16%), municipal projects (10%), and social assistance and the environment (4%). Between 1991 and 1999, the FHIS executed projects worth on average US\$35 million to US\$40 million a year. The last Bank project with the FHIS (1028/SF-HO) is still under way. It was originally planned as a joint operation with the World Bank and the KfW to implement the 1998 PISMs. Between them, the three sources of funding guaranteed the availability of approximately US\$100 million. Due to Hurricane Mitch, the loan had to be reformulated to tailor it to the needs created by the emergency. In its reformulated version, the first ("investment projects") component accounts for 86% of the loan. It has two subcomponents: "critical reconstruction investments" and "Municipal Social Investment Plans." The last of these is the only one that has funds earmarked for continuation of the PISM exercise (almost US\$14 million). The first subcomponent was swiftly executed to finance top-priority projects in the emergency and essential reconstruction period. Funds available under the second subcomponent are being disbursed and are expected to be committed during the current year. They are financing projects already prioritized by the communities and municipalities through town meetings held in 1998 (and recently confirmed or

³ Indeed, the reduction in UBN indicators directly associated with the work of the FHIS was clearly more marked than the reduction in other UBN indicators. "*Evaluación Ex-post del Fondo Hondureño de Inversión Social (FHIS 2)*." ESA Consultores, May 1999.

updated). The second and third components -- "Basic Needs Program" and "Institution Building" -- are being executed as planned.

F. Experience with other agencies

- 1.17 From its inception, the operation was jointly prepared and coordinated with the KfW, the World Bank, and the Swedish International Development Agency (SIDA). The IDB will once again join a group of international organizations supporting in a coordinated manner the FHIS's third phase of operations (for the IDB this is its fourth loan; it will be the fifth for the KfW and the World Bank). The program was designed in such a way as to minimize the differences between the IDB's procedures and those governing the contributions of the other financial agencies. The joint contribution, added to the funds left over from the IDB's 1028/SF-HO loan, will be enough to attend satisfactorily to the projects in the backlog. Moreover, the operation includes actions to enable qualitative modifications to the forms of social intervention, thereby bringing Honduras into line with the latest generation of social investment funds.
- 1.18 Many cooperation agencies are contemplating projects designed to strengthen the municipalities institutionally, which suggests that there will be increased potential for local development in the medium term. The Agency for International Development (USAID) finances programs of the Foundation for Municipal Development (FUNDEMUN), and has achieved impressive results in its efforts to strengthen the country's 36 most advanced municipalities. The Ministry of the Interior and Justice, the Association of Honduran Municipalities (AMHON), and the Technological University (UNITEC) are preparing programs designed to strengthen the poorest municipalities and supporting their communities with productive activities. Financing for this is being provided by the Spanish International Cooperation Agency (AECI), the European Union (EU), the German Technical Cooperation Agency (GTZ), Dutch Cooperation, the Swedish International Development Agency (SIDA), and the United Nations Development Programme (UNDP).

G. The HIPC⁴ eligibility process and the PRSP⁵

- 1.19 Honduras's pervasive poverty and underdevelopment and constraints stemming from overindebtedness converge to qualify the country in the framework of the Heavily Indebted Poor Countries Initiative (HIPC). The World Bank conditioned access to debt relief on preparation of a Poverty Reduction Strategy Paper (PRSP) that has to be approved by the Boards of the International Monetary Fund (IMF) and the World Bank. Eligibility passed through two stages known as "decision point" and "completion point," in which an Interim Report and Full PRSP are

⁴ Heavily Indebted Poor Country.

⁵ Poverty Reduction Strategy Paper.

approved, respectively. In June 2000, the IMF and World Bank Boards found that the contents of the Interim Report of Honduras justified approving the “decision point” and a Full PRSP is expected by end-March 2001. If that schedule were met, Honduras would be the second country in Latin America to reach “completion point” and begin to benefit from debt relief.

H. The Bank’s strategy and the role of the FHIS in the Poverty Reduction Strategy (PRS)

- 1.20 The fundamental focus of the Bank’s strategy for Honduras is poverty reduction, in line with the PRS prepared by that country with Bank assistance. Enjoying as it does widespread support among citizens, the PRS document transcends, that is to say, reaches beyond the term of office of any one government, to become a medium-term strategy. It is thus essential to align the Bank’s activities with the PRS in Honduras, and, in fact, the PRS assigns a leading role to the FHIS in the expansion of basic social services. It describes the FHIS also as an institution fostering community and municipal participation and includes communities and municipalities in the project design, execution, and maintenance cycle. At the same time, the strategy points up the need to boost the technical and managerial capabilities of the municipalities in order for them to play their part in this process. Along the same lines, the strategy indicates the need for gradual delegation of the FHIS project cycle and for increased community participation as ways in which to enhance the efficiency and quality of the programs by tailoring them to specific local needs. To that extent, the key role accorded the FHIS in the PRS confirms the importance of this operation. Finally, the Decree extending the institutional life of the FHIS to 2012 also requires it to contribute to the local development process. Targeted and sustainable increases in the coverage of educational, basic health, and water and sanitation services will absorb the bulk of debt relief resources over the next 15 years.
- 1.21 Along similar lines, work has begun on devising a complementary sector program (HO-0185), coordinated with the one described here, addressing compliance with policy and expenditure measures that are compatible with the strategy. The rural economy reactivation program (HO-0144) complements the above inasmuch as it proposes activities to promote rural production. Finally, the urban poverty program now in preparation (HO-0184) and the family allowance (PRAF) (1026/SF-HO) and FHIS 3 social investment (1028/SF-HO) programs, currently being executed, complete an integrated poverty reduction and alleviation package.
- 1.22 From a more operational perspective, the proposed program is supported by the Program for Efficiency and Transparency in Government Procurement (1059/SF-HO), which will oversee and strengthen the FHIS procurement system. Because these two programs were developed simultaneously it was possible to coordinate FHIS-related interventions with regard to both audits and the strengthening of the procurement system.

- 1.23 In conclusion, Honduras is in a critical phase with respect to its fight against poverty: (i) communities are expecting implementation of the projects promised in 1998; (ii) the FHIS needs to be strengthened so that its activities are accompanied with a stronger local presence; (iii) for social investment there are no alternatives to the FHIS in the medium term; and (iv) the PRS considers a revamped FHIS to be one of the key institutions in charge of its implementation. The response to this set of circumstances must concentrate, first, on overcoming the problems associated with the government's social policy backlog and by streamlining the FHIS so it can apply the new approaches. Second, there has to be a vigorous relaunching of a steady integrated local development process with solid operational underpinnings.

II. THE PROGRAM

A. Objective

- 2.1 This program fits in the framework of the Poverty Reduction Strategy (PRS). Its general objective is to help improve the living conditions of the poor by broadening access to basic social services with community participation. The program's specific objectives are: **Phase I** (i) carry out the projects selected in the 1998 PISM awaiting financing due to the backlog caused by Hurricane Mitch; (ii) support FHIS participation in the PRS as a poverty reduction instrument, increasing its effectiveness and enhancing management capacity; and **Phase II**: (iii) implement the new intervention approaches devised from lessons learned with pilot programs executed in Phase I.

B. Scope of the program

- 2.2 This program supports the FHIS as an institution dedicated to poverty reduction with medium-term objectives that are in line with the PRS. It will help sustain the pace of social investment and thereby broaden access of the poor to basic social services. At the same time, through pilot programs, the FHIS is testing the changes needed to adapt its administration to the new PRS guidelines. The program emphasizes and promotes active local stakeholder participation in the investment cycle in order to foster community empowerment and a sense of community ownership of service delivery, thereby ensuring more effective interventions. For this to come about, the program envisages measures such as involving communities and municipalities in the identification and prioritization of works; finding and training social auditors; initiating the delegation of the FHIS project cycle to municipalities that can absorb it; organizing maintenance teams (ORM) and following up on commitments to practice preventive maintenance; and hiring the training and technical assistance services needed to allow each of the local and central actors to perform their functions efficiently.

C. Grounds for the multiphase approach

- 2.3 The proposed program is conceived as a multiphase operation and applies the new MPL approach⁶ approved by the Bank's Board of Executive Directors in March 2000, as part of the flexible lending instruments initiative. The flexibility afforded by this approach very much suits a medium-term vision going beyond any one government's term of office. The program supports the process whereby the FHIS is being converted into an effective instrument of the PRS. More specifically, in Phase I, the idea is to resume the transformation of the FHIS that was interrupted by Hurricane Mitch, while financing the basic infrastructure projects backlog. Pilot

⁶ Multiphase lending.

tests will thus be conducted to fine-tune the methodology and experiment with new forms of community and municipal participation, at different stages in the project cycle. The specific objective of Phase II would be to expand the designs that proved successful in the pilots. The multiphase approach facilitates the incorporation of first-phase lessons learned into the second phase; the second phase itself constitutes an incentive for timely execution and evaluation of the pilot programs conducted in the first.

- 2.4 The move to the second phase is subject to fulfillment of targets for which specific process, outcome, and impact indicators have been assigned. These indicators will show whether steps to be implemented in Phase II are in line with the medium term objectives (definitions related to the role of the FHIS in the PRS). This second phase will begin with a fresh allocation of resources to the municipalities, new PISMs, and modern methods in place in the FHIS. Phase I is expected to be completed in 24 months and Phase II in 36 months.
- 2.5 This program has an estimated cost of US\$66.7 million (US\$60 million financed by the Bank), divided into two loans of US\$25 million and US\$35 million, respectively. Management would recommend approval of Phase II of the program to the Bank's Board of Executive Directors in a memorandum containing an evaluation of qualitative and quantitative aspects regarding accomplishments vis-à-vis the 1998 PISM project backlog and the pilot project outcomes.⁷ The memorandum would indicate any adjustments needed to enhance the program's operational feasibility, efficiency, and transparency. It will also include a revised cost table and procurement plan.

D. Allocations to municipalities

- 2.6 The 1998 poverty map will be used for Phase I of the operation. So as to sharpen the targeting to municipalities with the largest number of poor people, the FHIS, by agreement with the IDB, has altered the allocation formula, giving greater weight to poverty and less to population size.⁸ Moreover, in order to protect the smaller municipalities that typically are the poorest, a minimum allocation floor continues to be used. The program contemplates two allocations for the municipalities: the first covers the period from July 2000 to December 2002 (including component 1.2 of this operation in the amount of US\$14.8 million), and the second begins in the year 2003, coinciding with the start of Phase II of this program, and ends in December 2005. For the second phase a new allocation method would be used based on a new poverty map drawn up on the basis of data contained in the 2001

⁷ See Table 3.1 for Phase II activating indicators.

