

SOCIAL INVESTMENT PROGRAM (FHS-3)

(HO-0131)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: Republic of Honduras

EXECUTING AGENCY: Fondo Hondureño de Inversión Social [Honduras Social Investment Fund]

AMOUNT AND SOURCE:

IDB: (FSO)	US\$50.0 million
Local counterpart:	US\$ 5.6 million
Total:	US\$55.6 million

FINANCIAL TERMS AND CONDITIONS:

Amortization period:	40 years
Commitment period:	2.5 years
Disbursement period:	3 years
Grace period:	10 years
Interest rate:	1% during the grace period and 2% thereafter
Inspection and supervision:	1%
Credit fee:	0.5% on the undisbursed amount

BACKGROUND: This operation was originally designed to address the structural causes of the poverty, which affects over half of the Honduran population, who lack the means to meet their basic needs. Close to the end of its preparation, however, a natural disaster occurred in Honduras of a scope unprecedented in the past two centuries. A devastatingly powerful hurricane named "Mitch" blasted the country for three whole days, wiping out much of the progress achieved over the past few years and dramatically increasing poverty among the population.

Based on information compiled by the Bank's emergency mission, there are an estimated 590,000 hurricane victims, 10,000 wounded, 825,000 refugees and evacuees, and over 12,000 people dead or missing. Over 60,000 homes were destroyed and damage to the road system has completely isolated many regions in the country. The World Bank has collected information indicating that most of the water supply systems were completely destroyed and 35% of schools were damaged and consequently closed indefinitely. In addition, over 70% of agricultural production was

lost and electric power and telecommunications networks have been severely damaged.

OBJECTIVES: The program is intended to alleviate living conditions for those most in need by restoring and improving access to basic social and economic infrastructure according to priorities established at the local level. The main challenge the program faces in this connection is to rebuild the infrastructure destroyed following procedures that will contribute substantially to the historic transition toward a new form of cooperation between the central government, municipalities, and communities.

DESCRIPTION: The proposed program goes to the heart of a historic shift in the relationship between the central government, municipalities and local communities. The great challenge is to implement this new relationship in the context of the urgent process of national reconstruction. This called for a design allowing three-way joint collaboration, without the delays that normally accompany the establishment of new procedures and working relationships. Participatory processes will therefore be gradually introduced depending on the pace at which each municipality overcomes the limitations imposed by the disaster.

The program is divided into three basic components. The first two components consist of investments in a range of activities corresponding to the three phases of response to the destruction wreaked by the hurricane: (i) immediate relief for emergency situations; (ii) short-term investments for reconstruction of basic infrastructure for governability and citizen security; and (iii) medium-term investments for local development, assigned priority by the communities in association with the municipal authorities. Investments in social projects and programs will be carried out in parallel with a strategic study consisting of a series of proposals designed to shape the future operations of the FHIS and address problems which extend beyond the purview and authority of the FHIS, but whose solutions are essential to the effectiveness of FHIS activities. These components are as follows:

1. Investment projects (US\$47.7 million). Emergency activities and investment in reconstruction will be financed through arrangements that will increasingly incorporate the communities in the decision-making process. The component consists

of two subcomponents: investments in reconstruction and municipal social investment plans.

Investments in critical reconstruction (US\$33 million): Under this subcomponent, expenses will be financed for immediate relief, including food and medicine, equipment and materials for temporary shelters, mobile latrines and clinics, power generators, and tank trucks for clean water. Basic information will be compiled concurrently to launch the following phase for reconstruction of basic infrastructure. To this end, a technical survey of the damage caused by the hurricane throughout the country will be conducted immediately. The information compiled in the survey will complement the usual system for targeting resources and will support the process of consultation with each municipality to establish its investment priorities. To achieve maximum community participation during this phase, partial financing will also be provided for a national initiative for community organization and training. Financing will also be provided under this subcomponent for the projects assigned priority during the emergency relief and basic infrastructure reconstruction phases, the duration of which has been set at 12 months.

Municipal social investment plans (US\$14.7 million). In the second quarter of year one of the project, the third phase of the emergency response will be initiated. An innovative procedure for project identification and prioritization, initiation of which had been interrupted by Hurricane Mitch, will be relaunched. In preparing this program, the FHIS had made the special decision to devolve a project portfolio of over US\$140 million to the municipalities. The portfolio had been channeled to the FHIS by the municipalities, without systematic input from the communities. In developing the new portfolio, community workshops and meetings were held throughout the country, in close coordination with the municipalities. The initiative was successful. Over half of the projects in the original portfolio were replaced with others assigned higher priority by the communities. In addition, for the first time the communities were organized to participate actively in local planning. The timing for relaunching the initiative in each municipality will be determined according to its readiness.

Financing will be provided for activities to prepare the community meetings and the projects assigned priority by the communities and municipalities in the form of municipal social investment plans.

2. Basic needs (US\$2.2 million). This component targets the most vulnerable groups who require assistance other than that provided for general FHIS beneficiaries. They include the elderly, street children, the disabled, homeless people and ethnic groups. The component is divided into two subcomponents. One, the social welfare component, includes measures ranging from the simple distribution of food to provision of comprehensive child care programs, literacy campaigns, playground equipment, and training for midwives. The other, the training component, contains initiatives that will train program beneficiaries in sustainability and citizen participation and familiarize municipalities with management aspects. This subcomponent will also include a program called *Nuestras Raíces* ("Our Roots"), which will emphasize the special needs of ethnic groups and finance projects the nature and specifications of which are attuned to the cultural realities of these groups.
3. Strengthening of the FHIS (US\$3 million). In addition to the costs of program administration, resources have been allocated to ensure the quality of the technical team and improve the management systems and operational infrastructure of the FHIS. Training will be provided for the majority of its technical staff, its office equipment and the vehicle fleet will be replaced, and improvements will be made in its management of environmental, maintenance and gender issues.

**ROLE OF THE
PROJECT IN THE
BANK'S COUNTRY AND
SECTOR POLICY:**

The Bank's strategy for Honduras is basically geared towards poverty reduction. To this end, support will be provided for initiatives to improve the equity, efficiency and coverage of public programs, and encourage greater cooperation with the private sector. In the social sectors, the Bank has committed itself to helping the new government formulate a comprehensive social policy which will set priorities and coordinate solutions to problems. One of the ways in which the Bank will help define short- and medium-term social strategy is by actively promoting social policy dialogue. Even so, the level of poverty is such, especially as compounded by Hurricane Mitch, that investment in the sector must

continue at the same time as this policy is being formulated. The two most important poverty alleviation programs in Honduras are the FHIS and the PRAF (Programa de Asignaciones Familiares) [Family Allowance Program], and the Bank plans to process operations to support both of them in 1998. The Bank also wishes to play a proactive role in promoting coordination among donors in the area of community development in Honduras. All of the activities designed to address the damage caused by the hurricane are consistent with the Bank's policy on natural disasters.

**ENVIRONMENTAL/
SOCIAL REVIEW:**

In recognition of the need for continuous improvements in the management of environmental issues, an action plan will be implemented for incorporating environmental protection at key stages of the project cycle. In addition, environmental and gender issues will be covered in the training provided for program beneficiaries (paragraph 4.6).

During the previous phase of its operations, the FHIS took important steps to increase participation by women, not only as program beneficiaries but also in its execution. To ensure continuing progress in this direction, greater participation by women will be sought in managing the planning phase, as well as in project execution and operation. A consultant will be hired to devise initiatives and systems for this purpose, as well as to determine the advisability of including statistics on gender issues in the FHIS management information system (paragraph 4.7).

A significant correlation has been found between pockets of extreme poverty and ethnic groups in Honduras. To address this situation, the special needs of these groups will receive careful attention under the *Nuestras Raíces* subcomponent. And to ensure greater access by these groups to the general operations under the FHIS, the list of projects has been translated in cases where the beneficiaries' native language has a written form, and community workshops will continue to be organized to provide guidance and familiarize beneficiaries with FHIS operations (paragraph 4.8).

BENEFITS:

The program would be initiated at the time of the greatest need for assistance in the wake of Hurricane Mitch. It would help provide a swift response to the emergency (paragraph 1.2).

Provided the line ministries fulfill their commitment to supply the human, physical and financial resources

needed for operation of the infrastructure to be built under the program, the respective communities will benefit from a substantial increase in their access to social services (paragraph 4.10).

Transferring the focal point for project identification to the local level will help to create new working relationships between the communities, municipal governments and the FHIS. To bring the point where services are provided as close as possible to where beneficiaries live, new working relationships will be forged at the local level and are expected to produce major efficiency gains in the supply of services. Moreover, communities and municipalities alike will be better organized and trained in devising their own projects (paragraph 4.11).

The new procedures for planning, managing and maintaining the projects will result in greater efficiency and equity in social investment. Moreover, a major positive externality is expected, based on the demonstration effect of more participatory, transparent and efficient procedures that could be followed in the use of municipal resources (paragraph 4.12).

It has been shown that the role of women in promoting the improvement of living conditions for their families is substantially more effective than that of men. Thus, the greater the success of the program in involving women in project planning and management, in addition to their role as beneficiaries, the greater the impact will be on families (paragraph 4.13).

RISKS:

Transition to the new methodology. The introduction of the new community meeting procedures was interrupted by the hurricane and will be a major challenge to resume in view of the need to expedite corrective measures. This risk will be reduced thanks to technical cooperation to be provided through the Japan Special Fund to lay the foundations for new community meetings and launch investment activities in the first municipalities willing to resume the initiative. In addition, the initiative will be incorporated into the proposed program, since the municipalities may only gain access to the resources for the second subcomponent of the investment project component if they are willing to follow the new procedures (paragraph 4.14).

