

PROGRAM TO SUPPORT THE NATIONAL RECONSTRUCTION PROCESS

(TC-98-12-00-9)

EXECUTIVE SUMMARY

REQUESTER AND BENEFICIARY: Government of Honduras

EXECUTING AGENCY: The Ministry of Finance, through the Office of Public Credit

AMOUNT AND SOURCE OF FINANCING:

IDB:	US\$1,000,000 (FSO/nonreimbursable, foreign exchange)
Local counterpart funding:	US\$ 100,000
Total:	US\$1,100,000

FINANCIAL TERMS:

Execution period:	24 months
Disbursement period:	30 months

OBJECTIVES: To work with the Government of Honduras on the national reconstruction process in the wake of the damage caused by Hurricane Mitch, through a sector approach. This involves a medium- and long-term strategy in sectors and priority areas that are consistent with systematic efforts at the national level. The government has requested that the Bank focus its efforts on housing, water supply, and sanitation. The specific objectives are to: (a) support the selection of concrete areas of action and prepare the corresponding plans and specific procedures for executing components included in the reconstruction process. Reconstruction is expected to better position the country in terms of protection of the environment and vulnerability and exposure to the risk of natural disasters; and (b) strengthen the technical and managerial capacity of the institutions responsible for the reconstruction, in order to improve execution and performance.

DESCRIPTION: The program is comprised of three components: (i) technical assistance, with mechanisms that can be quickly accessed and disbursed, to finance sector studies and studies on vulnerability to natural disasters and the preparation of loan operations for reconstruction for the effective execution of the planned activities; (ii) institutional strengthening, to support the preparation of requests for funds from the technical assistance component and the execution

of projects, including the operations recently approved by the Bank and projects under way using reallocated resources; and (iii) support for procurement, to assist the government with the contracting of works and consulting services under the master plan for national reconstruction.

**ENVIRONMENTAL/
SOCIAL REVIEW:**

The studies to be financed by the program will encompass terms of reference that cover a social and environmental impact assessment of the projects to be studied and the requirements under local law and Bank policy (see paragraph 3.21).

**BENEFITS AND
BENEFICIARIES:**

The principal benefit of the operation is that public agencies with priority responsibility for the national reconstruction process will receive institutional strengthening. The entire Honduran population affected by the hurricane, particularly groups that are discriminated against or marginalized (low-income groups, women, and children) will benefit through an efficient, relevant, and systematic national reconstruction process.

RISKS:

The primary risk of the technical cooperation operation would be the limited capacity of the sector institutions heading up the national reconstruction process. The learning process for using the technical assistance resources may be slow. The institutional strengthening activities proposed through the contracting of consultants and specialized advisors are aimed at reducing that risk. There will also be a full-time program coordinator, supported by a local consultant, and Operating Regulations will also be prepared to govern program resources.

**ROLE OF THE
PROJECT IN THE
BANK'S STRATEGY:**

The Bank's strategy for Honduras, proposed in the country paper presented to Management's Programming Committee in October 1998, included two principal lines of action: (i) stimulating high, sustained economic growth; and (ii) supporting social development programs. This strategy sets forth the following lines of action: poverty reduction and alleviation through programs in social sectors, such as education, health, sanitation, and housing. The country paper's presentation to the Board was interrupted by Hurricane Mitch in that same month. A revised version of the country paper is therefore being prepared that takes into account the country's situation following the hurricane.

As part of the reconstruction process in Honduras, the Bank has allocated resources to cover:

(a) short-term needs, consisting of US\$50,000, which has already been approved and made available to Honduran authorities, and US\$150,000 in nonreimbursable technical-cooperation funds to support the involvement of Bank projects to mitigate the effects of the disaster; and (b) medium-term needs, by reallocating resources from projects in execution, and up to US\$161.2 million in new operations approved by the Board of Executive Directors in November and December 1998. The technical cooperation operation being proposed here for US\$1 million is to support the national reconstruction process and is part of the Bank's assistance to Honduras.