⁸ The weighting is calculated based on the difference between the poverty index of each municipality and the minimum index $[1 + (Ip_i - Ip_{min})/100]$ where $i=1$ to 298. With this change, 61 municipalities increase their allocation by between 10% and 27%. This is achieved primarily by reducing the allocation of the 17 strongest municipalities by 10%-21%.

national census. The allocations in both phases will be well publicized in the press and in municipal government bulletins.

E. Components of Phase I of the program (US\$25.8 million)

- 2.7 Phase I of the program will engage in social investment activities in the strict sense, pilot initiatives, FHIS institution-strengthening activities, and an evaluation of this phase. The evaluation activities will analyze execution of Phase I and extract lessons to be applied to Phase II.

1. Component 1. Social infrastructure investment commitments (US\$24.2 million)

- 2.8 This component will finance the backlog of projects left over from the 1998 PISMs⁹ as part of a US\$80 million portfolio to be executed in the first two years of this program. The 1998 PISMs comprise education projects (approximately 52%); municipal projects such as bridges, roads, and fords (20%); water and sewer projects (15%); health projects (10%); and environmental projects (3%). The program offers all the country's municipalities an opportunity to engage in a fast track updating of their PISM, with the help of an NGO. Some 40% of the municipalities are expected to take the opportunity to update their PISM.¹⁰ Whether updated or not, the PISM should be implemented by the end of 2002,¹¹ following **operational guidelines in the FHIS manual, which is currently being revised. Completion of the revised manual is a condition precedent to the first disbursement.**
- 2.9 To qualify for financing, projects must not only figure in the 1998 PISM but also prove that they are sustainable. To that end, the FHIS evaluator will check to see that there are social auditors and members of the Works Maintenance Organizations (ORMs)¹² to monitor construction and maintenance work, respectively. At least one member in each group must be a woman. The evaluator will also assess the need for training in maintenance and environmental conservation with community participation. In the poorest (C and D category) municipalities, training contractors will provide the ORM with the minimum tools, purchased with program funds, needed to carry out maintenance. Under the updated Municipality Law for 2000, SEFIN transfers to the poorest municipalities were increased and it was established that at least 5% of such transfers must be used for works maintenance.

⁹ The backlog projects will be financed by the Bank, the KfW, and the World Bank.

¹⁰ See Note 1.

¹¹ At the start of Phase II, a new participatory planning exercise will be conducted in all municipalities, based on the experience acquired in the trials and depending on budgetary constraints at the time.

¹² There are shortcomings in the methodology described in these manuals, hence the need for a pilot maintenance program to improve on it.

- 2.10 To help ensure that works are sustainable, the FHIS will support training courses including compulsory and optional modules. The compulsory modules include: (i) maintenance of infrastructure works for sustainability and environmental protection (systematic maintenance techniques and practices, costing, involvement of the community, and (ii) community supervision and social audits. A salient consideration here is that the role of women in community projects has been incorporated into these modules. The optional modules include: (i) organizational development; and (ii) financial and administrative mechanisms (fees). In addition, there is a series of modules involving environmental topics for nonstandard projects such as water, sewerage, sanitary landfills, latrines, etc. To enhance their impact, the FHIS plans to start the training courses before works construction begins. Lastly, local governments are required to submit the following documents together with their project applications: (i) the corresponding item in the minutes of the town meeting and the PISM; (ii) certificate of community commitment (comptrollers, ORM); (iii) title or document attesting ownership of the land; (iv) evidence of availability of core operating funds (to pay teachers, health personnel); (v) maintenance plan and proof of community commitment to contribute; and (vi) execution and operation monitoring plan.
- 2.11 Once the prerequisites for project execution have been verified, they will enter into the FHIS's five-stage project cycle consisting of: (i) identification and priority ranking; (ii) appraisal, preinvestment, and development; (iii) approval; (iv) contracting; and (v) supervision and monitoring. The outputs of the project cycle are the works themselves and the training activities.
- 2.12 To improve supervision of works and thereby enhance their quality, the FHIS will assign supervisors to particular zones. By using supervisors living in the area and reducing their workload to 15 works projects, the idea is to handle three on-site inspections per supervisor per month. The supervisors are engineers or architects hired by the FHIS on an individual basis or through companies. The supervisors' work will be overseen by inspectors, chosen among engineers and architects on the staff of the FHIS. By early 2000, the FHIS had about 17 inspectors. By October 2000, it had 25 and, by the end of this year, it is expected to have enough inspectors (about 30) to visit the works at least once a month. It is also expected that deputy directors for supervision and monitoring will spend 25% of their time on field visits to supervise beneficiary-executing agency relations and evaluate the work of the social auditors, supervisors, and inspectors.

2. Component 2. Pilot programs to strengthen local communities (US\$900,000)

- 2.13 The FHIS Municipal Strengthening Division will be responsible for coordinating execution of the pilot projects. The criteria for selection of the municipalities vary according to the pilot project. Some 46 municipalities are expected to participate, in two partly overlapping subgroups. The first group will comprise 30 municipalities

taking part in the planning and maintenance pilot programs; the second will consist of 20 municipalities taking part in the delegation of the project cycle pilot program. Approximately four of the municipalities in this group also appear in the first group. **The list of municipalities chosen for participation in the pilot projects; agreed upon with AMHON must have a nonobjection from the Bank, this being a condition precedent to the first disbursement.**

- 2.14 The pilot projects will begin in early 2001, will last two years, and will be executed in accordance with the **operating manuals for the pilot projects; a condition precedent to the first disbursement will be the presentation of the latter, to the Bank's satisfaction.** These manuals must be duly cross-referenced in the Operations Manual. The pilot projects will be evaluated when they reach the amounts (values) required to trigger an evaluation¹³ (after approximately 18 months) and any adjustments needed, on the basis of lessons learned, will be applied to the design of Phase II of this program. For execution of the pilot projects, the FHIS will sign an agreement with each participating municipality setting out the obligations of each party, conditions for the transfer of program funds and for their management, among others. **The presentation of a model agreement that the FHIS will sign with the municipalities participating in the pilot projects will be a condition precedent to the first disbursement.**
- 2.15 **Participatory Planning (PP) pilot project.** Innovative methodologies for microplanning with community and municipal participation will be tested for a representative sample of municipalities. This will yield new PISMs, as a way of guaranteeing a better match between problems and solutions. The methodology adopted¹⁴ must observe certain principles and see to it that: (i) regional delegates to municipal town meetings are legitimate representatives of their region; (ii) the methods for assigning priority to projects are based on simple criteria that are at once objective, equitable, and free of political pressure, take into account the urban or rural nature of the community presenting them, and enable solutions tailored to local circumstances; (iii) plans include equitable participation of women and ethnic groups; and (iv) training includes, before the pilot begins, discussion of environmental conservation issues.
- 2.16 The PP pilot will start at the beginning of 2001, coinciding with the presentation of nominations for the office of mayor. It is estimated that on average the pilot PPs will take about four months to finish. The PISMs they give rise to will be in force until end 2002, with the possibility of annual adjustments.

¹³ See paragraph 2.38.

¹⁴ In the course of preparing this operation an enhanced participatory planning approach was designed based on lessons learned in the September 1998 exercise.

- 2.17 The program provides for a project selection process,¹⁵ in three consecutive stages, starting with community meetings to identify needs and select three priority projects. The representatives of the community then go to a regional assembly, which establishes regional priorities using a prioritization matrix, from which a portfolio of regional projects is derived. Lastly, the regional representatives debate in a town meeting with the municipal authorities and draw up the PISM. The scope of the FHIS menu and the allocation of resources to municipalities are public knowledge. The allocations are published in the press and in the municipal bulletin. The FHIS establishes minimum criteria for a municipal planning exercise to be acceptable. However, the municipalities are free to rely or not on the FHIS to promote and execute them. Municipalities and communities will be assisted by an NGO in training municipal personnel and community leaders, through facilitators (local people, wherever possible). The subcomponent provides for funding of the NGO, facilitators, and instructors.
- 2.18 During the pilot project, an approach will be tested that is designed to reverse the trend toward heavier investment in urban zones than in rural areas and to ensure that investments target the poor, within each municipality. In order to direct investment toward rural areas, in 15 of the 30 municipalities the FHIS will recommend that at least 50% of the municipal allocation be invested in rural areas. In the other 15 there will be no minimum percentage.
- 2.19 Various features of the planning methods to be tested represent advances over previous methods:
- (i) They respect different degrees of autonomy in local planning efforts. If a municipality has its own PP method that meets certain minimal criteria, the program would agree to that process being used.
 - (ii) They generate local skills. Instead of the FHIS hiring facilitators, it would hire an NGO to train local government officials or community leaders to act as facilitators in the process of identifying and prioritizing basic needs.
 - (iii) Their priority ranking of projects is based on new regional and municipal criteria characterized by consistency, simplicity, and transparency.

¹⁵ A list of the logistical requirements for the pilot is available. The instruments needed to implement it have already been prepared and consist of: (i) the operations manual; (ii) training materials for facilitators of regional and municipal assemblies; (iii) pre-printed forms and guides for all stages of the planning process; (iv) terms of reference for hiring NGOs and facilitators; and (v) a detailed schedule for pilot project execution.

- (iv) They give women a voice. Each community will endeavor to ensure that one of the two representatives it sends to the regional assemblies is a woman.
- 2.20 With the Bank's assent, 30 municipalities will be selected for this pilot test. The eligibility criteria for municipalities participating in the experiment are: (i) voluntary participation on the part of the municipal corporation; (ii) willingness to completely rewrite the 1998 PISM; and (iii) a commitment by the municipality to administer the process. The pilot project needs to include a sampling of municipalities of different categories and with varying degrees of management capacity.¹⁶ A US\$20,000 incentive per municipality will be included for municipalities with an allocation of less than US\$135,000 for the two years.
- 2.21 A local development program aspiring to reduce poverty must bear in mind that communities suffer from grave social problems that could not be addressed if the menu were restricted to social infrastructure alone. Consequently, a negative investment menu will be tested in 10 municipalities in this pilot project, in the sense that the menu will indicate which investments cannot be financed given their meager social benefits or limited relevance with respect to the program's core objectives of poverty reduction and local development. The participating municipalities will be selected from the poorest (C and D) categories, to give them an opportunity to request the FHIS to execute projects that they consider will help solve the most pressing problems, without being limited in their choice by a pre-established menu.
- 2.22 **Works maintenance pilot project.** The purpose of the experiment is to perfect the Works Maintenance System already devised by the FHIS for standard works¹⁷ and to prepare a plan to establish universal maintenance for the second phase. The pilot will essentially address three areas: financial aspects, institutional requirements, and local elements.
- 2.23 As regards financial aspects, the FHIS, together with the Ministry of the Interior and Justice (SGJ), have produced a program budgeting manual for use by municipalities. The pilot project will analyze and forge a strategy encouraging adoption and use of this manual, and will train local stakeholders to manage the budget system. Moreover, alternative solutions will be sought for municipalities that are not maintaining works because they do not have the resources.
- 2.24 An effort will be made to persuade each municipality participating in the pilot project to include a maintenance plan for each of the FHIS works built since 1998.