Transition to decentralization. This program supports the incipient decentralization and community development processes taking place in Honduras. It will therefore be subject to the tensions that normally attend any profound change in a country's economic and political relationships. For example, the government reasoned that FHIS financing could be used in such a manner that it would help the government meet its legal requirement to transfer 5% of tax revenues to the municipalities. However, this approach was contested by the Asociación Hondureña de Municipios [Association of Honduran Municipalities] (AHMON) on the grounds that the law requires such transfers to be made from current tax revenues, and not from external loans. The risk to the FHIS program arising from such tensions will be lessened by the need to work together to address the pressing problems caused by the hurricane (paragraph 4.15).

Joint design. The second component can only proceed if the FHIS, municipalities and communities work together as a team. For example, a project may be included in the FHIS portfolio only if it has been assigned priority by the community, confirmed by the municipality and evaluated by the FHIS. If a municipality or group of communities refuses to participate actively in the program, it will be impossible to achieve the FHIS objectives with respect to that municipality or group. Although this risk is inherent in the cooperative design process, its benefits are sufficient to offset it. Moreover, local training exercises will be carried out, and FHIS activities will be recast in order to make them more supportive and less intrusive (paragraph 4.16).

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Conditions precedent to the first disbursement:

The following must be presented to the Bank's satisfaction:

1. The agreement between the Ministry of Finance and the FHIS for the transfer of the proceeds of the loan and local counterpart contribution to the program (paragraph 3.22).
2. A document constituting the initial report, describing existing measures upon approval of the loan to address the emergency phase. Such measures will comprise: (i) the institutional arrangements to prioritize FHIS activities; (ii) the mechanism to target FHIS investments; (iii) the new items that will be added to the

menu; and (iv) the system for priority-setting in each municipality, in order to avoid duplication of efforts with other emergency initiatives and to ensure that project prioritization is delegated to the municipal authorities and local communities. For purposes of this condition, the emergency phase is defined as the 12-month period from the effective date of the loan contract (paragraph 3.3).

Special conditions during program execution:

A revolving fund will be established in an amount equivalent to 20% of the loan amount for the first six months after the effective date of the loan contract, then 10% for the remaining disbursement period, unless the parties agree otherwise (paragraph 3.26).

Within 12 months after the effective date of the loan contract, an expanded version of the operating manual containing the new procedures and responsibilities for community participation in project planning, management, and maintenance will be submitted (paragraph 3.4).

Within 12 months after the effective date of the loan contract, a plan of action for incorporating environmental considerations into key phases of the FHIS project cycle will be submitted (paragraph 4.6).

The terms of reference and detailed specifications will be agreed upon for the program to strengthen FHIS personnel, and for replacement of its equipment and vehicle fleet before resources from the loan may be used for these activities (paragraphs 2.20 and 2.21).

Within nine months after the effective date of the loan contract, the report referred to in paragraph 3.38 must be submitted.

During execution of the program, the payment of honorariums to FHIS technical staff will be subject to prior agreement with the Bank (paragraphs 2.22 and 3.19).

In addition to the standard clauses, the loan contract will include provisions for auditing, progress reports, inspections, procurement of goods and services, and maintenance services.

**POVERTY TARGETING
AND SOCIAL
CLASSIFICATION:** This program qualifies as a poverty targeted investment (PTI) since it provides support for a social investment fund (paragraph 4.9).

**EXCEPTIONS TO
BANK POLICY:** See section on procurement below regarding the procurement of vehicles.

**PROCUREMENT OF
GOODS AND
SERVICES:** During the emergency period, as defined in this program, the Bank's emergency procurement procedures will be followed, incorporating the flexibility necessary to address the distortions caused in supply and construction markets by Hurricane Mitch. The emergency procedures are as follows: international competitive bidding will be required for: (i) the purchase of goods in amounts equal to or greater than US\$350,000; (ii) the awarding of construction contracts in amounts equal to or greater than US\$3 million; and (iii) the hiring of consulting services in amounts above US\$200,000. The procurement of goods and services in amounts below these thresholds will be carried out in accordance with FHIS procurement manuals. No cap has been established for direct hiring (paragraph 3.35), and a mission will be carried out within six months after the effective date of the loan contract to determine whether this decision should be changed (paragraph 3.40). Execution on force account will be allowed for certain projects provided that: they are not part of the negative list agreed upon with the Bank; they do not exceed 15% of FHIS reference prices; they are used for programs that will provide income to groups affected by Hurricane Mitch; and the total value of such projects does not exceed 15% of the program resources (paragraph 3.36).

For the period following the emergency phase, standard Bank procedures will be followed: international competitive bidding for works in amounts equal to or greater than US\$1.5 million and for the purchase of goods in amounts equal to or greater than US\$250,000. For amounts below these thresholds, see the table in paragraph 3.34.

There is a confirmed need to replace most of the FHIS's vehicle fleet so that it can carry out the duties assigned to it under the program more efficiently. It is recommended that international bidding for partial replacement of the fleet be limited to suppliers of the make of vehicle selected under the earlier bidding procedures (paragraph 3.31).

I. BACKGROUND

A. The problem and the strategy

- 1.1 This operation was originally designed to address the structural causes of the poverty, which affects over half of the Honduran population, who lack the means to meet their basic needs. The design was reviewed in light of the critical emergency situation brought about by Hurricane Mitch. A devastatingly powerful hurricane, Mitch blasted the country for three whole days, wiping out much of the progress achieved over the past few years and dramatically increasing poverty among the population.
- 1.2 Based on information compiled by the Bank's emergency mission, there are an estimated 590,000 hurricane victims, more than 10,000 wounded, a total of 825,000 refugees and evacuees, and over 12,000 people dead or missing. More than 60,000 homes were destroyed and damage to the road system has completely isolated many regions in the country. The World Bank has collected information indicating that most of the water supply systems were completely destroyed and 35% of schools were damaged and consequently closed indefinitely. In addition, over 70% of agricultural production was lost and electric power and telecommunications networks have been severely damaged.
- 1.3 The government's capacity to cope with the situation in the wake of the hurricane was already very limited. It was seeking to maximize the impact of its actions by developing them under a proposed social policy for prioritizing problems and coordinating their solutions. However, the emergency caused by the hurricane is such that it is not possible to make short-term investments conditional upon eventual implementation of the policy. The government must, therefore, rely on a pragmatic strategy to guide sector investments while the policy is being developed.
- 1.4 The government's short-term strategy is to restore access by the population to food, provide temporary shelter, and avoid epidemics. At the same time, a technical diagnostic study of the damage incurred will be carried out to lay the foundations for prioritization of projects in association with the municipal authorities, and – to the extent possible – with the local communities. Once the lines of communication, access to food and shelter, and security have been reestablished, including the elimination of any risk of epidemics, the local development process will be resumed.
- 1.5 The purpose of the program will be to expand and improve the quality of the basic social services for the most vulnerable groups and hurricane victims and to ensure gradual transfer of responsibilities and resources to the local level. By bringing the point where services are provided to where beneficiaries live, and

by involving the latter in the designing their own solutions, major gains are expected to be made in the supply of the services. One of the major challenges the government faces is to relaunch the historic transition toward a new form of cooperation between the central government, municipalities, and communities.

- 1.6 The strategy formulated prior to Hurricane Mitch led to the decision to launch a massive program of investments in social infrastructure to make up for the enormous shortfall in these services, particularly among the poorest segments of the population. The program will benefit three million people, with an estimated US\$116 million in investments, representing over 65% of the country's scheduled social sector expenditures for the period 1998-2002. After the hurricane, the program's priority was not only maintained but highlighted. Without immediate investment in social infrastructure, the damage caused by the natural disaster will be prolonged and the effectiveness and impact of the country's scarce social services will be reduced since their effectiveness depends to a great extent on the quality of the supporting infrastructure.

B. The FHIS

- 1.7 The FHIS is one of the most important tools for carrying out the government's strategy for meeting the needs of those persons in Hondurans who live in absolute poverty. The FHIS is a specialized agency which finances and oversees the construction of small-scale basic social and economic infrastructure works. Its transfers are nonreimbursable and target the poorest municipalities, using a poverty map based on unmet basic needs. In view of the emergency, the FHIS has been assigned responsibility for overseeing investments in reconstruction of basic social and economic infrastructure.

1. Evolution of the FHIS

- 1.8 Since its creation in 1990 the FHIS has undergone a process of constant evolution, altering its procedures and methods in order to better serve the changing needs of Honduras' poor. The proposed project will provide support for the third phase in this process to be carried out over the next three years.
- 1.9 **Phase 1 (1990-1994).** In its initial phase, the FHIS focused on temporary job creation as a means of offsetting the social impact of an economic adjustment program, while at the same time reducing the shortfall in social infrastructure. During this phase, the FHIS ascertained underutilization of the infrastructure it had built and indications that there was a need to extend the useful life of the infrastructure.