EXCEPTIONS TO BANK POLICY: As an exception and at the request of the Government of Honduras, the Bank will directly select and contract the local consultant for the activities to support program coordination (see paragraph 3.14). All other program consultants will be contracted by the government.

SPECIAL CONTRACTUAL CONDITIONS: Eligibility for program disbursements will be contingent on: (a) the selection of a consultant responsible for supporting coordination activities, who will be hired locally; and (b) a tentative schedule of advisory services on specific topics and institutional strengthening for the beneficiary sector agencies.

I. BACKGROUND

A. Context

- 1.1 From October 25 to 31, 1998, Hurricane Mitch lashed the countries of Central America. It caused widespread destruction, primarily in Honduras, where entire communities, the road system, the water and sewerage system, the transmission of electricity, and rural and urban housing were destroyed. Nearly 5,657 people were killed, and it is estimated that roughly 9,000 people are missing. The devastating effects of the storm were felt in almost all Honduran communities, but particularly along the Atlantic coast, in the Sula valley, and in the central and southern regions of the country. Damage has been reported in 21 cities, and the capital cities of the municipalities of Morolica (Choluteca) and Santa Rosa de Aguán (Colón) were completely destroyed. Approximately 1.9 million people experienced partial or total damage to their housing or property. The government has estimated that 35,000 new temporary housing units must be built and 50,000 homes repaired to restore the damaged property.
- 1.2 Honduras is facing serious problems with its roads because of the destruction of essential highways, bridges and other works affected by the floods and landslides. In the country, 170 bridges were affected, of which 95 were destroyed and 75 experienced severe damage to their structure or approaches; 60% of main roads and 70% of rural roads were also severely damaged. In addition, nine bridges in Tegucigalpa were lost, and there were considerable losses in the water supply and sanitary sewerage system in the principal urban centers in the country, as well as in rural water systems, which present a larger health problem. The immediate economic impact is concentrated in agriculture (estimated damage of US\$1 billion), due to flooding in the country's principal productive valleys. Losses in the agroexport sector of the banana industry are 80% and 40% in the shrimp industry.

B. Impact by sector and area

1. Agriculture

- 1.3 Hurricane Mitch will have a negative impact of the agricultural and forestry sector, which accounts for 28% of the gross domestic product (GDP) of Honduras. Exports could drop by up to US\$500 million, and a similar figure is projected for 1999. Nonetheless, more reliable and precise data currently being processed suggest lesser damage to the sector. This loss of exports and the additional import of basic grains and other products will have an impact on the balance of trade.
- 1.4 According to preliminary figures, the Ministry of Agriculture and Livestock has estimated that losses in agricultural production are

75% for corn and beans, 10% for rice, and 8% for sorghum, not counting the losses in agricultural infrastructure. To deal with this emergency, Honduras must import roughly US\$66.7 million in basic grains. With regard to the agroindustry sector, substantial losses of US\$200 million in the banana, pineapple, melon, beef, African palm, sugar cane, coffee, and shrimp crops were reported. However, more recent data suggests that these estimates should be taken with caution. Losses were also recorded in cacao production, crops, and exports of approximately US\$7 million, which is equivalent to 17.5% of the 1998 crop and 90% of the 1999 crop (875 and 2,500 metric tons respectively). The cattle industry recorded losses of US\$25 million. Regarding forestry, forested areas were also affected, with dark wood trees knocked down and trunks razed by the currents. It is hoped that lesser damage will be found in the highland pine forests, where the principal logging activity in the country takes places.