¹⁶ Given the nature of the pilot project, the relatively large municipalities are excluded.

¹⁷ The FHIS has only tested part of this system and has not evaluated it. Road and municipal infrastructure projects, and water and sewerage projects, with cost recovery, will be addressed independently in a pilot project financed by the World Bank.

The cost of maintenance per category C and D municipality over the two years of the pilot project is projected to be approximately US\$6,000. Of that amount, the equivalent of US\$4,000 per municipality as a maintenance incentive will be covered by the Government of Honduras through a transfer from the Ministry of Finance (SEFIN) as part of the local counterpart. **This transfer will be included in the SEFIN-FHIS agreement that is a condition precedent to the first disbursement.** The US\$2,000 balance will be funded by the municipalities. This municipal contribution must be reflected in the FHIS-municipality framework agreement concluded as part of pilot project execution. In addition, consulting services will be financed to estimate the cost of repairing and maintaining all social investment works built by the FHIS since 1998, through sampling in five municipalities.

- 2.25 As for institutional requirements, the program will finance technical assistance for: (i) reviewing and adapting the FHIS training manual to new approaches; and (ii) designing and implementing a maintenance supervision arrangement. These actions will apply to schools and education centers in general and to health centers. Initially, maintenance supervision will entail having municipalities participating in the pilot project provide an annual report on the maintenance of their works. The report will be submitted to the FHIS Municipal Strengthening Department. Within the FHIS, the Supervision and Monitoring Department will be responsible for verifying compliance with maintenance commitments in an annual sample of municipalities.
- 2.26 With respect to local elements, there are plans in the program to fund training and technical assistance for all the activities mentioned in paragraph 2.10 as well as testing a system of incentives for sound maintenance practices, while offering free technical advisory services to improve municipal resource generation practices.
- 2.27 The pilot project is expected to last two years, beginning in early 2001. The municipalities taking part in it will be the same as those that will take part in the participatory planning pilot. Following evaluation of the pilot, any required adjustments will be taken into account in designing the second phase of this program.
- 2.28 **Pilot project on operational delegation of the project cycle (DOPC).** This pilot will test the DOPC process in 20 municipalities with a view to transferring the following project cycle activities: (i) project identification (pre-cycle); (ii) project development; (iii) project execution; and (iv) maintenance of works (post cycle). The project cycle activities of the municipalities may be executed in the way the municipality stipulates, provided that certain requirements established in DOPC manuals are respected.¹⁸ The municipalities will have the option to adopt the FHIS project cycle or adapt it to their own needs, provided they incorporate the 11 points

¹⁸ This manual was developed as this operation was being designed.

of interface with the FHIS project cycle. They must also inform the FHIS in due course, through preestablished contacts, regarding completion of the various stages of the FHIS project cycle.

- 2.29 Delegation of the project cycle to the less advanced municipalities would lead to inequities in the distribution of benefits given the differences in their level of execution. Consequently, this pilot project will be carried out in municipalities that closely match the eligibility criteria associated with their institutional and economic capacity. Eligibility to participate in DOPC was based on criteria set forth in the operational manual written specifically for DOPC. The criteria measure a municipality's economic output, its revenue-generating capacity, management capacity (staff qualifications, project cycle experience, experience with procurement, and degree of computerization). DOPC will be tested in two kinds of municipality: (i) those that are already ready to take over the cycle (eight municipalities) and (ii) those that need some minimum assistance to reach that level (12 municipalities). The program will fund training and technical assistance¹⁹ for the FHIS's DOPC to local governments. The FHIS will seek support from AMHON in promoting the pilot project at the municipal level. Municipal participation will be voluntary. If any of the 20 preselected municipalities decides not to take part in the pilot project, the number of participating municipalities may be reduced, with prior approval from the Bank.
- 2.30 The lessons learned in decentralization-pursuing reforms suggest that the process must be gradual, that is to say, it should begin with a limited number of municipalities, identified as those that are best prepared to take on the new responsibilities. In order to transfer the project cycle gradually, it is important that (i) implementation of the pilots not interfere with the operation of the FHIS's investment program; (ii) it be understood that delegation of the cycle is a new process that is quite complex and takes time to learn; (iii) funds and time be invested in training because only a few municipalities are ready to take over the project cycle; and (iv) NGOs and/or enterprises are trained to support the process.
- 2.31 Since this is a brand-new initiative for Honduras, the portion to be delegated initially to the participating municipalities to manage will be 30% of the total municipal allotment; the FHIS will retain the other 70% for investments. If the municipality so requests, its initial share can subsequently be raised to 50% if it has committed 70% and expended 50% of this portion before 1 June 2002. In this way, the FHIS can make sure that the needs of the poorest of these municipalities are not neglected if there are delays in the startup of projects administered by the municipalities. In these municipalities, projects administered by the municipality will coexist with others managed in the traditional fashion by the FHIS.

¹⁹ The Master Plan for Training and Technical Assistance for municipalities and communities was designed during preparations for this operation and is in the program technical files.

- 2.32 The FHIS project cycle will not be modified during the DOPC exercise. As indicated in paragraph 2.28, the municipalities should have a project cycle that is compatible with the FHIS project cycle, so reports can be produced to enter the FHIS system.²⁰ The FHIS will retain its project evaluation function. This is a responsibility that, as a financial agency, the FHIS cannot waive or delegate. The FHIS will also, in every case, continue to perform its normative and monitoring role. The Municipal Strengthening Department of the FHIS will be in charge of implementing DOPC. It will receive support under the program by creating the DOPC Technical Support Unit (UAT) described in component 3 regarding FHIS institution-strengthening.
- 2.33 During execution of the pilot project, the program will finance the hiring of technical staff by the municipalities to better equip them to manage the project cycle. The municipalities are to establish a Municipal Technical Administrative Office (MTAO) to support the DOPC, with the following personnel: a general administrator, a resident engineer (specializing in construction), and a systems operator. There also is expected to be an environmental specialist supporting the MTAO through the Municipal Environmental Unit (UAM) in accordance with the agreement with SERNA. **Presentation of the agreement for SERNA's signature, including provisions creating new UAMs in pilot DOPC municipalities that do not have such units, will be a condition precedent to the first disbursement.** There also are provisions for hardware procurement and Internet access for participating municipalities.

3. Component 3. FHIS institution-strengthening. (US\$400,000)

- 2.34 This component will finance activities to help the FHIS take on its new responsibilities under components 1 and 2, strengthen its capacity to share information with other institutions, construct a baseline for an impact evaluation at a later stage, and expand its information system. The delegation processes will require changes in the culture of the social organizations involved and new forms of collaboration. These changes will create a new environment for relations among local organizations and the FHIS.
- 2.35 Execution of the DOPC pilot project presupposes a minimum of measures to strengthen the FHIS. The Municipal Strengthening Department in the FHIS will be in charge of implementing DOPC. To that end, the department will be given a DOPC Technical Support Unit (UAT) which will administer the Master Plan for Training and Technical Assistance for municipalities for the DOPC. This unit is to consist of an executive manager, a specialist in training and technical assistance for municipalities, and a systems operator. It will adhere to the requirements of this program, will be the executing agency for this component, and will be financed out of government counterpart funds.

²⁰ The specific links are described in the operations manual in the technical files.

- 2.36 Funds are budgeted in the program for technical assistance to strengthen and adapt administrative functions and promote a process of institutional adaptation. The idea is to strengthen the FHIS's capacity to: (i) adapt existing information technology resources and operations manuals for evaluation and supervision of the DOPC pilot project; (ii) strengthen the social and environmental qualifications of FHIS staff; (iii) adapt the information system to facilitate monitoring of budget execution by cost center; (iv) design a computerized human resources management system that satisfies policies and standards on vulnerable-group and gender issues; (v) design position description and functions manuals, human resource management manuals, and job classification and salary scale manuals; (vi) generally enhance the works supervision system; and (vii) construct a baseline for future evaluations of FHIS impact.
- 2.37 The program will help the FHIS begin to perform the role defined by the decree that extended its institutional life and shaped by the Poverty Reduction Strategy (PRS). To that end, it will finance workshops with extensive participation by stakeholders in local development to come up with a proposal on how to align the FHIS's role with the functions falling to it as the PRS executing agency (see paragraph 3.31).

4. Component 4. Evaluation of Phase I (US\$300,000)

- 2.38 Financing of Phase II of the program is contingent upon an evaluation of Phase I. The trigger for the Phase I evaluation will be the earlier of the following two occurrences: (i) that the FHIS has committed at least 60% of the loan proceeds earmarked for the pilot projects and disbursed at least 40%, apart from having completed 40% of the works financed through the pilot projects, or (ii) that at least 18 months have gone by since the pilot projects began. To evaluate Phase I, performance and process indicators will be used along with qualitative assessments. In the case of the regular investments addressing the project backlog, the evaluation will focus on the quality of the works, supervision during the construction stage, compliance with environmental requirements, social audits, and the preparation of works maintenance plans (see paragraph 3.34 and Table 3.1). The outcomes of the participatory planning pilot projects will also be evaluated, as will maintenance of works and operational delegation of the FHIS project cycle to the municipalities. This Phase I evaluation will focus specially on the analysis of progress made in dealing with shortcomings encountered during the mid-term review of the loan currently being executed (1028/SF/HO).

F. Components of Phase II of the program (US\$35.9 million)

- 2.39 Phase II is divided into three components addressing social investment activities, expansion of the FHIS DOPC process, and evaluation. Financing is planned for social infrastructure investments based on a new PP exercise and a possible negative menu, as well as broadening of the DOPC exercise and a final impact

evaluation. Phase II activities will be subject to a definition of the FHIS's role in the PRS framework.

1. Component 1. Social infrastructure investment

- 2.40 This component will finance the preparation of new PISMs using the participatory planning method validated in the Phase I pilot projects and subject to the preparation of a sustainability plan consistent with the lessons learned in the pilot maintenance project. The PISMs will eventually include new projects deriving from pilot testing of the Phase I negative menu. Funding also will be provided for software development, the hiring of technical support, and staff training to help adapt the FHIS to an expanded menu. The new types of projects added to the menu must contribute to poverty reduction, be of social interest, and be fitted to the project cycle.