- 1.10 **Phase 2 (1994-1998).** In 1994, when the government decided to renew the FHIS's mandate for another eight years, the FHIS took the opportunity to carry out its first structural reorganization. It recognized the importance of bringing its projects into closer alignment with the needs perceived by its beneficiaries. The projects had taken on an importance beyond the mere generation of temporary employment, with far-reaching ramifications. It was therefore decided to accept only applications submitted by the municipal authorities, instead of depending on groups representing private interests to obtain and complete applications for communities. In moving the focal point from FHIS headquarters to municipal offices, the program was effectively taking its first step toward a policy of decentralization. At the same time, new procedures were introduced for paying greater attention to demand from beneficiaries, rather than from suppliers.
- 1.11 **Phase 3 (1998-2002).** Over time the FHIS has detected certain limitations in the process, confirming the need to have beneficiaries assume a more active role in project identification, construction, operation, and maintenance. Accordingly, in this phase the identification of all FHIS investment projects will be identified in consultation with the municipal authorities but with a gradually increasing degree of community participation. By the end of year one of execution, all the projects will be identified in a decentralized manner through community meetings to be carried out by the municipalities. Furthermore, this delegation of tasks will be accompanied by institutional strengthening programs for the communities and municipalities to make them more effective participants. This is a bold initiative in that it will be launched without benefit of pilot projects, its swift introduction reflecting the urgency of the situation it seeks to correct.

2. Performance of the FHIS

- 1.12 The FHIS has so far financed over 8,756 social and economic infrastructure projects totaling US\$220 million. Evaluations conducted by the IDB and the World Bank have confirmed the quality of the works carried out and the administrative efficiency of the FHIS. This is attributable to the high professional quality of FHIS personnel, and its efficient and transparent systems for decision-making and control. To ensure the efficiency of its operations, the FHIS has been exempted from the rules for government procurement and the salaries paid to its technical staff.

3. The previous project

- 1.13 The Bank's second loan supporting the FHIS (HO-0113) was approved in 1995 for US\$40 million. All funds have already been committed and 95% have been disbursed well before the date for final disbursement in September of the year 2000. The uncommitted

balance of approximately US\$500,000 will be allocated to financing basic relief activities connected with the damage caused by the hurricane. These activities include the provision of food and medicine, equipment and materials for temporary shelter, mobile latrines and clinics, power generators, and tank trucks for clean water.

- 1.14 The final report has not yet been submitted, nor has the ex post evaluation been carried out, but the latest inspection mission conducted jointly with the World Bank confirmed that applications are being assessed efficiently, the procedures for selecting contractors are being followed, supervision has been effective, and the projects, high quality. The technical files include copies of the inspection mission report and the World Bank's Project Analysis Document.
- 1.15 **Maintenance.** Although the line ministries have full responsibility for maintenance of the State's social infrastructure, they lack sufficient resources to meet their obligations. As part of the previous project, tests were carried out to determine the feasibility of: signing agreements with each municipality under which eligibility to receive FHIS projects would be cancelled if its obligations were not met; having the line ministries concentrate their scarce resources in the poorest municipalities where they would cover 50% of maintenance costs; and organizing and training the beneficiaries for this purpose.
- 1.16 These ideas and initiatives failed to have the expected effect, and the chronic lack of resources for maintenance continues. The World Bank will therefore finance a new pilot project designed to spur initiative at the municipal and community level. In addition, resources from this program will be used for a study to propose changes in the legal framework that will make it consistent with de facto transfer of responsibilities to the local level.
- 1.17 **Environment.** In recognition of the need to improve the environmental protection under FHIS operations, it was agreed that as a condition to be fulfilled within 12 months after the effective date of the loan contract, a plan of action will be submitted for improving the system for environmental quality control for projects in the key phases of the FHIS project cycle.
- 1.18 **Targeting.** The FHIS uses a national poverty map based on unmet basic needs indices (access to water, basic sanitation, illiteracy, and malnutrition) to identify the poorest municipalities and allocate resources based on the relative needs of each municipality. In view of the extensive damage to the infrastructure caused by the hurricane, the statistical basis of the map has been dramatically altered. During the first part of the reconstruction phase, the FHIS will therefore supplement the regular resource allocation mechanism with information to be

collected through a large-scale nationwide survey of the needs created by the hurricane.

- 1.19 Apart from the impact of the hurricane, during execution of the previous stage of the program, pockets of poverty within each municipality were identified that the national poverty maps did not detect. The proposed program will help update the national poverty maps, develop municipal maps, and carry out participatory planning to focus program operations on the pockets of poverty in each municipality.

C. The Bank's strategy

- 1.20 The Bank's strategy for Honduras is primarily geared towards poverty reduction. To this end, support will be provided for initiatives to improve the equity, efficiency and coverage of public programs, and encourage greater cooperation with the private sector. The persistence of poverty and the lack of national resources to finance social investment justify this third operation in support of the FHIS.
- 1.21 The two most important poverty alleviation programs in Honduras are the FHIS and the PRAF (Programa de Asignaciones Familiares) [Family Allowance Program]. The Bank plans to support both of them in 1998 while also supporting formulation of a social policy and a readiness plan to prepare the country for any future natural disasters.
- 1.22 Since both programs target the poorest and most vulnerable groups, there is an obvious need for coordination between them. Even so, there is no duplication of effort between the two at the operations level since the PRAF issues coupons redeemable by poor beneficiaries for family expenses or improved social services. The only FHIS service providing basic necessities for vulnerable groups is the basic needs subcomponent, and only US\$1 million of the IDB loan proceeds will be allocated to it.
- 1.23 Both institutions intend to update their respective mechanisms to target their operations as an integral part of the programs to be supported by the IDB over the next three years. The PRAF will use household data to identify the poorest 25% of families. The FHIS will target its operations using a poverty map which will be supplemented and updated through consulting services to be financed under the new program with the FHIS, and which will take into account the initiatives planned to improve the targeting of the PRAF.

II. THE PROGRAM

A. Objectives

- 2.1 The program is intended to improve living conditions for those most in need by reestablishing and increasing access to basic social and economic infrastructure according to priorities set at the local level. In this connection, the main challenge of the program is to rebuild the infrastructure destroyed using procedures that contribute substantially to the historic transition toward a new form of cooperation between the central government, municipalities, and local communities.

B. Additionality and context

- 2.2 This will be the third time that the Bank has financed the operations of the FHIS, and the program has been designed to produce the least amount of divergence possible between the Bank's procedures and those governing contributions made by other financial institutions. The IDB is thus part of a group of international organizations that will jointly support this third phase of FHIS operations. The Bank stands out from the other external agencies not only because it represents the principal source of financing for the program, but also for the leadership it offers in: (i) contributing towards the formulation of the procedures to be followed for resource allocation and project priority-setting for the basic reconstruction phase; (ii) the development of detailed procedures for the incipient initiative to modernize local planning; (iii) acting as the starting point for launching large-scale implementation of pilot projects to transfer responsibilities to the local level; (iv) supporting the large-scale survey of technical data on the scope of the damage caused by Hurricane Mitch; (v) developing new methods for targeting resources to the poorest segments of the population in each municipality; (vi) introducing new procedures for the management of environmental and gender issues; and (vii) promoting and coordinating dialogue on the future role of the FHIS.
- 2.3 The proposed program goes to the heart of this historic shift in the relationship between the central government, municipalities and local communities. The great challenge is to implement this new relationship in the context of the urgent process of national reconstruction. This called for participatory procedures to be gradually implemented in order to avoid the delays that usually accompany the establishment of new procedures and working relationships. Accordingly, the participatory processes will be introduced incrementally, as each municipality overcomes the limitations imposed by the natural disaster.

- 2.4 The World Bank began its evaluation of this phase of FHIS operations during the past year, including a series of technical studies and culminating in the approval of a US\$45 million loan in June 1998. Preparation of the IDB program was expedited by the opportunity to make use of the technical work carried out by the World Bank for the general operations of the FHIS. The World Bank's Project Appraisal Document has been added to the technical files for this loan proposal. This background has permitted the present document to focus primarily on the value added by the IDB's own analysis.

C. Description

- 2.5 The program is divided into three basic components: investment projects, basic needs, and institutional strengthening. The first two components consist of investments in a range of activities corresponding to the three phases of response to the destruction wreaked by the hurricane: (i) immediate relief for emergency situations; (ii) short-term investments for reconstruction of basic infrastructure for governability and citizen security; and (iii) medium-term investments for local development, assigned priority by the communities in association with the municipal authorities.
- 2.6 Investments in social projects and programs will be carried out in parallel with a strategic study consisting of a series of proposals designed to shape the future operations of the FHIS and address problems which extend beyond the purview and authority of the FHIS, but whose solutions are essential to the effectiveness of FHIS activities.

1. Component 1: investment projects (US\$47.7 million)

- 2.7 Activities for emergency relief and investments in reconstruction will be financed under arrangements that will increasingly involve the local communities in the decision-making process. The component consists of two subcomponents: investment in critical reconstruction and municipal social investment plans. 1/
- 2.8 **Investments in critical reconstruction** (US\$33 million): activities for immediate emergency relief will be financed, in the form of projects to address basic needs. These will include the provision of food and medicine, equipment and materials for temporary shelter such as various types of tarp and tents, mobile latrines, mobile clinics and the necessary equipment, beds, power generators, tank trucks for clean water, and tanks.

1/ The costs for supervision of the projects under this component and the programs under component 2 will be financed.