2. Infrastructure

a. Transportation

- 1.5 Honduras has 14,602 km of roads, 18% of which are paved. The remaining roads are unpaved secondary and farm-to-market roads. To date, inspections have determined that 60% of highways have severe damage to different segments, whereas 20% of secondary and tertiary roads were damaged. It was also reported that 170 bridges were affected throughout the country; 95 were destroyed and 75 experienced severe damage to their structure or approaches. An evaluation of the damage to the road infrastructure has been presented, with figures that are reasonably consistent with those presented herein.
- 1.6 The main 1,602-km long paved road system's wearing surface was destroyed by cave-ins and its minor and major drainage structures and bridges were seriously damaged or destroyed. The problem is even more acute, because high production areas are isolated and access routes to the principal ports of entry by sea and air are blocked, thus hurting the country's economy. Trade within Central America has been virtually stopped by the damage to the Pan American Highway, which also affects the exports and imports of El Salvador and Nicaragua through Puerto Cortés on the Atlantic coast.

b. Water and sanitation

- 1.7 Roughly 46 cities experienced damage to their water supply and sanitary sewerage systems, primarily to the water intake and distribution systems and collecting canal sewer mains. Partial service in the systems in Tegucigalpa, La Ceiba, Choluteca, Puerto Cortés, Catacamas, and Progreso and reduced supply in San Pedro Sula (30% of its capacity) were reported. Partial damage has also been found in approximately 1,500 rural water systems.

c. Hydrocarbons and power

- 1.8 There was no damage to the principal hydrocarbon infrastructure in terms of the storage facilities of the four importers. The ten-day period in which fuel was not supplied in the Tegucigalpa area was due to the lack of land transportation (fuel is transported exclusively through tank trucks). With regard to electric power infrastructure, generating facilities did not experience significant damage. In the high-voltage transmission system, 33 towers were reported damaged or down in several sections of the northern or Atlantic coast systems, as well as in two sections of the link to Nicaragua. The distribution system in urban and rural areas was affected the most, since 10% of users still do not have electricity.

d. Urban infrastructure and housing

- 1.9 The damage caused by Hurricane Mitch reached unprecedented proportions in some of the main cities in the country. Cities such as Santa Rosa de Aguán, Trujillo, Tela, La Ceiba, El Progreso, San Pedro Sula, La Lima, Tegucigalpa, Catacamas, Nacaome, and Choluteca were particularly affected by the destructive effects of the flooding. The government has estimated that 35,000 new housing units must be built and 50,000 homes repaired to restore the housing infrastructure.

e. Social infrastructure

- 1.10 Data updated to January 1999 indicate that Hurricane Mitch resulted in: (i) 5,657 deaths; (ii) 9,014 missing persons; and (iii) 1,960,000 additional victims. Of those, roughly 80,000 persons are at potential risk for loss of health, in 235 adapted shelters that do not have the appropriate sanitary structure (water and sewage and trash disposal). Furthermore, 19,637 people from 4,205 families are living in those shelters. A preliminary evaluation of the health infrastructure network (the hospital and primary health care network) indicates that six hospitals and 117 primary care centers were affected.
- 1.11 It is estimated that nearly 2,500 schools were damaged or destroyed. A large portion of classrooms are not physically ready for the new school year scheduled for February of next year. A significant number of schools are currently being used as shelters for displaced and evacuated persons, and a high proportion of teachers and school staff were victims of the hurricane, thus causing additional problems in terms of reestablishing educational services for the 1999 school year.

3. Large urban areas

a. Tegucigalpa

- 1.12 The damage that occurred in Tegucigalpa was particularly serious. During the night of October 30, over the course of just a few hours, the rise of the Choluteca, Chiquito, and Guacerique rivers caused flooding, landslides, and cave-ins in the city, causing severe damage that affected roughly 40% of the urban fabric. With an approximate population of one million inhabitants, roughly 50 districts and neighborhoods in the capital were completely destroyed, directly affecting 50% of the population and resulting in over 240,000 victims. Available data estimate that 1,000 people drowned or were buried. In the road infrastructure, nine of the main bridges that connect the twin cities of Tegucigalpa and Comayagüela were destroyed or damaged, which means a solution to the communication and transportation problems of the population and regional and national production will be slow. The water supply and sanitation sector suffered damage, because a large part of the water distribution network and sections of sewage collectors were destroyed. Total damage is estimated at US\$59 million, of which US\$10 million has already been covered through an emergency loan from the Bank. Serious sanitary control problems are predicted, given the large quantity of water that has accumulated with insufficient drainage and the resulting decomposition of organic matter and the accumulation of epidemiological vectors. The housing sector will face serious problems, since roughly 4,000 homes were destroyed in Tegucigalpa.