2. Component 2. Operational delegation of the project cycle

- 2.41 The expansion of project-cycle delegation will be limited to the municipalities best-suited in terms of their administrative capacity to manage and monitor the process. If the DOPC pilot project is successful, delegation will gradually be extended to municipalities qualifying according to the same criteria as those used in Phase I. The inclusion of municipalities in DOPC will be subject to the following constraints: (i) the limited supply of NGOs capable of and interested in working with the municipalities in this process; and (ii) the institutional capability of the FHIS to monitor and evaluate this process. An ad-hoc committee composed of the FHIS, AMHON, and the SGJ will select municipalities that meet the established criteria. Municipalities that are not chosen will continue to receive training courses and technical assistance offered by other agencies. This component will establish the communication channels, coordination mechanisms, indicators, and database that the FHIS needs in order to monitor the strengthening of municipalities and add them to its DOPC program as soon as they are ready for it.
- 2.42 Provision has been made for experiments with assisted delegation of the project cycle to groupings of less advanced municipalities. Weaker municipalities that, because of geographical and/or cultural similarities, are already working together can form pools. A technical cooperation project using resources of the Japan Special Fund (TC 98-09-39-6) will work with one of these groups (Garífuna) with a view to it possibly receiving an assisted transfer of the project cycle.

3. Component 3. Evaluation of Phase II

- 2.43 Evaluation activities will be funded to analyze execution of Phase II as well as the compliance with the general objectives of the program. The fundamental tenet of the evaluation is to anticipate the medium-term requirements of the PRS and analyze alternative FHIS interventions.

G. Costs and financing plan

2.44 The program will cost an estimated US\$27.8 million equivalent. Table 2.1 gives a breakdown by cost item and funding source.

Table 2.1: Costs [US\$000]

Categories	Costs in US\$		TOTAL	
	IDB	Hon.Govt	Phase I	%
Social investment				
Municipal allotments	22,267,350	422,162	22,698,512	81.6%
Preventive maintenance and audits-training		1,548,039	1,548,039	5.6%
Subtotal	22,276,350	1,970,201	24,246,551	87.2%
Pilot test				
Participatory planning	72,728	100,000	172,728	0.6%
Preventive maintenance	126,750	60,000	186,750	0.7%
Project cycle delegation	566,000		566,000	2.0%
Subtotal	765,478	160,000	952,478	3.3%
Institution-strengthening				
Consulting services	277,000		277,000	1.0%
FHIS Technical-Administrative Office	30,900	54,000	84,900	0.3%
Environmental training	5,000		5,000	0.0%
Subtotal	312,900	54,000	366,900	1.3%
Evaluation				
Consulting firm	290,000	0	290,000	1.0%
Subtotal	290,000		290,000	1.0%
Components subtotal	23,644,728	2,184,201	25,828,929	92.9%
Audits				
External audit	70,000		70,000	0.3%
Subtotal	70,000		70,000	0.3%
Contingencies	1,285,271		1,285,271	4.6%
Subtotal all items	25,000,000	2,184,201	27,184,200	97.8%
Financial charges		615,800	615,800	2.2%
Interest		245,139	245,139	0.9%
Inspection and supervision		250,000	250,000	0.9%
Credit fee		120,661	120,661	0.4%
Grand total	25,000,000	2,800,000	27,800,000	100.0%
	90%	10%		

H. Sources and terms of Bank financing

2.45 The terms of the loan for Phase I are listed in Table 2.2.

Table 2.2: Loan terms (Phase I)

Source of financing	Fund for Special Operations (FSO)
Terms:	
Amortization period	40 years
Grace period	10 years
Commitment period	2 years
Disbursement period	2.5 years
Interest rate	1% during the grace period and 2% thereafter
Supervision	1% of the total loan
Credit fee	0.5% per annum on the undisbursed balance from the date of Board approval of the loan

III. ORGANIZATION AND ADMINISTRATION

A. The borrower and the executing agencies

- 3.1 The borrower for the Bank's loan will be the Government of Honduras. The Honduran Social Investment Fund (FHIS) will be the program executing agency.
- 3.2 As executing agency, the FHIS will be responsible for: (i) monitoring compliance with the program's objectives; (ii) applying the Operations Manual for the program; (iii) hiring consultants for the annual audits and for evaluation of Phase I; (iv) efficiently managing program resources and keeping the accounts; (v) preparing and submitting timely administrative and financial progress reports to the Bank; and (vi) disseminating the program's objectives and activities.
- 3.3 The other agencies involved in the program's execution are: (i) the municipalities chosen to take part in the pilot projects; (ii) the Ministry of Health; (iii) the Ministry of Education; (iv) the other municipalities, and (v) SEFIN, and (vi) AMHON. The beneficiary communities and their organizations and NGOs will also take part in the program. Working relations and collaboration between the FHIS and the aforementioned organizations will be governed by agreements between the parties.

B. Execution of the program (Phase I)

- 3.4 The program will be implemented in two phases over a total period of five years. The basic implementation arrangement calls for coordinated actions between the FHIS, the municipalities, local NGOs, and communities, but with clearly delineated functions.

1. Execution of Component 1. Social infrastructure investment commitments

- 3.5 The FHIS will be responsible for: (i) allocating funds to the municipalities; (ii) hiring contractors to execute projects from the 1998 PISM backlogs; (iii) helping the municipalities to formalize ORMs; (iv) assisting municipalities that wish to update their PISMs to do so rapidly;²¹ (v) ascertaining the technical, financial, economic, and environmental feasibility of individual projects; (vi) engaging NGOs to train and provide technical assistance to the beneficiaries, community representatives, and local agents in the participatory planning (PP) processes for rapid updates of PISMs and training of ORMs and social audits; (vii) handling bidding and procurement for its works projects; (viii) supervising

²¹ Under the 1028/SF-HO program, the 1998 PISMs are being updated for 40 of the 107 participating municipalities. This program refers to the remaining municipalities.

contractors; (ix) performing the associated inspections, and (x) hiring auditors for annual audits.

- 3.6 The municipalities will be responsible for: (i) the rapid updating of the 1998 PISMs, where desired; (ii) formally establishing ORMs and executing or monitoring maintenance plans; and (iii) supervising community training in environmental conservation, social auditing, and awareness of gender issues.
- 3.7 The role of NGOs will be to: (i) assist the municipalities and communities in rapidly updating the PISMs and (ii) provide training and technical assistance to communities and local agents in organizing ORMs, maintenance techniques, social audits, environmental protection, and awareness of gender issues.
- 3.8 The beneficiary communities will be responsible for: (i) participation in training activities; (ii) eliciting commitments to participate in ORMs and in social auditing activities; and (iii) supervising construction and maintaining works. The communities will also take on these general responsibilities during execution of the pilot projects.

2. Component 2. Pilot projects to strengthen local communities

(i) Participatory planning pilot project

- 3.9 To execute this pilot initiative, the FHIS will be responsible for selecting municipalities to take part in accordance with the eligibility criteria and for submitting the list of municipalities to the Bank for its consideration. It will also help municipalities implement the community participation method that will lead to the framing of the PISMs. The FHIS has regulatory powers regarding the methods to be used. Through NGOs, it will finance the design of operations manuals, resource materials, and training of facilitators. It will also be in charge of supervising implementation of the pilot project. The FHIS will have the same commitments referred to paragraph 3.5 with respect to investments in implementation of the PISMs.
- 3.10 The municipalities will be responsible for: (i) implementing the PP methodology that will give rise to the PISMs, according to the Operations Manual of the FHIS and annexes thereto; (ii) approving the PISMs by means of a certification in a public meeting of the municipal corporation; (iii) arranging with the FHIS for execution of the projects listed in the PISMs; and (iv) formally establishing joint municipality and community responsibility for works maintenance.
- 3.11 NGOs will be responsible for: (i) advising participants in community meetings, regional assemblies, and town meetings, and (ii) providing technical assistance and training to facilitators on prioritizing and presentation of projects to community and regional assemblies, to social auditors in the performance of their functions, and to

local stakeholders in helping to heighten the awareness of issues pertaining to gender, vulnerable groups, and environmental protection.

- 3.12 It will be up to the communities to: (i) identify and prioritize social investment projects, in a democratic and participatory manner; (ii) elect delegates to represent them in regional assemblies and at town meetings; and (iii) set up the ORMs, elect their members, and the social auditors.
- 3.13 Facilitators trained by the NGOs and hired by the FHIS will support implementation of the participatory planning approach by training the different players involved. Preferably they would be municipal employees and/or citizens with experience in community work.
- 3.14 The negative menu excludes as fundable items any activity associated with: housing, construction and repair of government buildings, community centers, civil service wages, public sector equipment, microcredit, vehicles, any religious activity or building or one with a political affiliation, patron saint festivals, activities related to the local lottery or gaming, combat ordnance of any kind, heavily traveled roads or the building of new rural roads.
- 3.15 The FHIS will have funds to hire specialists to design projects not currently on the menu. The technical criteria developed are to be added to the list of technical, environmental, and cost-effectiveness criteria employed during the evaluation stage of the project cycle.

(ii) Preventive maintenance pilot project

- 3.16 To implement this pilot initiative, the FHIS will assume responsibility for: (i) heading up the process of strengthening and consolidating the works maintenance system to be managed in collaboration with the participating municipalities and the communities; (ii) helping municipalities devise a mechanism for supervising works maintenance activities; (iii) defining a strategy to encourage municipalities to adopt and follow the Program Budgeting Manual (produced by the FHIS and the SGJ); (iv) devise a strategy for eliciting municipal and community contributions to works maintenance and seek solutions for municipalities that lack sufficient funds for this purpose; (v) revise and adapt the Works Maintenance Training Manual; (vi) create incentives for municipalities to execute their works maintenance plan in a timely and efficient manner; (vii) help organize and strengthen the community committees in charge of works maintenance, by project and/or community; and (viii) contract for the training required in all aspects pertaining to the adopted works maintenance system and handling of funds to pay for it.

- 3.17 The municipalities will be responsible for (i) ensuring that an employee is placed in charge of promoting works maintenance and serving as liaison with the FHIS, and (ii) administering funds for the pilot maintenance project.
- 3.18 NGOs will be responsible for: (i) providing technical support to participating municipalities respect to adoption and use of the Programs Budgeting Manual; (ii) delivering training and technical assistance to municipalities and communities regarding on any element of works maintenance and the handling of funds required to pay for it; (iii) helping municipalities develop a mechanism for supervising works maintenance; and (iv) organizing ORMs and electing their members.
- 3.19 The beneficiary communities will have the functions listed in paragraph 3.12 and will also be responsible for coordinating closely with the FHIS and the municipality to draw up and execute preventive maintenance plans.