- 2.9 Concurrently with the execution of the emergency relief projects, the information necessary to prepare the following phase, for reconstruction, will be compiled. A technical survey will be conducted immediately to assess the damage caused by the hurricane. The survey will be financed with resources reallocated from the multisector credit program (906/SF-HO) currently being implemented by the Honduran Preinvestment Fund (FOHPRE). In cases where the costs exceed the amount available in that project, such expenses will be eligible for financing from the component resources. The information obtained from this initiative will be used to supplement the usual mechanism for targeting resource allocation. The survey will also support the consultation process in each municipality to establish community investment priorities. To maximize community participation during this phase, partial financing will be provided for a nationwide campaign for community organization and training. The subcomponent will finance the project assigned priority during the emergency and reconstruction phases. Its total duration will be 12 months.
- 2.10 Priority has been assigned to the following sectors: (i) rehabilitation and construction of water supply systems: catchment works, conveyance lines, storage tanks, distribution systems, and household connections, rehabilitation and cleaning of wells, repositioning of pumps, and other works; (ii) secondary access roads: rehabilitation and/or construction of permanent bridges, installation of temporary bridges and repair of fords and box bridges, among other works; (iii) basic sanitation: reconstruction of sewer mains, septic tanks, sumps, wastewater treatment ponds, sewers, and temporary latrines, among other works; (iv) projects for cleaning, repair, and construction of health centers; and (v) productive infrastructure projects.
- 2.11 **Municipal social investment plans** (US\$14.7 million). In the second quarter of year one of the project, the innovative procedure for project identification and prioritization, initiation of which had been interrupted by Hurricane Mitch, will be relaunched. The activities to be carried out under this component constitute the culmination of the previous emergency relief and basic reconstruction phases.
- 2.12 In preparing this program in mid-1998, the FHIS had made the special decision to devolve a project portfolio of over US\$140 million to the municipalities. The portfolio was channeled to the FHIS by the municipalities, without systematic input from the communities. In developing the new portfolio, community workshops and meetings were held throughout the country, in close coordination with the municipalities. The initiative was successful. Over half of the projects in the original portfolio were replaced with others assigned higher priority by the communities. In addition, for the first time the communities were organized to participate actively in local planning. However, due

to the emergency and the destruction wreaked by the hurricane, preparation of the projects identified at the meetings had to be suspended.

- 2.13 The capacity to reestablish a context suitable for implementation of the new participatory municipal planning process varies substantially from one municipality to the next. The timing for relaunching the initiative in each municipality will hence vary according to each one's readiness. A budget has been set aside to promote the process and to meet the needs identified under it. It should be noted that the resources allocated to this subcomponent are only sufficient to cover a fraction of the needs expected to be presented by the 299 municipalities in the country. The government is therefore seeking additional funding on a priority basis. Six months after program initiation, a special review mission will be sent to review with the FHIS the availability of resources for these activities and determine whether resources need to be reallocated among the various components.
- 2.14 In future community meetings, the FHIS will play a supporting role in the organization and execution of the meetings. It is essential that the municipalities assume leadership of the process to increase the likelihood that the new planning procedures be permanently adopted, independently of the FHIS. Financing will be provided for preparation of the meetings and for the projects assigned priority by the communities and municipalities in the form of municipal social investment plans.
- 2.15 **Japan Special Fund.** In order to promote resumption of the participatory planning process, the government plans to request a grant from the Japan Special Fund to finance a program that will constitute the launching point for the initiative. The basic idea will be to help relaunch participatory planning by providing incentives to municipalities. Financing will be granted for planning exercises and the resulting projects in the first four or five municipalities that opt to resume the participatory process.
- 2.16 **Large-scale expansion of pilot projects to develop local capacity and institutions.** If the special review mission confirms, in cooperation with the FHIS, that there sufficient resources for this activity, financing will be provided for initiation of large-scale expansion of pilot projects that have identified effective mechanisms to strengthen the role of local institutions in the planning and decision-making processes, and help them implement their own solutions to problems. The pilot projects will be financed by the IDB, while the World Bank will finance a number of pilot projects that will help to define specific measures for achieving these objectives through: (i) training for municipal governments and communities to ensure that they are able to participate effectively in new local planning procedures; (ii) delegation of responsibility for part of the FHIS project

cycle to the local level; and (iii) new mechanisms for administering and carrying out preventive maintenance. Such capacity is essential for the decentralization and local development policies to be effective, and both the IDB and the World Bank plan to cooperate with the FHIS to mobilize the resources necessary to finance it in all the municipalities in the country.

- 2.17 **Water and sanitation.** Although IDB resources will not be used for its large-scale expansion, it should be noted that there is another pilot project financed by the World Bank at a cost of US\$3.5 million designed to resolve the difficulty of formulating viable water and sanitation projects for low-income groups in remote rural areas. Such groups do not have a sufficient population density to warrant projects under currently available arrangements. The aim is to investigate alternatives for achieving a critical mass of communities; devise programs for community training and organization for maintenance; and lay the foundations for an integrated organization to advise and guide initiatives in rural areas. The FHIS will act as coordinator and provide financing for this initiative, which will involve the Ministry of Health (as governing body), the Servicio Autónomo de Acueductos y Alcantarillados [Water and Sanitation Authority] (SANAA), a number of NGOs, and the Grupo Colaborativo de Agua y Saneamiento de Honduras [Cooperative Group for Water Supply and Sanitation of Honduras]. This group of institutions is expected to lead to the formation of a permanent interagency body for implementation of a large-scale nationwide program.

2. Component 2: basic needs programs (US\$2.2 million)

- 2.18 This component targets vulnerable groups who require assistance other than that provided for general FHIS beneficiaries. They include women, the elderly, street children, the disabled, homeless people and ethnic groups. The component is divided into two subcomponents: social welfare and training. The social welfare subcomponent supplements the PRAF and includes measures ranging from the simple distribution of food to literacy campaigns, the provision of playground equipment, and training for midwives. Given its nature, the component is already suitably designed to respond to the demand generated by Hurricane Mitch.
- 2.19 The other subcomponent consists of initiatives to train program beneficiaries in sustainability and citizen participation and familiarize municipalities with management aspects. This subcomponent will also include a program called *Nuestras Raíces* ("Our Roots"), which will emphasize the special needs of ethnic groups and finance projects the nature and specifications of which are attuned to the cultural realities of these groups.

3. Component 3: institutional strengthening (US\$3 million)

- 2.20 In addition to allocating a proportion of the FHIS's normal operating expenses to the program, resources have been allotted to ensuring the quality of its staff and improving its management systems and operational infrastructure. Key members of its technical staff will receive training in the new local planning processes, environmental and gender issues, and maintenance. In addition, its office equipment and vehicle fleet will be replaced. Once the FHIS and the Bank have agreed on the terms of reference and detailed specifications for the training programs, the financing of the equipment and vehicle fleet will proceed.
- 2.21 There is a confirmed need to replace most of the FHIS's vehicle fleet so that the FHIS can carry out the duties assigned to it under the program more efficiently. Approximately two-thirds of its fleet will have to be replaced at this time, at a total cost of an estimated US\$1.7 million, to be cofinanced by the World Bank (US\$1.1 million) and the IDB (US\$600,000).
- 2.22 The most important element in the effectiveness of the FHIS is the quality of its staff. However, the transition from an institution justified by a temporary situation to a specialized entity seeking permanent status calls for changes in the previous arrangements under which the Bank financed the honoraria of part of the technical team. To minimize the impact of the change in this phase, the Bank will continue to finance the technical staff but on a decreasing basis, and the government will increasingly assume responsibility, maintaining a compensation level that will ensure the efficiency and stability of the staff.
- 2.23 **Targeting.** The poverty map is the basic instrument used by the FHIS to determine the amounts of funding to be allocated to each municipality, and must be updated continuously to reflect demographic changes. In view of the extensive damage to the infrastructure caused by the hurricane, the statistical basis of the map has been dramatically altered. During the first part of the reconstruction phase, the FHIS will therefore supplement the regular resource allocation mechanism with information to be collected through a large-scale nationwide survey of the needs created by the hurricane. Financing will also be provided for consulting services to review the feasibility of updating the poverty indicators through a national census scheduled for the year 2000. The terms of reference have been agreed upon and an indicative budget of US\$50,000 for these activities. A copy of the terms of reference can be found in the program technical files. In addition, the loan resources will be used to financing consulting services to design a pilot program for the development of systematic mechanisms to improve microtargeting of pockets of poverty. The terms of reference and budget for the consulting services will be agreed upon during the special review mission.

- 2.24 **Strategic study.** Concurrently with execution of the social project and program investments, a diagnostic study will be conducted consisting of a series of proposals to shape the future operations of the FHIS and address problems which extend beyond the purview and authority of the FHIS, but whose solutions are essential for its activities to be effective. These proposals will form the basis for a mid-term mission which is expected to take place at the beginning of year two of the execution period.
- 2.25 Together with the FHIS and other agencies of the social sector, the mission will assess the opportunities for achieving greater precision in: implementation of the country's social policy; targeting of the poorest groups; the legal and institutional framework for project maintenance; the decentralization and local development processes; the progress made by the central government in meeting its legal obligation to transfer 5% of tax revenues to the municipalities; and the future role of the FHIS. Some of the relevant proposals may be prepared by FHIS personnel, but others will require support from specialized consultants. The elements of the study are as follows:
1. **Social policy.** In a separate, complementary initiative, the IDB is supporting development of a basis for a dialogue on social policy. This dialogue is expected to establish a systematic process for the coordination of FHIS plans with other public sector agencies, in particular with the UNAT (Unidad Nacional de Análisis Técnico) [National Technical Analysis Unit], the body responsible for social policy.
 2. **Decentralization.** The FHIS will ascertain the extent to which the government in meeting its obligation to transfer 5% of tax revenues to the municipalities. The degree of progress achieved will be discussed with the government as part of the mid-term mission. This is vital to the sustainability of the participatory municipal planning process, as well as for the delegation of responsibility for the project cycle and maintenance to municipalities.
 3. **Future role.** Funds will be provided for a seminar to be attended by representatives from all of the bodies working with the FHIS (UNAT, IHNFA, line ministries, AHMON, PRAF), in order to discuss the future of the FHIS when its mandate expires at the beginning of 2002.
 4. **Environment.** In recognition of the need for continuing the process of improving environmental aspects of FHIS operations, agreement was reached on the details of a plan of action to improve the incorporation of environmental protection measures at key stages of the project cycle. The agreement must be signed as a condition precedent to the first disbursement of

the new loan. The budget for execution of the plan has been included in component 3.