b. San Pedro Sula

- 1.13 The floods in the Sula valley caused serious damage to the city of San Pedro Sula, particularly to its flood control infrastructure and road infrastructure, which has some partially damaged bridges and large sections of access roads to the city that are impassable. The water supply system was particularly affected, with treatment plants and large sectors of the distribution network out of service. In addition, damage was reported to the telecommunications infrastructure, which has an impact on telephone wiring. The international airport, including both the passenger and freight terminals, was completely flooded, thus seriously hindering emergency work. In the housing sector, numerous portions of the population must be relocated to lower risk areas (however, practically all of the land available for urban expansion was flooded, since flood control works were inadequate).

C. Government response to the emergency

- 1.14 Because of the serious impact of the hurricane, the government declared a "national state of emergency" and established a National Emergency Committee, which assumed responsibility for and coordinated institutional efforts.

- 1.15 Through an executive decree, a special Cabinet for National Reconstruction was established. It is composed of the Ministers in the sectors of Public Works, Transportation and Housing, and Finance (Office of the President), and the Technical Secretary of International Cooperation.
- 1.16 To manage and control the aid received from the national and international communities, the Office of the Comptroller General of Honduras will monitor transparency in the management of the aid in situ and will expand opportunities for oversight on the part of civil society organizations.
- 1.17 Nonetheless, the government's efforts may be hindered by bureaucratic practices and lack of capacity in place, which in the past have restricted the execution of many projects.

D. Economic impact in the medium term

- 1.18 The main economic impact is centralized in the agricultural sector, where there has been massive damage to plantations of commercial crops: banana, citrus fruit, and African palm. However, coffee, which is the product that makes the largest contribution to the foreign exchange generated by the country, was not directly impacted by the hurricane. Similarly, the in-bond processing companies, tourism, and mining show potential for recovery in the medium term. Undoubtedly, the balance of trade will suffer, because of the need to import food, construction materials, and other products needed for reconstruction. The scarcity of inputs, basic consumer goods, and housing could lead to an increase in the inflation rate, particularly since it will be necessary to relax fiscal and monetary policy.
- 1.19 The financial sector will be affected, since the majority of holdings are in affected areas. A total of US\$150 million has been calculated for reinsurance. It is estimated that 30% of the portfolio was contaminated and that total losses are between 1.0 and 1.5 billion lempiras. Lending for microentrepreneurs was also affected, with the subsequent impact that has on the employment and income of the poorest population in the country.

E. Support from other international agencies

- 1.20 The United Nations has coordinated the efforts of international agencies and other humanitarian aid donors, which primarily consist of distributing food donated by the World Food Programme (WFP) and UNICEF. Aid for repairing the productive infrastructure is being analyzed by the IDB and the World Bank. Bilateral support has also been important. According to a United Nations report, of the EU countries, Spain has contributed the most both in humanitarian aid and in equipment and financial resources. The United Kingdom, Mexico, the United States, Japan, and other donors have also made significant contributions in the short term.

- 1.21 The World Bank has completed an initial evaluation of the impact of Hurricane Mitch. Since the portfolio of World Bank operations has already been disbursed to a great extent, its financial assistance will result from new operations for the FHIS, highways and health care. One notable exception is the disbursement of the second tranche of US\$40 million from the State modernization program. The World Bank agreed to process that disbursement and grant waivers for fulfillment of several conditions.
- 1.22 The International Monetary Fund (IMF) is negotiating the preparation of the Enhanced Structural Adjustment Facility (ESAF), on which the Government of Honduras hopes to reach an agreement in early 1999. The IMF has also made a line of emergency credit of US\$66 million available to the government.
- 1.23 The United Nations Development Programme (UNDP) signed an agreement with the Government of Honduras to finance the project on strengthening national capacities for rebuilding the country, for US\$3.3 million, with a time frame of three years. The UNDP project consists in supporting the national reconstruction process, directly collaborating with the Cabinet for National Reconstruction in its work to coordinate and prepare the national reconstruction plan.
- 1.24 Obviously, various agencies are planning direct support and technical assistance actions in sector institutions. To that end, the operation proposed here will pay special attention to ensuring that those efforts are duly coordinated.