(iii) Pilot project for operational delegation of the project cycle (DOPC)

- 3.20 The FHIS's Municipal Strengthening Department will be in charge of the DOPC pilot project. To that end, a Technical Support Unit (UAT) for DOPC will be set up and assigned the following functions: (i) coordinate the pilot activities; (ii) monitor their execution; (iii) confirm that DOPC operating procedures are being followed; (iv) serve as liaison between the municipalities and the different FHIS units involved in DOPC, coordinating with the FHIS Programming Department; and (v) administer and update the database on categories of municipalities.
- 3.21 To execute this pilot project, the FHIS will be responsible for: (i) signing an agreement with each municipality setting out each party's rights and duties according to the DOPC operating manual;²² (ii) delegating to the selected municipalities the operational execution of the project cycle, not including evaluation and inspection; (iii) ascertaining projects' technical, financial, economic, and environmental feasibility; (iv) supervising, with the municipalities, execution of investment projects; (v) opening a special bank account to which the FHIS will transfer funds for operating expenses and project execution; (vi) executing and monitoring the Master Plan for Training and Technical Assistance for municipalities and communities taking part in the project; and (vii) making sure that UAM members are trained in FHIS environmental evaluation procedures.
- 3.22 DOPC will generate two types of funds flows between the FHIS and the municipalities: construction bonds and sureties received by the FHIS, and transfers from the FHIS to the municipalities. The guarantees and transfers are contemplated in the project cycle and stipulated in the financing agreement for each project

²² This agreement is to specify that municipalities participating in the DOPC will follow the procurement procedures established in the loan contract for any procurement or contract coming out of this program.

signed by the FHIS with a municipality. Handling the financial side of delegation of the project cycle will require no major modifications to the FHIS's usual modus operandi.

- 3.23 The UAT will consist of: (i) a coordinator who will expedite dealings between the various actors and monitor DOPC accounting; (ii) a specialist in municipal training, who will maintain and update the Master Training Plan and coordinate training activities in the municipalities; and (iii) a computer system operator, who will administer and update the Municipal Information System and help municipalities computerize their project cycle. The FHIS will hire this personnel using counterpart funding.
- 3.24 The FHIS evaluator will oversee the project developed by the municipality. The FHIS will apply the same controls and procedures as it would to a private construction contractor, so implementation of the pilot project will not involve any major operational changes.
- 3.25 Participating municipalities will have a Municipal Technical-Administrative Office (MTAO) for DOPC, which will report to the municipal corporation and have the following personnel: (i) an administrator to exercise accounting control over flows of funds and arrange procurement and contracting; (ii) a resident engineer specializing in construction, to monitor, inspect, and provide technical supervision of the evaluation, development, and execution of municipalities' projects; (iii) a system operator who will run the computerized project cycle system; and (iv) an environmental expert from the UAM. For each of the 20 municipalities taking part in DOPC, the program will finance the hiring of a General Administrator and, for each of the 12 less advanced municipalities, the hiring of a civil engineer. The municipalities will be responsible for funding the other MTAO professionals. In the agreement it signs with the FHIS (paragraph 2.14), the municipality will undertake to present the contract signed with the construction firm as a condition precedent for receiving the down payment from the FHIS. Subsequent disbursements will be released against estimates of contractor outlays, by intermediary of the municipality.
- 3.26 The MTAO will be responsible for: (i) managing the delegated FHIS project cycle activities, including tendering and contracting for the execution and supervision of investment projects; (ii) developing investment projects included in the PISMs so they are technically, economically, and environmentally feasible and arranging for the signing of the respective project agreements with the FHIS; (iii) arrange for performance and downpayment bonds required by the FHIS; (iv) maintaining and operating the computerized project cycle system; (v) keeping accounts on financial flows; (vi) monitoring and providing technical supervision of project execution in accordance with the Operations Manual; (vii) preparing financial and progress reports for submittal to the FHIS; (viii) setting up separate accounts to handle each

project's funds; (ix) permitting and facilitating FHIS inspection of projects; and (x) project closeouts and their handover to the communities.

- 3.27 NGOs will be responsible for providing: (i) training and technical assistance to UAT personnel in the FHIS as well as for MTAO staff in each municipality to help them perform their duties; and (ii) training for communities (see paragraph 3.7). The FHIS will arrange for an agreement to be signed with AMHON whereby the latter agency will support its member municipalities' participation in the DOPC pilot project. AMHON also will undertake in the agreement to involve mayoral candidates early on in the pilot projects in order to ensure continuity in municipal support. **Presentation of the agreement submitted to AMHON for its signature will be a condition precedent to the first disbursement under the program.**
- 3.28 The beneficiary communities will be in charge of the activities described in paragraph 3.8.
- 3.29 The conditions of contracts between the municipality and contractors will be the same ones the FHIS currently requires in dealings with firms that execute its projects. Operating expenses for activities carried out by the municipality in connection with its functions under the pilot project will be charged to the total cost of financing each project.
- 3.30 For further details of the DOPC execution plan, see the technical files of the program. Special issues covered are: (i) the signing of agreements with the municipalities; (ii) transfers of functions and resources to the municipalities; (iii) commitments entered into by municipal governments; (iv) auditing and supervision by the FHIS; and (v) contracting by the municipalities.

3. Component 3. FHIS institution-strengthening

- 3.31 The FHIS will hire consulting services needed to: (i) boost its information technology capability; enhancing the quality of the design and specifications of works; adapt the information system to help track budget execution by cost center; hire or train human resources in the social area; organize works supervision; tailor its structure and operating manuals to the challenges posed by the program; (ii) create the UAT within the Municipal Strengthening Department and hire experts; (iii) hire training services on environmental issues for evaluators, supervisors, and inspectors; and (iv) take part in stakeholder workshops to come up with a proposal on how to align the FHIS's role with the functions the PRS ascribes to it in the process of implementing that strategy.

4. Component 4. Evaluation of Phase I

- 3.32 The Phase I evaluation will be performed by an independent consulting firm acceptable to the Bank. The evaluation will be funded by the program and commissioned by the executing agency. As soon as the trigger factors indicate

(component 4, paragraph 2.38), an evaluation of the previously established indicators will begin, with the assent of the executing agency and the Bank (see Table 3.1). A distinction will be made between evaluation of the execution of backlog projects and evaluation of pilot projects. For backlog projects the indicators will be geared to: (i) assessing the participation and interest of the community through updated PISMs, projects with maintenance plans and social audit commitments; (ii) covering procedural issues such as the extent of FHIS involvement in supervision during execution of the works, and compliance with environmental requirements, and (iii) measuring output indicators such as quality of works (at or above the norm), number of 1998 PISM projects completed, training delivered on various topics, and beneficiary satisfaction.

- 3.33 The pilot projects for strengthening local communities will be evaluated in order to be able to apply, in Phase II, the lessons learned: (i) with respect to participatory planning, attention will be paid to the quality of the new PISMs and how satisfied communities and municipal executives are with the methodology and the regional and social focus of the pilot projects; and the extent to which communities feel a sense of ownership of the works; (ii) with respect to works maintenance, the indicators will seek to gauge technology transfer via training and technical assistance, as well as municipality and community interest as measured by local input and public participation; also of interest is the percentage of municipalities with incentive systems in place to encourage maintenance of works; (iii) in the DOPC pilot projects, the evaluators will measure the participation of local contractors; completion times; construction quality; how unit costs compare with non-delegated projects; percentage of municipalities with a Technical-Administrative Office and which have been trained in the FHIS project cycle; efficiency of the FHIS project cycle and of the municipalities' adapted cycle; and performance of municipalities in handling the project cycle and its interface with the FHIS cycle.
- 3.34 The independent firm hired to perform the evaluation must have environmental experts. A sample of projects will be examined to verify application of the Operations Manual on environmental issues, and outcomes and impacts. The manual should describe or refer to environmental assessment procedures for each type of project. The evaluating firm will submit its reports to the FHIS, with recommendations so adjustments can be made for Phase II of the program. For the FHIS to qualify for Phase II, 75% of the indicators chosen as triggers for that phase of the program will have to be attained.

Table 3.1: Phase II trigger indicators

Phase II trigger indicators	TARGET
I. Component 1. Social infrastructure investment commitments	
1. Amount of Component I-Phase I funding allotted to executing backlog projects (1998 PISM)	Amount disbursed = 50% Amount committed = 70%
2. % of municipalities that, having opted to update their PISMs, actually did so.	% of municipalities $\geq 95\%$
3. % of projects costing over US\$10,000 with maintenance plans, ORMs and established social auditors	% of projects $\geq 80\%$
4. % of C and D category municipalities receiving training and a basic maintenance toolkit	$\approx 90\%$
5. % of direct beneficiaries and % of project amounts contracted for in areas of rural poverty	Percentages must be higher than rural area population percentages.
6. % of completed projects of a quality at or above the norm	% of projects $\geq 90\%$
7. % of completed projects satisfying environmental requirements	% of projects $\geq 95\%$
8. Beneficiary satisfaction	Rating > 3 of a scale of 1 to 5
II. Component 2. Pilot projects to strengthen local communities	
a. Participatory planning pilot project	
1. % of participating municipalities with a tested PP methodology and new PISM	$\approx 90\%$
2. % of communities by municipality that are participating in PP processes	$\geq 80\%$
3. % of assemblies that have used the prioritization matrix	$\geq 80\%$
4. Beneficiary satisfaction	Rating > 3 on a scale of 1 to 5
b. Preventive maintenance pilot project	
1. % of new PISM projects in participating municipalities costing \Rightarrow US\$10,000 with works maintenance plans, ORMs, social auditors appointed and training given	$\geq 90\%$
2. % of FHIS projects built since 1998, in the participating municipalities, with preventive maintenance plans	$\geq 60\%$
3. % of poor (C and D categories) municipalities in the pilot project receiving financial support for maintenance, apart from the municipal allocation	% of municipalities = 100%
4. % of direct beneficiaries and % of project amounts contracted for in areas of rural poverty	Percentages must be higher than rural area population percentages.
5. FHIS-municipalities mechanism to monitor or verify maintenance is operational	In the 12 th month of execution
6. Beneficiary satisfaction	Rating ≥ 3 on a scale of 1 to 5
c. DOPC pilot project	
1. % of municipalities taking part in the pilot project that have arranged contracts for 30% of the municipal allocation	$\geq 90\%$
2. % of delegated projects with complete documentation files	$\geq 95\%$
3. % of delegated projects completed on schedule	$\geq 50\%$
4. % of municipalities taking part in the pilot project that set up Municipal Administrative Technical Offices (MTAOs) supporting the DOPC	$\geq 90\%$
5. % of municipalities taking part in the pilot project that participate in the Master Plan for Training and Technical Assistance	$\geq 90\%$
6. % of all projects completed with quality at or above the norm	$\geq 90\%$
7. % of municipalities with Municipal Environmental Units (UAMs) set up.	$\geq 90\%$
8. % of completed projects fulfilling environmental requirements	$\geq 90\%$
9. % of municipalities with rigorous accounting and financial control system in place	$\geq 90\%$
10. Ratio of unit costs for delegated standard projects and non-delegated projects	≤ 1
11. Beneficiary satisfaction	Rating ≥ 3 on a scale of 1 to 5
III. Component 3. Institution-strengthening	
1. FHIS's information systems and operating and administrative manuals adjusted and updated in accordance with its new functions	During year 1 of execution
2. % of human resources in Municipal Strengthening, Projects, and Supervision and Monitoring departments with enhanced social and environmental qualifications, emphasis on tested PP methodology and on DOPC delegation process to municipalities	$\geq 80\%$
3. Technical Support Unit for handling the DOPC established in the FHIS's Municipal Strengthening Department	In the first 4 months following approval of the loan
4. Human resource management system up and running	During year 1 of execution
5. FHIS strengthening plan enabling it to take on its new role as described in the PRS	In year 2 of execution

C. Eligible activities

3.35 Social investment projects component 1 will be based on a menu of 40 types of projects selected because they were frequently requested by the beneficiaries and

because they match the priorities of the social sector line ministries. Specifications for these projects have been devised so as to address the needs of the poor segment of the population. The menu serves as a self-selector for poor segments and minimizes chances of resources being diverted to better-off groups, though there are a few communities with specific needs that this menu would not address.