5. **Maintenance.** Consulting services will be hired to prepare a detailed proposal for amending the legal framework on responsibility for maintenance so that it will reflect the de facto transfer of responsibilities to the local level. The terms of reference for the consulting services will include the sources of financing for this activity and will be agreed upon during the special review mission that will visit Honduras six months after program initiation.

D. Cost and financing

1. Financing by the Bank

- 2.26 The Bank's loan will be US\$50 million from the Fund for Special Operations. Since the program qualifies as a poverty targeted investment (PTI) in support of a social investment fund, the Bank loan may cover up to 90% of the total cost of the program. The tables that follow set out the financial conditions of the Bank's loan, and the costs and financing for the program.

Terms and conditions of the loan	
Source of financing	FSO
Amount	US\$50 million
Terms: Amortization period Grace period Commitment period Disbursement period	40 years 10 years 2.5 years 3 years
Interest rate	1% during the grace period and 2% thereafter
Inspection and supervision	1% of the amount of the loan
Credit fee	0.5% per year on the undisbursed balance

COST AND FINANCING (US\$ millions)				
Category	IDB	Local counterpart	Total	%
1. Investment projects	45.0	2.7	47.7	86%
1.1 Investments for critical reconstruction	32.0	1.0	33.0	
1.2 Municipal investment plans	13.0	1.7	14.7	
2. Basic needs	2.0	0.2	2.2	4%
2.1 Social programs	1.0	0.1	1.1	
2.2 <i>Nuestras Raíces</i>	1.0	0.1	1.1	
3. Institutional strengthening	2.3	0.7	3.0	5%
3.1 Training for FHIS	0.2	0.0	0.3	
3.2 Replacement of equipment and vehicles	0.6	0.0	0.6	
3.3 Honoraria	1.3	0.6	1.9	
3.4 Consulting services	0.2	0.1	0.3	
4. Finance charges	0.7	2.0	2.7	5%
4.1 Inspection and supervision	0.7	0.0	0.7	
4.2 Interest	0.0	1.5	1.5	
4.3 Credit fee	0.0	0.5	0.5	
TOTAL	50.0	5.6	55.6	100%
Percentage	89.9	10.1	100.0%	

2. Local counterpart

- 2.27 Local counterpart funds will total the equivalent of US\$5.6 million. The sources of local counterpart funding may include resources from the national budget, contributions by other external sources, and contributions by the beneficiaries.

III. INSTITUTIONAL FRAMEWORK AND IMPLEMENTATION OF THE PROGRAM

A. The borrower and executing agency

- 3.1 The borrower will be the Republic of Honduras. Execution of this program will be the responsibility of the Honduran Social Investment Fund (FHIS). An important feature of the program is the provision for gradual delegation of project selection to the municipalities and target communities. In addition, it will begin the transfer of the recruitment, contracting, and supervision of executing agencies to municipalities and legally established communities. In all cases, the FHIS will retain final responsibility for adherence to the technical, financial, and legal requirements that apply to the projects it funds.
- 3.2 The FHIS is an autonomous government agency created in 1990 and with a mandate that extends through March 2, 2002. This timeline is consistent with the schedule for the present operation, the proceeds of which would be disbursed in three years (1999-2001). The program will include arrangements for a continuing dialogue between the government and international agencies concerning the future role of the FHIS, during the execution of this phase of its operations. The program does not include initiatives or assign responsibilities that would presuppose a third extension of the life of the Fund in its current form.

B. Program execution

- 3.3 In light of the emerging arrangements to establish a new institutional apparatus and new operating procedures to contend with the damage caused by the recent hurricane, it has been decided that the borrower would present the Bank, before the first disbursement, with a document (constituting the initial report for the program) describing the measures in place, at the time of the loan's approval, to deal with the emergency. Such measures will include: (i) institutional arrangements to prioritize FHIS activities; (ii) a mechanism for targeting FHIS investments; (iii) new items to be added to the menu; and (iv) a mechanism to set priorities within each municipality, so as to avoid duplication with other emergency initiatives and delegate project prioritization to municipal authorities and communities. To this end, the emergency phase is being defined as the 12-month interval commencing from the effective date of the loan contract.
1. FHIS operating manual
- 3.4 The program will be implemented following procedures and methods set out in the June 16, 1997, update of the FHIS operations manual. The manual covers all program activities and all procedures and approaches to be used except for the second subcomponent of

component 1, which will require adjustments to the manual given its innovative features (Municipal Social Investment Plans). It outlines eligibility criteria, rules and procedures for project promotion, selecting, contracting, administration, supervision, and monitoring. It may be revised in the course of the program by mutual agreement between the Bank and the borrower. The following sections describe new implementation features to be adopted for the program under consideration here.

2. Targeting

- 3.5 Components 1 and 2 are intended to benefit the poorest and most vulnerable groups, and they therefore provide for targeting mechanisms to direct their respective activities effectively and transparently.
- 3.6 **Investment projects.** The investment projects component uses a national poverty map to allot resources to each municipality. Supplementing the map will be up-to-date information on infrastructure damage caused by Hurricane Mitch; it will be further updated through the census slated for 2000. The map is based on indices of unmet basic needs (overcrowding, quality of housing and access to safe water, sanitary services, primary education, job insecurity) and gives priority to municipalities with higher poverty levels. The map is a useful tool for national planning, but needs to be supplemented with other parameters to be able to pinpoint pockets of poverty within individual municipalities. Poverty statistics for each municipality thus are combined with the findings of local consultations to identify such pockets of poverty.
- 3.7 For the second subcomponent (Municipal Social Investment Plans), urban and rural pockets of poverty or "poverty zones" will be identified and, by reference to population density, indicative budgets will be assigned to each. The list of eligible zones and the amounts allotted to each will then be given wide publicity. This will facilitate FHIS project planning not only at the municipal level but by communities within the poverty zones. To judge from the first town meeting exercise conducted in September 1998, the transparent allocation of funds in consultation with beneficiary communities is expected to greatly dispel the frustration and mistrust among groups that are being called upon to set aside their own interests in recognition of the more pressing needs of their neighbors.
- 3.8 **Basic needs.** During the previous phase the Bank provided US\$1.6 million in financing for the social assistance subcomponent. In the present phase that amount will be reduced to US\$1 million, in view of the increased availability of resources from other international agencies. The most notable feature of this stage in the program is a new FHIS interlocutor to identify proposals -

Instituto Hondureño de la Niñez [Honduran Child Welfare Institute] (IHNFA), which replaced the Junta de Bienestar Social. The government has requested IDB support to strengthen IHNFA, by means of technical assistance to be arranged in 1999. This change was prompted by the desire to increase the transparency and efficiency of initiatives to aid vulnerable groups, particularly women and children. Apart from this new institutional apparatus to be brought in, a new mechanism will be adopted to coordinate FHIS programs with other national initiatives. IHNFA, the FHIS and two NGOs will form an advisory panel which will issue opinions on technical aspects of the subcomponent. The FHIS, however, will retain responsibility for approval and funding of the programs. This replaces the previous arrangement whereby the Junta de Bienestar Social simply submitted already-prioritized applications to the FHIS for financing. Under the new approach, the process for identifying programs depends essentially on initiatives by NGOs, public-sector agencies, and organized groups of beneficiaries.

- 3.9 In identifying beneficiaries for the portion of component 2 that includes the *Nuestras Raíces* program (farm-to-market roads), the FHIS works out agreements as to the eligibility of communities with community ethnic federations. These communities were accorded priority because of their extreme poverty and the fact that they have traditionally been excluded from the national development process. Moreover, they require a degree of cultural sensitivity that the FHIS's normal operations do not provide. These groups are not eligible for those general FHIS activities because they receive their own budgetary allotment under the *Nuestras Raíces* component, which historically has exceeded the average per capita allocation in the rest of the country.
- 3.10 While no changes are planned in this approach during the proposed program, the new local planning procedures should inevitably instill in general FHIS operations a greater sensitivity to ethnic communities, thereby setting the stage for uniform operating approaches. Helping to further this change is the FHIS's initiative to work closely with indigenous organizations to develop and implement a strategy for helping indigenous communities to gain access to its general operations.

3. Eligible activities

- 3.11 The investment projects component will be based on a menu consisting of 40 types of projects that address elements most frequently requested by beneficiaries, and also in line with priorities set by the social-sector line ministries. The specifications for these projects have been determined in a manner which ensures that they will be truly address the needs of low-income groups. In this sense, the menu serves as a device for self-selection of such poor communities, minimizing the bias in favor of those with more means.