F. Strategy and role of Bank assistance

- 1.25 The Bank's strategy for Honduras, proposed in the country paper (CP) approved by Management's Loan Committee in October 1998, included two principal lines of action: (i) stimulating high, sustained economic growth; and (ii) supporting social development programs. This strategy sets forth the following lines of action: poverty reduction and alleviation through programs in social sectors such as education, health, sanitation, and housing. The confluence of economic growth with the reduction in poverty makes it necessary for the priority actions in the social sectors to have a significant impact on the progress being made towards both objectives. The presentation of the country paper to the Board was interrupted by Hurricane Mitch in that same month. However, a revised version of the CP is being prepared that takes into account the country's situation following the hurricane.
- 1.26 One way to supplement the aid from the international community for the reconstruction process is by strengthening the capacity of government agencies to implement sector strategies and programs. This initiative, proposed here, will strengthen specific aspects of the National Reconstruction and Transformation Program that the government is designing with technical support from the UNDP.

- 1.27 Bank assistance in the process of reconstruction from the hurricane damage will be allocated as indicated below: (a) short-term needs, consisting of US\$50,000, which has already been approved and made available to country authorities; US\$150,000 in nonreimbursable technical-cooperation funding to support the involvement of Bank projects to mitigate the effects of the disaster; and US\$1 million to support the national reconstruction process, which is the purpose of the technical cooperation operation proposed herein; and (b) medium-term needs, by reallocating resources from projects in execution, and up to US\$161.2 million in new operations approved by the Board of Executive Directors in November and December 1998.

G. Consultative Group

- 1.28 In order to formulate an urgent response to the damage caused by the hurricane, at the request of the Central American countries, on December 10 and 11 the Bank organized and coordinated at Headquarters the Consultative Group for the Reconstruction and Transformation of Central America. The international community offered the countries in the affected region resources totaling US\$6.3 billion for emergencies, humanitarian aid, immediate rehabilitation projects, long-term reconstruction and transformation programs, and external debt relief.

II. OBJECTIVES

- 2.1 The general objective of the program is to work with the Government of Honduras on tasks related to the national reconstruction and transformation process in connection with the damage caused by Hurricane Mitch from a sector approach. This involves medium- and long-term strategies in sectors and priority areas that are consistent with a systematic effort at the national level. The government, in turn, has requested that the Bank concentrate its efforts on housing, water supply, and sanitation. The specific objectives are to: (a) assist in the process of selecting concrete areas of action and prepare the corresponding plans and specific procedures for executing the components included in the reconstruction efforts. Reconstruction will improve the country's positioning in terms of environmental protection and vulnerability and exposure to the risk of natural disasters; and (b) strengthen the technical and managerial capacity of the institutions responsible for the reconstruction, in order to improve execution and performance.

III. PROGRAM DESCRIPTION

A. Program design

- 3.1 To achieve the program objectives, resources will be allocated to finance preinvestment studies for the preparation of projects needed for national reconstruction, placing emphasis on housing, water supply, and sanitation. They will also finance the contracting of specialists to strengthen the technical and operational capacity of the institutions and organizations responsible for preparing and executing the reconstruction projects, including procurement procedures.