D. Agreement with line ministries

- 3.36 The FHIS coordinates its work with the line ministries. It secures funding to pay for infrastructure works that the ministries need in order to be able to deliver social services. This arrangement also eliminates the need for the ministries to have their own works departments. To regularize its working relationship with the ministries, the FHIS enters into formal agreements with them. The agreements cover the assignment of priorities, specifications for investment projects, and the commitment to run the projects. The agreements will have to be updated during the first 12 months of execution.

E. Procurement of construction work, goods and consulting services

- 3.37 Procurement for the program must conform to Bank policies. International public bidding will be required for contracts worth over US\$1,500,000 for construction work, US\$250,000 for goods and related services, and US\$200,000 for consulting services. Those thresholds are subject to review by the Bank's Procurement Unit. Procurement of works, goods and services for which the FHIS is responsible and which fall below those thresholds will be governed by the FHIS Procurement Operations Manual, as follows: (i) local competitive bidding will be required for construction work, goods or related services with an estimated cost of between US\$75,000 and US\$1,500,000; (ii) restricted tendering will be used for construction work, goods and related services with an estimated cost of US\$37,000 or more and less than US\$75,000; (iii) for construction work, goods and related services having an estimated cost below US\$37,000, a short-list of at least three contractors or suppliers must be presented, such providers to be at a minimum certified by the Professional Development Institute or associated organization; the short-list will be proposed by the municipality or association involved, and the FHIS will select the provider that has the required qualifications and experience, following the ranking produced by the FHIS bid award committee. The same forms of procurement and amounts apply for consulting services.
- 3.38 Procurement of construction work, goods, and services that are the municipalities' responsibility in amounts below those mentioned at the start of paragraph 3.37 will be governed by Honduran legislation, provided it does not contravene the Bank's basic principles. The new Government Procurement Law is expected to establish procedures to enable agile and expeditious contracting of goods and services. Once the new law is issued, the FHIS must adjust its Procurement Operations Manual as applicable. However, the FHIS will be permitted to include in its Operations

Manual specific procedures for the program proposed here, in order to regulate such issues as: (i) creation of bid evaluation and award committees; (ii) change orders, and (iii) contract-award mechanism and competent authority.

Procurement method	Construction work	Goods	Consulting services
International competitive bidding	US\$1,500,000 or more	US\$250,000 or more	US\$200,000 or more
Local competitive bidding	US\$75,000 to US\$1,499,000	US\$75,000 to US\$149,999	US\$75,000 to US\$200,000
Restricted tendering	From US\$37,000 to US\$74,999	From US\$37,000 to US\$74,999 ²³	From US\$37,000 to US\$74,999
Provider short-list*	Less than US\$37,000	Less than US\$37,000	Less than US\$37,000
*As a minimum requirement, these providers must be certified by the Professional Development Institute or associated organization.			

F. Disbursement

- 3.39 **Retroactive financing.** The FHIS indicated that no retroactive financing will be needed for this operation.
- 3.40 **Revolving fund.** A revolving fund will be set up for the program, not to exceed 5% of the total Bank financing.
- 3.41 **Special accounts.** The Bank will deposit the loan proceeds and counterpart funds in a special account to be administered by the Ministry of Finance, which will arrange funds transfers to the FHIS. **The Agreement between the Ministry of Finance and the FHIS regarding the transfer of proceeds of the Bank's loan must be presented prior to the first loan disbursement.**
- 3.42 In order to execute the DOPC pilot project, the FHIS will transfer program funds to special accounts opened by participating municipalities in commercial banks exclusively for this purpose and for each project. These accounts will also be used to deposit cofinancing funds, where applicable.
- 3.43 Transfers of funds in the DOPC pilot projects will be carried out using the same procedure the FHIS employs for its contractors. A transfer will consist of a 40% down payment and subsequent payments depending on expenditure estimates. The mechanisms, legal aspects, specific use of funds, and supporting documentation required for transfers to municipalities will be included in the DOPC Operations Manual. For its part, through its technical and financial inspection visits, the Bank's Honduras Country Office will make sure that municipalities and the FHIS make proper use of this funds-transfer arrangement and that the FHIS monitors the

²³ Not including vehicles or computers.

municipalities and keeps the documentation required to attest to proper use of the funds to the IDB and external auditors.

- 3.44 **Internal controls.** To track investment outlays, the FHIS will keep on file the originals and/or copies of contracts, invitations, invoices, receipts, vouchers, and supplier certificates, and any other documents needed to substantiate information provided in the report submitted to the Bank. The report must contain, among other information, a list of projects financed, amounts, check numbers, dates, contractors and suppliers, sources of funding, and taxes. The documents that these entities are to keep must be duly labeled and filed and provided to Bank officers and external auditors upon request.
- 3.45 **Monitoring and inspection by the Bank.** Based on the positive experience with the previous program, it has been decided that the Bank's Country Office in Honduras will conduct ex post technical and financial inspections to examine documentation supporting the financial reports and justifications and requests for disbursement (for construction work costing less than US\$1,500,000, goods costing less than \$250,000 and services for under US\$200,000). The documentation to be examined will include files and receipts from a random sample of at least 10% of the number of projects. Examination will make it possible to confirm that the FHIS keeps in its files the documents requesting disbursements, which show that the funds will be used in accordance with the provisions of the loan contract. If discrepancies with the agreed-upon procedures are detected, a more extensive sample will be checked and the FHIS will be notified of amounts to be deducted from future requests.
- 3.46 The disbursement timetables for Phase I will be as follows:

Table 3.2 Projected disbursement commitment (US\$000)			
Source	Year 1	Year 2	Total
IDB/FSO	14,774	10,226	25,000
Local	1,400	1,400	2,800
Total	16,174	11,625	27,800
%	58%	42%	100%

G. Reporting and supervision

- 3.47 The FHIS will submit semiannual progress reports to the Bank with information on progress achieved by reference to the indicators established by the Bank in the Logical Framework. It will also contain a summary of targets that have been met and problems encountered in the reporting period, and should include a section describing how the Operations Manual was applied with respect to environmental considerations.

- 3.48 The Bank's Country Office in Honduras will be responsible for project supervision. SO2 will coordinate closely with the Country Office and the FHIS in evaluating the results of the loan. Given that execution of this loan will substantially change intervention approaches for poverty alleviation, SO2 will track the technical side of the project. The plan is to have SO2 participate in at least one administration mission each year.

H. Accounting and auditing

- 3.49 In the course of the program, the FHIS and participating municipalities will keep accounts and records in accordance with accepted accounting practices and will maintain internal control systems in accordance with the provisions of the Operations Manual.
- 3.50 The accounts and records of the program will be audited at the end of each fiscal year by a qualified firm of independent auditors acceptable to the Bank. Audited financial statements are to be presented to the IDB from the first disbursement year until the end of program implementation.

I. Coordination among international financing organizations

- 3.51 Coordination between the World Bank, KfW, SIDA and the Bank will be through informal communications. Generally speaking, the FHIS programs financed by these bodies are designed as part of a joint effort to pursue the same purposes within a global framework. In this program, execution of backlogged projects will be funded jointly by the World Bank, KfW and the IDB. The World Bank and the IDB will fund the pilot initiatives. These cofinancing operations underscore the importance of effective coordination, which has so far been satisfactory.

IV. FEASIBILITY, BENEFITS, AND RISKS

A. Technical feasibility

- 4.1 Poverty is a complex, multifaceted phenomenon. The manifestations of poverty and the causal relations linking them require different mitigation measures. Overcoming poverty presupposes enhancing access to human capital formation while at the same time seeking improvements in the socioeconomic environment. An intervention aspiring to overcome poverty in a sustainable fashion will have to: (i) focus on access to human capital formation; (ii) increase community awareness of the long-range importance of human capital formation; and (iii) promote an outlook of abundant opportunity.
- 4.2 Together with others promoted by the Bank, this program is consistent with the social policies underpinned by Honduras's Poverty Reduction Strategy (PRS). Thus it aspires to combat some of the causes of poverty, since it: (i) maintains a pace of investment in basic social infrastructure that allows for an expansion in service coverage; (ii) ensures that investments are targeted to the poorest, while at the same time attempting to ensure a sound choice of projects; and (iii) tends to alter the values of the poor, through participatory processes that encourage a sense of ownership and an appreciation for public services.
- 4.3 The program is supported by others currently being prepared or executed, and together they form a united front to combat poverty. In that sense, the program supports: (i) the promotion and reactivation of production expected from the Rural Economy Reactivation Program (HO-0144); (ii) intervention in pockets of poverty in marginal urban districts through the Urban Poverty Program (HO-0184); (iii) policy adjustments stemming from the Sectoral Program to Support the Poverty Reduction Strategy (HO-0185); and (iv) monetary incentives to increase human capital provided by the PRAF (1026/SF-HO).
- 4.4 The program provides for actions to enhance key technical facets of the investment cycle, such as: (i) experiments aimed at improving the PP process and project selection methods; (ii) funding to study, evaluate, and eventually enlarge the project menu; (iii) testing of alternative ways in which to strengthen municipalities technically and institutionally and thereby facilitate DOPC; and (iv) actions to plan and operate alternative arrangements for local and community works maintenance.

B. Institutional feasibility

- 4.5 The FHIS's long and solid institutional track record make it, comparatively speaking, the most efficient executing agency in Honduras. Its implementing capacity and institutional flexibility were evidenced during the emergency. The technical expertise of its senior staff and special government provisions with

respect to compensation partly explain the agency's efficiency. In this new stage, the Government of Honduras will finance all FHIS remuneration out of own resources, an indirect sign of the government's confidence in the institution and of the latter's credibility.