- 3.12 The social assistance subcomponent will provide support for programs that include comprehensive child care in both educational centers and temporary shelters; public centers to help street children; literacy programs targeted to young people and adults; training for midwives and public health volunteers; provision of toys and teaching materials for public schools in poor rural areas; and the supply of playground equipment. This component will supplement the country's Family Allowances Program (PRAF).
- 3.13 The FHIS manuals describe other mechanisms which were applied in the previous stage of the program, covering emergency cases and projects for which eligibility requirements are specified in the manuals. In the event of an emergency, food, medicine and other materials will be provided, and families may be relocated. These projects, which are treated as exceptions to the rule, include cultural programs and support for ethnic groups and production and social infrastructure, among others. In no case may the resources of the financing be used to fund loans for microenterprises.
- 3.14 Cultural projects were included in the previous stage at the Bank's request, and will likewise be covered by the proposed program. Financing for this type of project is warranted because there are no other funding avenues for concrete initiatives designed to safeguard the cultural and historic heritage, particularly in ethnic groups. Such activities also improve employment prospects for the poor and boost the tourism market. The FHIS has signed an agreement with the Ministry of Culture, Art and Sports for the establishment of operating arrangements for these initiatives. The Ministry of Culture puts together a portfolio of eligible projects in consultation with the Ministry of Anthropology and History. From this list, specific projects are selected for FHIS financing. The latter ministry establishes technical design standards for the projects, and keeps a roster from which project executing agencies are selected. The FHIS then contracts with the executing agencies and funds the projects. The two ministries are then responsible for following up the investments, depending on the type of project.
- 3.15 The *Nuestras Raíces* subcomponent will be flexible enough to accommodate special requirements and investment areas that reflect the priorities and unique features of the different cultures involved. In this stage, the FHIS intends to assist some 45,000 ethnic families, compared to a total of 50,000 served in the first and second stages of the program. Residents of ethnic communities work on public projects (typically rural access roads) and are paid directly from the FHIS for their labor. Since use of the monies thereby earned is at the discretion of the communities, the FHIS conducts training programs on financial management, establishment and operation of microenterprises, and ways of increasing yields of certain crops.

4. Specifications and evaluation

- 3.16 All activities to be funded will go through standard FHIS review and subsequent procedures as to specifications, project appraisal, selection and payment of suppliers, and project supervision. For the investment projects component, the line ministries determine the specifications for investments, and the FHIS is responsible for seeing that they are adhered to in the projects. For the basic-needs component, IHNFA is responsible for setting rules and determining needs of the sector. And in the case of the *Nuestras Raíces* subcomponent, a measure of flexibility is built into the specifications to ensure that the infrastructure is concordant with the beneficiaries' culture. Even so, in the case of infrastructure that will be part of the line ministries' network, the specifications will have to have the respective ministry's approval.
- 3.17 As part of the second subcomponent of component 1 (Municipal Social Investment Plans), the beneficiary communities will be visited to check the information contained in each project profile. Eligible projects will be added to the FHIS portfolio; within 60 days, on average, following their formulation by third parties, the projects will be appraised and an approval decision will be made. The appraisal will look at technical and environmental feasibility and per-beneficiary cost for each kind of project, for which there will be a ceiling. A per-project ceiling of US\$700,000 will likewise apply.

5. FHIS personnel

- 3.18 Although exceptions to government procurement procedures are essential for the FHIS to operate effectively, the real key to its success lies in its staff. For this reason, proceeds from the loan will be used to pay the remuneration of some FHIS technical officers who have been chosen very carefully for their experience and professional background, and have amply demonstrated their capacity to perform assigned tasks, along with the flexibility which is essential to keep pace with the changes the FHIS is undergoing. The special classification of these staffers has been instrumental in maintaining the program's technical team despite changes in the public administration ensuing from the turnover in the country's political leadership.
- 3.19 In order to assure the caliber and continuity of the management and technical staff, the Bank allocated US\$1.6 million in funding under the previous stage of the program for the remuneration of FHIS professional staff. In recognition of the importance of preserving its corps of technical staff while bearing in mind that the FHIS's mandate is now an indefinite one, it was agreed to continue financing FHIS staff remuneration from the Bank's loan, but at a declining rate. It was likewise agreed that as the share of that remuneration funded by the Bank diminishes, the government will replace that amount, to avoid any interruption in the agency's

management. The schedule for replacing the Bank's contribution in this regard is shown in the table below. This initiative will also help make for more uniform application of the government's policy on the use of proceeds from external funding sources to finance this cost item.

(US\$000)

	Year 1	Year 2	Year 3	Total
IDB	640	380	280	1,300
Local counterpart	0	250	350	600
TOTAL	640	630	630	1,900

6. Agreements with line ministries

- 3.20 The FHIS works very closely with the social-sector line ministries. It secures funds to pay for works projects that will improve the infrastructure upon which those ministries rely as an adjunct to social-services delivery - an arrangement that eliminates the need for the ministries to have works departments of their own. To set down conditions governing its working relations with the ministries, the FHIS enters into formal agreements with them covering priority-setting, investment specifications, and the undertaking to operate and maintain completed projects. These agreements will need to be updated during the first 12 months of the operation proposed herein.

7. Maintenance

- 3.21 Under the present legislation, the line ministries are given most of the responsibility for maintenance of FHIS projects. However, the government intends to assign greater management and financial responsibility to local governments and communities. Financial and operational arrangements for preventive maintenance are to be decided on by means of a pilot project to be financed by the World Bank; IDB funds will be used to start implementing those arrangements formally. Also, a proposal will be drawn up for amending national legislation to reflect the transfer of responsibilities to the local level. A study on the impact of FHIS projects is slated for completion in late 1998; its final report will include an assessment of the quality of the works and the standard of maintenance. At that point the World Bank, municipal authorities, line ministries, and FHIS will together review measures for improving maintenance.

C. Disbursements

1. Special accounts

- 3.22 The Bank will deposit the loan proceeds in a special account to be administered by the Ministry of Finance, which will make the corresponding transfers to the FHIS. The Ministry of Finance-FHIS agreement for the transfer of IDB funds is to be submitted prior the first disbursement of the loan. If definite agreement is reached to delegate part of the project cycle to the municipalities, the legal and operational elements of these transfers and payment arrangements will be set out in detail in the FHIS Operating Manual before any loan proceeds are used for projects carried out under this decentralized approach. Given the present emergency situation in the country, the Ministry of Finance has set a deadline of five business days, calculated from the date of notification of deposit by the IDB, for the transfer of loan proceeds for implementation of this program.

2. Internal controls

- 3.23 As a control for the planned investments, it is recommended that the FHIS keep on file the originals and/or copies of contracts, requests for proposals, invoices, receipts, payment vouchers, suppliers' certificates, and any other documents necessary to substantiate information provided in the report submitted to the Bank. Along with other data, this report is to contain a list of the projects financed, amounts, numbers of checks, dates, contractors and suppliers, sources of funds, and taxes. The documentation required to be retained by these entities must be duly identified and filed, and must be made available to Bank officials and independent auditors for examination.

3. IDB controls

- 3.24 Based on the positive experience with the earlier program, the Bank's Country Office in Honduras would do ex post technical and financial inspections to examine substantiating documents for financial reports, expenditures and requests for disbursement. Among the documents to be reviewed will be files and receipts for a randomly selected sample of at least 10% of the projects. The examination must be such as to confirm that the FHIS is keeping on file disbursement request documentation showing that the funds will be used in accordance with the loan contract covenants. If any deviation from agreed procedures is found, a larger sample will be examined and the FHIS will be notified of amounts to be deducted from future requests.

4. Reimbursement and recognition of prior expenses

- 3.25 It is expected that funds for the program will need to be expended after the date of the formal request for financing but before its approval by the Bank's Board of Executive Directors. Accordingly, provision has been made for the equivalent of 10% of the Bank's loan and the local contribution to be reimbursed out of the loan proceeds or recognized as part of the local counterpart contribution, provided the outlays were made following procedures substantially similar to those agreed upon for the program.

5. Revolving fund

- 3.26 In light of the pressing needs to be attended to in the current emergency situation, it has been decided that a revolving fund of 20% would be set up for six months following the effective date of the loan contract. The rationale for this percentage advance was the anticipated increase in the portion of investments that will need to be contracted out directly because of the damage sustained by communication networks and goods and services markets. In addition, because of access problems due to the disaster, the amounts advanced to executing agencies will need to be higher so they can start work. This will also affect the project costs (the cost base is currently being updated; a new reference price list should be available by December 1998). Lastly, a huge inflow of project proposals is expected, which will mean a heavy demand for funds during the first six months of the proposed operation. A mission will visit Honduras six months after the loan contract enters into effect to look at experience with the 20% limit and decide whether it ought to be reduced to 10% for the rest of the implementation period.
- 3.27 A revolving fund of 10% of the proposed loan amount is warranted for three reasons: (i) the sound FHIS financial controls observed during the previous stage; (ii) the confirmed cash-flow need; and (iii) internal delays in transferring disbursed funds to the FHIS through the Ministry of Finance. The period between submission of a request and deposit of the funds in the FHIS accounts averages over 45 days. If it is found, in the course of the program, that the proposed revolving fund is not large enough to assure that the program can proceed on schedule, the Bank would be prepared to consider increasing it.

D. Commitment and disbursement periods

- 3.28 All the activities that will be financed with program funds are of a kind that could be completed within six months following signature of the corresponding contract (formal commitment). For this reason, and in view of the planned quick startup, the commitment period would be two and a half years, and the disbursement period three years.

Table 3.1
Projected commitments and disbursements
(US\$ million)

Component	Year 1	Year 2	Year 3	Total
Commitments				
Component 1	33.0	12.0	0.0	45.0
Component 2	1.1	0.6	0.3	2.0
Component 3	1.3	0.7	0.3	2.3
Others	0.4	0.2	0.1	0.7
Total	35.8	13.5	0.7	50.0
Disbursements				
Component 1	25.0	19.0	1.0	45.0
Component 2	1.0	0.6	0.4	2.0
Component 3	1.3	0.7	0.3	2.3
Others	0.4	0.2	0.1	0.7
Total	27.7	20.5	1.8	50.0

E. Overall projections

- 3.29 The Bank is the leading source of funding for this phase of FHIS operations. Since the World Bank's operation will be formalized before the IDB's loan, that agency will be furnishing over 90% of the resources to be committed in 1998.

Table 3.2
Projection of overall commitments
(US\$ million)

Funder	1998	1999	2000	2001	Total
BID	0.0	35.8	13.5	0.7	50.0
World Bank	30.0	13.0	2.0	0.0	45.0
Sweden	0.4	3.5	3.4	0.7	8.0
KfW	0.0	3.5	1.5	0.0	5.0
OPEC	0.0	4.0	1.0	0.0	5.0
Government	2.0	8.0	6.0	4.0	20.0
TOTAL	32.4	67.8	27.4	5.4	133.0

F. Procurement

- 3.30 FHIS representatives have reported a complication in ratifying the agreement with the World Bank regarding procurement procedures that differ substantially from those normally governing public-sector procurement. Unless this problem is resolved the FHIS will be unable to arrange the planned volume of contracting within the allotted times, and the size of the program would need to be reviewed. According to the FHIS, this situation will be resolved by way of a new decree, the content of which is part of the Minutes of Negotiations. The World Bank has already indicated its concurrence with this approach to resolve the situation.
- 3.31 **Restricted competition.** It has been confirmed that the FHIS will have to renew most of its vehicle fleet if it is to efficiently discharge its program responsibilities. Given the savings that can be expected from having a single spare-parts inventory and training of repair personnel, the approach of choosing a single brand (taking advantage of the fact that the fleet needs to be renewed at this point) is considered warranted. When the FHIS last renewed its fleet three years ago it called for international tenders, and that bid process obliged it to bring in a new brand of vehicles. Accordingly, it is recommended that the international call for bids to replace part of the fleet be restricted to suppliers of Mitsubishi vehicles - the brand that won the previous contract.
- 3.32 Streamlined procedures have been worked out for emergency and essential reconstruction works contracting. The procurement thresholds are listed in the table below. Where international competitive bidding is required, the General Procurement Notice for the program will be published once only in *Development Business*, stating that specific procurement notices will not be published; such specific notices will be published instead in the Honduran national press. The latter notices will stipulate that there can be no restrictions on international participation. The limits proposed here are considered to be fully warranted, and will help expedite contracting at this very difficult juncture.
- 3.33 The FHIS has a roster of eligible suppliers that it uses to commission construction work, purchase goods, and hire consultants. To be awarded a contract, a person or firm must have the legal status and financial and technical capacity demanded by the type of contract or service in question; the procurement procedures set out in FHIS procurement and contracting manuals will apply. The following will be the procurement methods and thresholds in effect during the emergency period.

Procedures in effect during the emergency

Method	Construction	Goods	Services
International competitive bidding	3,000,000 and up	350,000 and up	over 200,000
Local competitive bidding	500,000—2,999,999	200,001—349,999	100,000—200,000
Shopping (3 quotes)	100,001—499,999	50,001—99,999	50,001—99,999
Direct contracting	100,000 or less	50,000 or less	50,000 or less

- 3.34 The procurement methods and thresholds that will apply after the emergency period are as follows:

Procedures in effect after the emergency

Method	Construction	Goods	Services
Local competitive bidding	75,000—1,499,999	75,000—249,999	75,000—200,000
Restricted bidding	50,000—74,999	under 74,999 ^{2/}	50,000—74,999
Direct contracting	under 50,000	N/A	50,000 or less
International competitive bidding	1,500,000 and up	250,000 and up	over 200,000

- 3.35 **Direct (no-bid) contracting.** During the previous phase of the program, selection of suppliers was the municipalities' responsibility. In this phase, however, it is proposed that this responsibility be delegated to communities, so they can directly choose suppliers and contractors. The municipalities would help their communities confirm that suppliers and contractors have the requisite technical capabilities. It has been decided not to set a ceiling for this procurement approach for the program, given the emergency situation that has so radically disrupted the goods and services markets, making a rapid procurement system essential. It should be noted, however, that direct contracting would be allowed only in the poorest municipalities, when it is impossible to elicit competitive bids using the unit-price system employed in the previous phase. The FHIS updates its price lists monthly to real market prices.
- 3.36 **Force account.** Provision has been made, by way of exception, for legally-established bodies representing communities (*patronatos*) and municipal corporations to be hired for construction work that will directly benefit those hard-hit by the hurricane by creating

^{2/} Vehicles and computers excluded.

employment and hence providing these workers with income. The rationale for this exception is that it is a way of making up for the income losses of residents of the stricken areas, so they can personally resolve part of their problems. On the negative list for this method will be land, weapons, illegal activities, articles and substances, alcohol, financial instruments, political campaigns, and religious activities and objects. The FHIS's current reference-price list will apply for all activities, with a 15% margin over those prices permitted. Under this force-account method, only direct costs relating to the works project in question (including personnel, machinery and equipment rental, and materials) can be recognized for funding. No more than 15% of the program funds may be expended for force-account work.

G. Audits

- 3.37 During the disbursement period, the program's accounts will be audited at each fiscal year-end by a qualified firm of independent auditors acceptable to the Bank. The financial statements must be submitted to the Bank beginning in the first year of the disbursement period and the life of the loan. Audit costs will be defrayed using funds from the World Bank's loan.

H. Monitoring and evaluation

- 3.38 Within nine months after the effective date of the loan contract the borrower is to provide the Bank with an updated version of the initial report, including a work plan and impact and performance benchmarks for the program. Progress on the program will be monitored and evaluated by way of progress reports to be submitted to the Bank each year within 60 days following the FHIS's fiscal year-end. These reports will include information on IDB-funded activities as well as the pilot projects to be financed by the World Bank. Copies of progress reports on the proposed technical cooperation to be financed by the Government of Japan will be appended to the reports submitted to the IDB. The Project Implementation Plan (PIP) worked out by the FHIS and the World Bank contains performance benchmarks and impact measures that will be equally useful for the program proposed herein. In the course of this program the Bank will work with the FHIS to create benchmarks needed to demonstrate the extent of community organization and participation in the new local planning processes.
- 3.39 **Interagency coordination.** One particularly noteworthy feature of the program is the close and productive coordination between all the international agencies that will be supporting the same FHIS program. Insofar as is practicable, reports should be prepared in concert and key decisions should be taken in consultation with the other organizations. In particular, the Bank intends to participate actively in reviewing the findings of the study on the FHIS's impact and in devising corrective measures. As well, the

IDB and World Bank will both track the implementation of the pilot projects - those whose eventual expansion will be funded by the IDB and also the pilot project to identify new approaches to rural water projects. Direct contact has already been established with the Government of Sweden concerning the nature of the second phase of its support for the FHIS, and the documents, reports and studies that comprise the technical background for the program will be shared with the KfW and OPEC.

I. Supervision

- 3.40 A review mission will be sent to Honduras six months after the effective date of the loan contract, to be conducted in coordination with the World Bank and KfW. It will evaluate experience with the application of special measures during the emergency phase, and determine whether they need to be extended. The mission and the FHIS will also work out targets and mechanisms for gradually reinstating normal FHIS rules and procedures. For the Bank's part, the mission will also review the timetable for phasing out Bank financing for FHIS staff remuneration, and will assess the impact this might have on the agency's effectiveness and its ability to expeditiously assist the national reconstruction effort. In addition, the mission will look at the need for transfers of funds between cost items in the table of cost and financing, to adjust the financing plan when more precise details of the reconstruction needs are known.
- 3.41 A mid-term review mission will be conducted at the start of year 2 of the program (not later than 14 months after the effective date of the loan contract), to review issues from the strategic diagnostic assessment described in chapter II of this proposal with the FHIS, other public-sector agencies, and international organizations.
- 3.42 The Bank's Country Office in Honduras will be directly responsible for supervision. The Social Programs Division of Region 2 will provide technical support.

J. Ex post evaluation

- 3.43 The pilot projects to be financed by the IDB and the World Bank will include funding and terms of reference for studies to assess the impact of the innovative activities carried out under each of those initiatives. Accordingly, a separate ex post evaluation is not being recommended.

IV. FEASIBILITY, BENEFITS, AND RISKS

A. Institutional viability

- 4.1 The FHIS has a comparative advantage for basic infrastructure financing, its institutional capacity having been demonstrated in how it managed the implementation of the previous IDB-funded phase. In the present phase proposed here, further support will be provided for the ongoing process of institutional development of the FHIS. The World Bank will cofinance an institution-strengthening program designed to maintain the required level of technology for its management information system, train technical staff in the new participatory planning processes at the municipal level, renovate office equipment and vehicles, and monitor gender issues. In addition, the IDB will finance efforts to build an environmental protection element into key phases of the FHIS project cycle.
- 4.2 To enable the FHIS to operate quickly and efficiently, it has been exempted from certain procedures that apply to other public-sector agencies, such as government procurement laws. It likewise is exempt from the salary caps in place for civil servants. But the real consideration as far as these measures is concerned is the caliber of its technical personnel. To assure that the agency can operate efficiently, the IDB will fund the remuneration of FHIS technical staff, but will gradually lower its contribution in this regard as the program proceeds.
- 4.3 The social assistance subcomponent of the program, in addition to bringing in a new institutional apparatus, introduced a new mechanism for coordinating FHIS programs with other national initiatives. IHNFA, the FHIS and two NGOs will form an advisory panel which will issue opinions on technical elements of the subcomponent. The FHIS, however, will retain responsibility for approval and funding of the program. This will replace the earlier arrangement whereby the Junta de Bienestar Social simply submitted already-prioritized applications to the FHIS for financing. Under the new approach the selection process for programs depends essentially on initiatives of NGOs, public-sector agencies and organized groups of beneficiaries.