- 4.6 The program's institution-building aspects are supplemented by the Program for Transparency and Efficiency in Government Procurement. The proposed program provides for actions to: (i) enhance interagency exchange capability; (ii) modernize information, budget, and human resource management systems; (iii) design administrative, regulatory, and support systems for delegation of the project cycle; (iv) initiate moves, in training courses and through recruitment policies, to foster a shift away from the FHIS's strong technical and construction orientation toward a profile more in line with its social policy role; and (v) strengthen the works supervision system.
- 4.7 The two-phase approach makes it easier for the FHIS to decentralize, in a gradual, controlled process. This approach means, for instance, that interventions involving training and institution building for municipal governments and communities in Phase II can benefit from lessons learned in the Phase I pilot projects. At the same time, the Phase I pilots will assist in the preparation of administrative support systems. Finally, the completion of backlog projects in Phase I will satisfy community expectations and regain credibility for participatory processes. This paves the way for participation in Phase II, which, although it is, in terms of methods, more advanced, likewise depends on voluntary support and commitment.

C. Environmental and social feasibility

- 4.8 The FHIS project cycle requires an environmental impact assessment of projects. Standard (education and health) projects are checked to see whether the criteria included in the prototypes are provided for and/or satisfied. In all other projects, an environmental diagnostic assessment and/or environmental impact assessments are conducted, as appropriate.
- 4.9 The Environmental Unit in the FHIS has been assigned the task of periodically verifying the general and specific eligibility criteria for projects in relation to environmental concerns. It also is responsible for technical supervision of the environmental conservation projects on the FHIS menu, such as support for reforestation and watershed protection and conservation. The actions to protect the environment were agreed upon with the Ministry of Natural Resources and the Environment (SERNA), which oversees them.
- 4.10 While this program was being prepared, consultants were asked to evaluate the institutional capacity of the FHIS for environmental management and an environmental management plan was drawn up for the program. The FHIS has already included environmental considerations in the whole project cycle in order to

minimize the danger of direct adverse environmental impacts. It also minimizes the likelihood of indirect impacts given that approximately 70% of the projects financed by the FHIS are standard-type works projects that have no impact of that kind.

- 4.11 The FHIS has taken steps to encourage women to participate in the project cycle, especially in planning and operations. It is recommended that at least one of the three social auditors for each project be a woman. The gender variable should be included in the participatory planning process and at least one of the local representatives sent to regional assemblies is expected to be a woman. Likewise, the program envisages systematically incorporating FHIS policies and requirements regarding the particular needs of ethnic minorities. Training and awareness-raising sessions for FHIS personnel, municipalities, and communities are also contemplated.

D. Financial feasibility

- 4.12 With the funding earmarked for Phase I, the FHIS will have, over the next two years, the financial flows needed to satisfy the demands contained in the backlog from the 1998 PISM project portfolios. Thanks to its installed capacity the FHIS can execute, very efficiently and on average, about US\$40 million a year in small-scale infrastructure works. The breakdown of the FHIS's social investment program for the next two years is shown in Table 4.1.

Table 4.1				
Investment program (US\$ million) by year and source				
Financial organization	2000	2001	2002	Total
Inter-American Development Bank (IDB3)	6	8		14
Inter-American Development Bank (IDB4)		13	8	21
World Bank (WB5)		17	15	32
KfW5	1	6	0	7
National funds		4	1	5
Total	7	48	25	80

- 4.13 The bulk of the program's recurrent costs are absorbed by the line ministries, while maintenance costs are included in the municipalities' and communities' specific sustainability plans. The recurrent costs reflect no more than the usual increase associated with the expansion of the services envisaged, in line with historic trends. At the same time, financing for works maintenance costs is assured through the sustainability plan that must be drawn up in each case.

E. Benefits

- 4.14 This program is expected to yield cost savings due to enhanced efficiency, effectiveness, and prolongation of the useful life of works. With regard to efficiency, actions in the areas of institution-building, local stakeholders' ownership of the project cycle, and social auditing will translate into direct savings of operating and capital costs. Benefits also can be expected from enhanced effectiveness of service delivery because, by refining project selection procedures, investments will be better focused. As a result, service usage rates will increase and produce cost savings per beneficiary. Lastly, the program's efforts to involve communities and local stakeholders in maintenance are expected to generate future savings by prolonging the active life of assets and postponing replacement outlays.
- 4.15 Investment specifically in human capital is associated with improvements in productivity and, at the same time, direct positive effects on individual incomes, as well as indirect effects from the macroeconomic wealth generated.
- 4.16 The adjustment to the formula used in allocating resources to municipalities, whereby greater weight is given to the poverty index, would boost returns on social investment (associated with higher marginal utility) because investment would be better targeted.
- 4.17 Project-cycle delegation (DOPC) is expected to allow municipalities taking part in the program to strengthen their operating capacity, foster the development of local enterprises, lower construction costs and enhance construction quality, and facilitate preventive works maintenance. At the same time, the technical assistance and training that municipalities receive in preparation for DOPC will constitute a step toward municipal autonomy.
- 4.18 Finally, in keeping with the program's objectives, this operation will lend support to the FHIS and help it adapt to its new role within the Poverty Reduction Strategy (PRS). The PRS, which takes a medium-term approach, is currently being discussed with Honduran civil society in a consensus-building process.

F. Social equity and poverty reduction classification

- 4.19 The project specifies performance indicators to measure poverty reduction and social equity enhancement (see Annex I). It automatically qualifies as a poverty targeted initiative.

G. Risks

- 4.20 The FHIS menu restricts the range of projects a community can select. To mitigate this risk, during Phase I a negative menu will be tested. In Phase II, with the experience acquired during Phase I, the menu will be adjusted accordingly.

- 4.21 The FHIS is a centralized institution initiating a gradual process of delegation of operational aspects of its project cycle. There is a risk that this process might not proceed at the desired pace because of the need to introduce new procedures and adjust traditional working methods. To lessen this risk, the program will introduce DOPC gradually. It will start with a pilot project with a manageable number of participating municipalities, and will limit the number of projects delegated to the municipalities. At the same time, the program will provide consulting services to help the FHIS develop new systems, procedures, and needed manuals. It also will give the Municipal Strengthening Department a Technical Support Unit (UAT), which will be responsible for providing training and technical assistance to the municipalities.

POVERTY REDUCTION AND LOCAL DEVELOPMENT PROGRAM (HO-0161)
LOGICAL FRAMEWORK – PHASE I

Narrative Summary	Performance Indicators	Means of Verification	Assumptions
Goal Support implementation of the country's poverty reduction strategy.			
Purpose Improve living conditions for the poor by broadening their access to basic social services, with community participation.	<ul style="list-style-type: none"> • Unmet basic needs (UBN) indexes • Malnutrition indexes • Human Development Index (HDI) • Child Mortality Index • Poverty line 	<ul style="list-style-type: none"> • UNDP Human Development Report • Age-size survey • Household surveys • Vital statistics 	<ul style="list-style-type: none"> • Favorable political and economic conditions • Government social expenditure maintained.
I. Social infrastructure investment commitments Outputs <ul style="list-style-type: none"> • Project pipelines in 1998 PISMs financed. • Updating of 1998 PISMs completed. • Standard works maintenance plans established for each financed project costing over US\$10,000. • Works Maintenance Organizations (ORMs) established and social auditors assigned to each project, in accordance with FHIS Operations Manual. • Projects completed and fulfilling environmental requirements. • Training activities for communities in social auditing and works maintenance, protection of the environment, and awareness-raising on gender and ethnicity issues. • Minimum tools for works maintenance delivered by FHIS to project ORM's in category C and D municipalities. • Quality of projects assured by means of an improved supervision and inspection system in the FHIS. • Ratio of operating expenditure to total FHIS revenues is maintained. 	<ul style="list-style-type: none"> • US\$23 million committed for 1998 PISM projects by year-end 2002. • 95% of municipalities that opted to update their 1998 PISMs do so by year-end 2000. • A maintenance plan established for each financed project costing over US\$10,000, with an ORM established and operating for each funded project. • Three social auditors chosen for each financed project. • 95% of projects completed complying with environmental requirements. • 90% of beneficiary communities participate in the three FHIS training modules on maintenance before or as of the start of construction, during execution of component 1. • One community training session in each of the following as of the start of works construction during execution of component 1: social auditing; environmental protection; awareness of gender and vulnerable-group issues. • One set of works maintenance tools delivered by FHIS to ORM of funded projects in category C and D municipalities. • FHIS supervisors in charge of at most 15 projects and visit each works project at least three times a month. • FHIS has at least 30 inspectors by early 2001, visiting each works project at least once a month. • Operating expenditure does not exceed 10%. • % of direct beneficiaries and contracted project amounts in rural poverty areas are higher than % of rural population. 	<ul style="list-style-type: none"> • FHIS reports • COF/CHO inspection visits • Municipal reports and statistics • Evaluation of Phase I 	<ul style="list-style-type: none"> • Projects financed in accordance with priorities set in 1998 PISM exercises. • Financed projects are maintained as prescribed in FHIS works maintenance manuals, which are available.

Narrative Summary	Performance Indicators	Means of Verification	Assumptions
<p>2. Pilot local development projects</p> <ul style="list-style-type: none"> ♦ Participatory planning (PP) pilot project Outputs • PP methods tested in selected municipalities, culminating in new PISMs, with maintenance plans for each priority works project. • Municipal allocations effected by rural and urban area. • Community training organized and delivered on the program's PP approach, social auditing, environmental protection, and awareness of gender and vulnerable-group issues. • US\$20,000 incentive for municipalities with allocations at or below US\$135,000 for the 2 years. • Negative menu tested. 	<ul style="list-style-type: none"> ♦ Participatory planning (PP) pilot project • At least 27 municipalities (the same ones chosen for the preventive maintenance pilot project) using tested participatory planning method and new PISMs, in execution year 2. • 15 of the 30 municipalities chosen for the PP pilot have at least 50% of the municipal allocation invested in the municipality's rural area, for the duration of the pilot project. • One community training session per topic held during development of new PISMs, for the duration of the pilot project. • 10 of the 30 municipalities chosen for the PP pilot project test a negative project menu over the 2 execution years. 	<ul style="list-style-type: none"> ♦ Participatory planning (PP) pilot project • Minutes of town meetings. • Report by consultants engaged to devise the participatory planning methodology to be implemented. • List of NGOs and local facilitators chosen to support implementation of PP methodology. • PISMs developed that include projects from the tested negative menu. • Beneficiary satisfaction survey. • Training session attendance lists. 	<ul style="list-style-type: none"> • Interest and commitment of municipal executives and communities. • Interest and commitment of the FHIS. • PP approach soundly applied. • Timely hiring of sufficient NGOs to support implementation of PP methodology. • Participating communities are satisfied with extent of their involvement. • Municipalities taking part in the DOPC pilot are well chosen. • Interest and commitment of SEFIN for seed capital funding for works maintenance.
<ul style="list-style-type: none"> ♦ Preventive maintenance (PM) pilot project Outputs • Standard works maintenance plans established for each new project costing over US\$10,000. • FHIS projects built in participating municipalities since 1998 with maintenance plans. • Projects costing over US\$10,000 with ORM set up and social auditor appointed. • Minimum works maintenance tools delivered by FHIS to ORMs of projects in category C and D municipalities. • SEFIN-FHIS-municipalities agreements on funding incentives for works maintenance. • Training in revenue collection provided, as an incentive, to municipalities honoring their maintenance commitments. • Works maintenance report submitted by participating municipalities to FHIS Municipal Strengthening Department. • FHIS Monitoring and Supervision Department checks, by sampling, participating municipalities' compliance with maintenance commitments. • Consultant contract to cost the repair and maintenance of FHIS works built since 1998 performed. • Accounting and financial records system for handling maintenance funds 	<ul style="list-style-type: none"> ♦ Preventive maintenance (PM) pilot project • 30 municipalities (the same ones chosen for the PP pilot) with standard works maintenance plans for new projects, established by end of year 2. • 80% of FHIS projects built since 1998 in the participating municipalities have maintenance plans by end of year 2 of execution. • One ORM per funded project up and running. • Three social auditors chosen for each funded project. • One set of works maintenance tools delivered by FHIS to ORMs of funded projects in category C and D municipalities. • 30 municipalities enter into SEFIN-FHIS funding agreements for works maintenance incentives. • 100% of municipalities honoring maintenance commitments receive training in revenue collection at the end of year 2 of execution. • An annual works maintenance report presented by participating municipalities to the FHIS Municipal Strengthening Department during execution period. • An annual check, by sampling, of participating municipalities' performance of maintenance commitments, conducted by FHIS Monitoring and Supervision Department. • Consulting study to cost the repair and 	<ul style="list-style-type: none"> ♦ Preventive maintenance (PM) pilot project • Reports by FHIS Municipal Strengthening and Monitoring and Supervision departments. • SEFIN-FHIS incentive funding agreements for works maintenance. • Municipal budgets and reports. • Report of consultant engaged to cost the repair and maintenance of FHIS works built since 1998. • Lists of participants in training sessions held. • FHIS Works Maintenance Manual. ♦ Pilot project for operational delegation of project cycle (DOPC) • Report of consultants engaged to produce a proposal for design and execution of the DOPC pilot project. • Reports produced by FHIS Municipal Strengthening Department. • Reports by Municipal Technical-Administrative 	

Narrative Summary	Performance Indicators	Means of Verification	Assumptions
<p>in place in participating municipalities.</p> <ul style="list-style-type: none"> Beneficiary communities take part in FHIS training modules on maintenance and environmental issues. FHIS Works Maintenance Manual updated. 	<p>maintenance of FHIS works constructed since 1994, carried out at end of execution year 2.</p> <ul style="list-style-type: none"> 95% of participating municipalities have financial and accounting records for handling maintenance funds by year 2 of execution. Beneficiary communities participate in 3 FHIS maintenance training modules, before construction starts, during execution of Component I. FHIS maintenance training manual updated during first 6 months of execution. 	<p>Offices supporting the DOPC.</p> <ul style="list-style-type: none"> List of municipalities participating in Master Plan for Training and Assistance. <p>Others</p> <ul style="list-style-type: none"> COF/CHO inspection visits. COF/CHO progress reports. FHIS reports. Municipal reports and budgets. Evaluation of Phase I. 	
<ul style="list-style-type: none"> Pilot project for operational delegation of FHIS project cycle (DOPC) Outputs Municipal allocations effected. FHIS-municipalities work/cooperation agreements formalized. Selected FHIS project cycle activities delegated and fully taken over by the participating municipalities. Municipal Technical-Administrative Office (MTAO) supporting DOPC is established in all municipalities participating in DOPC pilot project. Master Plan for Training and Technical Assistance put into effect in all participating municipalities. Rigorous accounting and financial records systems set up in participating municipalities to handle transferred funds. Projects completed and complying with environmental requirements. Training in environmental assessment of FHIS projects given to UAMs. Agreement executed with AMHON to help new mayors participate in pilot initiatives. 	<ul style="list-style-type: none"> Pilot project for operational delegation of project cycle (DOPC) 30% of municipal funding allocations expended by municipal executive offices by year 2 of execution. 70% of municipal allocations expended by the FHIS by year 2 of execution. Model FHIS-municipalities work/cooperation framework agreements as a condition precedent to the first disbursement. 80% of participating municipalities take over delegated FHIS project cycle activities by end of year 2 of execution. 17 municipalities with Municipal Technical-Administrative Offices supporting DOPC up and running. 17 municipalities establish rigorous accounting and financial control systems within first 2 months of pilot project execution. 17 municipalities take part in training and technical assistance activities in line with the Master Plan during year 1 of execution. 95% of projects completed and meeting environmental requirements. 2 training sessions in environmental assessment of FHIS projects held for UAMs over the two years of execution. Presentation to AMHON of an agreement, satisfactory to the Bank, for that agency to encourage new mayors to participate in pilot projects. Condition precedent to first disbursement. 		

Narrative Summary	Performance Indicators	Means of Verification	Assumptions
<p>3. FHIS institution-strengthening <u>Outputs</u></p> <ul style="list-style-type: none"> • Technical Support Unit for DOPC established in FHIS Municipal Strengthening Department. • FHIS information technology resources, operating manuals, and human resource management manuals adapted to FHIS's new functions. • Integrated program budgeting system in operation. • Social and environmental qualifications of FHIS staff enhanced. • Computerized human resource management system established. • FHIS and municipalities participating in the pilot projects are networked electronically and requisite hardware has been purchased. • Training and awareness workshops have been delivered to FHIS staff on environmental, gender, and ethnic equity issues. • Study produced to determine support that FHIS will need to perform its new role as defined in the Poverty Reduction Strategy. 	<ul style="list-style-type: none"> • Three technical staff hired to form the DOPC Technical Support Unit during first 4 months of the program. • 100% of information technology resources adapted to serve FHIS's new functions during year 1 of execution. • 100% of operating and human resource management manuals adapted to new FHIS functions in first 6 months of execution. • Integrated program budgeting system functioning within year 1 of execution. • 80% of FHIS staff with enhanced social and environmental qualifications by month 18 of execution. • Computerized human resource management system functioning in year 1 of execution. • 100% of municipalities participating in DOPC pilot project are connected to FHIS information network by month 18 of execution. • One training and awareness-raising workshop organized for FHIS staff by month 18 of execution. • Consultant chosen to analyze the support the FHIS will need in order to assume its new functions as defined in the Poverty Reduction Strategy, by month 18 of execution. 	<ul style="list-style-type: none"> • FHIS performance indicators. • FHIS reports. • FHIS Annual Reports. • Contract of consultant chosen to analyze support the FHIS will need to take up its new functions as defined in PRS. • Lists of persons attending environmental training and awareness-raising workshops for FHIS staff. • COF/CHO inspection visits. • COF/CHO progress reports. • Evaluation of Phase I 	<ul style="list-style-type: none"> • Interest and participation of FHIS management and staff, as well as central government.
<p>4. Evaluation of Phase I <u>Outputs</u></p> <ul style="list-style-type: none"> • Evaluation of Phase I completed. 	<ul style="list-style-type: none"> • Selection of consultant for evaluation of Phase I. • Consultant reports. 	<ul style="list-style-type: none"> • Consultant's contract. • FHIS reports. • COF/CHO progress report. 	

Budget (U.S. dollars)				
Activities	IDB	Hon.Govt.	Total	
			Phase I	%
Social investment				
Municipal allocations	22,276,350	422,162	22,698,512	81.6
Works maintenance and audit-training		1,548,039	1,548,039	5.6
Subtotal	22,276,350	1,970,201	24,246,551	87.2
Pilot test (cofinanced)				
Participatory planning	72,728	100,000	172,728	0.6
Preventive maintenance	126,750	60,000	186,750	0.7
Delegation of project cycle	566,000		566,000	2.0
Subtotal	765,478	160,000	925,478	3.3
FHIS institution-strengthening				
Consulting services	277,000		277,000	1.0
FHIS Technical-Administrative Office	30,900	54,000	84,900	0.3
Training in environmental aspects	5,000		5,000	0.0
Subtotal	312,900	54,000	366,900	1.3
Evaluation				
Consulting firm	290,000		290,000	1.0
Subtotal	290,000		290,000	1.0
Audits				
External audits	70,000		70,000	0.3
Subtotal	70,000		70,000	0.3
Contingencies	1,285,271		1,285,271	4.6
General Subtotal	25,000,000	2,184,201	27,184,200	97.8
Financial charges				
Interest		245,139	245,139	0.9
Inspection and supervision		250,000	250,000	0.9
Credit fee		120,661	120,661	0.4
Subtotal		615,800	615,800	2.2
GRAND TOTAL	25,000,000	2,800,000	27,800,000	100

**PRELIMINARY PROCUREMENT PLAN
(US\$000)**

Main purchases	Total amounts (*)	Financing		Method (**)	Prequal	Expected publication date
		% IDB	% Local			
Works						
Social investment	22,838	97%	3%	ICB, LCB, RB, DC	NO	I/2001 – IV/2002
Consulting services						
Consultants						
- Pilot projects	179	100%	0%	RB	NO	I/2001 and II/2000
- Institution-strengthening	277	100%	0%	RB	NO	II/2001
- Evaluation	290	100%	0%	ICB	NO	II/2001
Training						
- Pilot projects	122	100%	0%	RB	NO	I/2001 – IV/2002
- Institution-strengthening	5	100%	0%	LCB	NO	I/2001 and II/2001
- Social Investment	1,558	0%	100%	LCB	NO	I/2001 – IV/2002
Equipment and material						
Furniture						
- Institution-strengthening	1	100%	0%	RB	NO	I/2001
Hardware						
Computers and printers						
- Pilot projects	102	100%	0%	LCB	NO	I/2001
- Institution-strengthening	4	100%	0%	LCB	NO	I/2001
Total	25,376					

* Total value of principal purchases during the two years of Phase I of the project.

** The following general thresholds will apply for procurement of goods and services and consulting-firm contracts:

Method	Works	Goods	Consulting services
International competitive bidding	1,500,000 or more	250,000 or more	200,000 or more (firms) 100,000 or more (indiv.)
Local competitive bidding	75,000 to 1,499,000	75,000 to 249,999	75,000 to 199,999 (firms) 75,000 to 99,999 (indiv.)
Restricted bidding	Under 75,000	Under 75,000 ¹	74,999 or less
Direct contracting	Under 50,000	N/A	N/A

¹ Excluding vehicles and computers

PROPOSED RESOLUTION

**HONDURAS. LOAN ____/SF-HO TO THE REPUBLICA DE HONDURAS
Local Development and Poverty Reduction 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 local development and poverty reduction program. Such financing will be for the amount of up to US\$25,000,000, or its equivalent in other currencies, except that of Honduras, which are part of the resources of the 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.