B. Technical feasibility

- 4.4 The program is judged to be technically feasible on the strength of the FHIS's workable procedures for updating specifications, assessing investments, and selecting, hiring, paying, and supervising contractors and suppliers. Project identification has been substantially improved by way of town meetings that assure that communities have input into the process and hence that activities will be poverty-targeted.

- 4.5 The pilot projects on participatory planning at the municipal level to be funded by the World Bank and the Government of Japan will enhance the quality of future town meeting exercises. Furthermore, the pilot projects on maintenance, delegation of some project-cycle functions to the local level, and rural water projects – all of these also being financed by the World Bank – will provide valuable input for ongoing enhancements of the quality and efficiency of FHIS projects.

C. Environmental and social feasibility

- 4.6 In recognition of the need for continual improvements in environmental management, an action plan will be instituted to bring environmental protection considerations into key stages of the project cycle. Environmental protection and gender considerations will likewise be built into training programs for the program's beneficiaries.
- 4.7 During the previous phase of its operations, the FHIS did much to increase women's participation, not only as project beneficiaries but also in project execution. To ensure continuing progress in this direction, greater participation by women will be sought in managing the planning phase, as well as in project implementation and operation. A consultant will be hired to devise initiatives and systems for this purpose. From this will come a determination as to whether to build gender statistics into the management information system.
- 4.8 A significant correlation has been shown to exist between pockets of extreme poverty and ethnic groups in Honduras. To address this situation, the particular needs of these groups will receive careful attention under the *Nuestras Raíces* subcomponent. As well, to give these communities better access to general FHIS operations, the menu of projects has been translated where the beneficiaries have their own written language, and community workshops will continue to be organized to explain FHIS procedures and programs to the target groups.

D. Benefits

- 4.9 This program would be starting up precisely at the time of greatest hardship in the wake of Hurricane Mitch. It thus offers an avenue for quick response to these needs.
- 4.10 To the extent that the line ministries in question follow through on their commitments to supply the human, physical and financial resources needed for operation of the infrastructure to be put in place by the program, the communities concerned will benefit from a substantial increase in their access to social services.
- 4.11 Transferring the focal point for project identification to the local level will help forge new working relationships between

communities, municipal governments and the FHIS. Likewise, to bring the service-delivery point close to beneficiaries, new working relationships will be devised at the local level, and major improvements in the efficiency of service supply are expected to ensue. Moreover, communities and municipalities alike will be better organized and trained to come up with and manage their own solutions.

- 4.12 The new approaches to project planning, management and maintenance will make for more efficient and equitable social outlays. There also are expected to be substantial positive externalities based on the demonstration effect of more participatory, transparent and efficient processes, which could serve as a guide for the use of municipal resources.
- 4.13 It has been shown that the role of women in pushing for improvements in their families' living conditions is substantially more effective than that of men. Thus, the more women become involved in project planning and management and benefit personally from the projects, the greater the impact will be on their families.

E. Risks

- 4.14 **Changeover to the new methodology.** The new 'town meeting' approach that had been introduced was interrupted when the hurricane hit, and it will be a challenge to rekindle this initiative at a juncture when corrective measures need to be expedited. This risk will be attenuated by way of a technical-cooperation operation to be presented to the Japan Special Fund, which would lay the foundations for new town meetings and launch investment exercises in the first municipalities that are prepared to start again. This incentive will also be a built-in feature of the proposed program, because municipalities will only have access to funds under the second subcomponent of the investment projects component if they are prepared to apply the new procedures.
- 4.14 **The transition to decentralization.** The proposed program would fit within the incipient decentralization and local development processes unfolding in Honduras, and could therefore be colored by the tensions that are part and parcel of any sweeping change in a country's economic and political relationships. By way of example, the government originally conceived that FHIS funding could be used to help it transfer, as required by law, 5% of tax revenues to the municipalities. However, that idea was challenged by the Association of Honduran Municipalities on grounds that the law requires such transfers to be made out of current tax revenues, not foreign loan proceeds. The risk that such tensions might pose for the FHIS program will be attenuated by the need to work together to solve the pressing problems caused by the hurricane.

- 4.15 **Collaborative design.** The second component can only work if the FHIS, municipalities, and communities work as a team. For example, a project may be added to the FHIS pipeline only if it has been accorded priority by the community, has been confirmed by the municipality, and has been evaluated by the FHIS. If a municipality or group of communities declines to take an active part in the program, it will be impossible to achieve the FHIS objectives with respect to that municipality or group. Although that is indeed a danger in a collaborative design approach of this type, the risk would be more than offset by the benefits of the team approach. A further offset to this risk will be the planned local training exercises. FHIS activities also will be reoriented to make them more support-centered and less propulsive.

**LOGICAL FRAMEWORK
HONDURAS
SOCIAL INVESTMENT PROGRAM
(HO-0131)**

	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS
Goal: Once the emergency caused by Hurricane Mitch is resolved, causes of structural poverty reduced.			
Purpose: Access by the poor to social services increased in a sustainable manner and according to local priorities.	By project completion: 1. Local stakeholders empowered to identify projects. 2. Works carried out to reduce the shortfall in infrastructure. 3. Greater participation by communities and municipalities in preventive maintenance. 4. Quality improved and time required for managing project cycle reduced. 5. Greater efficiency in project cycle management. 6. Greater sustainability of investments. 7. Emergency situations caused by Hurricane Mitch resolved by the end of year one.	1. National statistics 2. Revised poverty map	The line ministry allocate sufficient additional resources to ensure the success of the operation and to maintain the projects.

	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS
Results: 1. Investment projects 1.1 Investments in critical reconstruction 1.2 Municipal social investment plans	1.1 Multiple emergency relief programs implemented in the first 12 months of the program. 1.2 70% of program resources invested in 2000 social infrastructure projects by the end of the program. 1.3 New municipal planning processes applied in 299 municipalities by the end of the program. 1.4 75% of the communities organized and receive training in 2,500 community workshops by the end of the program. 1.5 25 programs carried out to empower municipal governments and communities to assume part of the project cycle and administer preventive maintenance by the end of the project. 1.6 Technical assessment conducted of the damage caused by the hurricane in the 299 municipalities in the country.	1. Progress reports from the FHIS. 2. Reports from consultants on maintenance, targeting, gender issues and the environment. 3. Inspection visits conducted by the Bank. 4. Mid-term evaluation mission. 5. Final report on assessment of the damage in the 299 municipalities. 6. Review mission 7. Municipal investment plans.	Communities and municipal governments participate actively in the new participatory planning process. The IDB accepts the request for reformulation of loan 906/SF-HO to finance the damage assessment.
2. Basic needs	2.1 150 social projects carried out by the end of the program. 2.2 80 training projects carried out by the end of the program.		

	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS
3. Institutional strengthening	<p>3.1 25 technical experts trained in local planning processes, environmental and gender issues, and maintenance within the first 18 months of the program.</p> <p>3.2 One third of the FHIS's present fleet of vehicles replaced in year 1 of the program.</p> <p>3.3 FHIS covering 40% of honorariums for technical personnel by year 2, and 56% beginning in year 3; IDB financing eliminated entirely in the 6th month of year 3.</p> <p>3.4 Poverty map updated by the end of year 2.</p> <p>3.5 Consulting services hired to identify new mechanisms for microtargeting at the submunicipal level by the end of year 2.</p> <p>3.6 Plan of action for the environment implemented in year 2.</p> <p>3.7 Future role of the FHIS defined by the end of year 3.</p>		

PROCUREMENT PLAN
(US\$)

Principal contracts	Financing	Method	Prequalification	Date of publication SPN
I. Works Total amount: \$47.7 million Average: \$50,000	IDB 94% Local counterpart: 6%	(a) ICB \$3 million or above (b) LCB from \$500,000 to \$2,999,999 (c) DCP from \$100,001 to \$499,999 (d) PC for \$100,000 or under	Bidders must be registered	n.a.
II. Goods Total amount: \$600,000	IDB 100%	(a) ICB \$350,000 or above (b) LCB from \$200,001 to \$349,999 (c) DCP from \$50,001 to \$200,000 (d) PC for \$50,000 or under	Bidders must be registered	n.a.
III. Services Total amount: \$4.6 million Average: \$100,000	IDB 78% Local counterpart: 22%	(a) ICB above \$200,000 (b) LCB from \$100,000 to \$200,000 (c) DCP from \$50,001 to \$99,999 (d) PC for \$50,000 or under	Bidders must be registered	n.a.

Abbreviations:

ICB = International competitive bidding
LCB = Local competitive bidding
DCP = Direct call for proposals (limited bidding)
PC = Private contract

PROPOSED RESOLUTION

**HONDURAS. LOAN ____/SF-HO TO THE REPUBLICA DE HONDURAS
Social Investment Program (FHIS III)**

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Social Investment Program (FHIS III). Such financing will be for the amount of up to fifty million dollars of the United States of America (US\$50,000,000), 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 "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.