B. Description

- 3.2 The program is divided into the following components: (i) technical assistance to finance sector studies, studies on vulnerability to natural disasters, and the preparation of loan operations for reconstruction, with mechanisms that can be quickly accessed and disbursed; (ii) institutional strengthening, to support the preparation of requests for funds and project execution, including the operations recently approved by the Bank and projects under way using reallocated resources; and (iii) support for procurement, to strengthen the process of contracting works and consulting services.
- 3.3 The selection of studies and projects to be financed by the technical assistance component (both preinvestment studies and studies to support execution) will be based on: (i) country priorities; (ii) impact on beneficiaries; (iii) Bank strategy and programming for the country; (iv) studies with secured financing from multilateral or bilateral sources; (v) sectoral, environmental, and vulnerability studies related to natural disasters that could lay the foundation for the identification and preparation of new projects; (vi) community and municipal participation; and (vii) one essential requirement, which is for the application to establish that the proposed initiative is coordinated with other potential aid received by the requesting agency.
- 3.4 To be eligible for financing from the technical assistance component, projects must be designed in such a way that, in the long term, they reduce the risks of natural disasters to the population and property. Each technical assistance project may total up to US\$100,000.
1. Technical assistance component (US\$511,000)
- 3.5 The technical assistance funding for preinvestment may be offered to public institutions, or the latter may request it, to:

(i) conduct sector studies to identify and prepare new projects and studies on important topics for the programming of investments; (ii) through the contracting of consulting services, conduct specific preinvestment studies on prefeasibility, feasibility, and final designs for rehabilitation and reconstruction programs that may subsequently be financed by the Bank or other sources; and (iii) environmental studies and studies on risk exposure to natural disasters.

3.6 The priority areas that may receive financing are detailed below:

- a. social sectors: concrete proposals for the urgent restoration of basic services and for the design, identification, and implementation, on an emergency basis, of new institutional structures with broad potential for improving the delivery of basic social services with the appropriate quality, quantity, and timeliness. Preference will be given to proposals aimed at overcoming the vulnerability of the sectors with regard to the allocation of resources;
- b. risk and disaster management: concrete proposals to strengthen the institutional framework related to risk and disaster management;
- c. housing and human settlements: concrete proposals for rebuilding villages, districts, and cities that were destroyed or severely damaged through safe, rapid, and low-cost construction systems that allow for community participation; proposal for relocating and resettling the affected population in shelters in Tegucigalpa and San Pedro Sula;
- d. water supply and sanitation: proposals for reconstructing water and sanitary sewerage networks and liquid and solid waste disposal systems that were severely damaged or destroyed; recovery of river beds (and the protection or diversion of) rivers or ditches that traverse cities or that run alongside or in the vicinity of villages;
- e. communication and transportation: determining which principal roads and bridges to rebuild immediately, since they are key highways or commercial corridors for the transportation of products essential to the national, regional, and local economy; communication routes, such as railroads and ports, including those on lakes and rivers;
- f. environmental reconstruction: studies on managing priority watersheds, with strong community and municipal participation; studies on susceptibility to damage, such as that caused by Mitch, in areas along the agricultural frontier; provision of the final review and approval of the territorial management bill;

- g. productive sectors: 1. agricultural sector: based on the evaluation of damaged or destroyed areas of production, proposals for rehabilitating crop and plantation areas of small and medium-sized producers; requirements for returning to normal levels of production and the protection required to secure investment. This also involves preparing concrete proposals on facilities, machinery, and infrastructure (roads, canals, bridges, communication and transportation networks, dams, dikes, irrigation systems, drainage systems, warehouses, collection centers, etc.) and inputs such as seeds, insurance, working capital, etc.; 2. industrial sector: proposals on the reconstruction and investment required in the industries and agroindustries of small and medium-sized entrepreneurs that were damaged or destroyed; their location (including relocation, establishment of new industrial zones, etc.); 3. craft and informal sector: proposals for reconstructing and relocating facilities and basic supplies for manufacturing crafts (including handicrafts, fishing, traditional crafts, small-scale food production, and microenterprises of nontraditional products);
 - h. rural area: specific rehabilitation proposals on topics related to overcoming the relative lag of rural areas, measured through access to social services, poverty rates, the productivity of the labor force, and employment opportunities.
- 3.7 The requests presented for technical assistance financing must include an environmental impact assessment. Likewise, the terms of reference for the studies that will be financed using program resources will include environmental considerations and evaluations of the respective sector.
2. Institutional strengthening component (US\$134,000)
- 3.8 The principal objective of this component is to help the institutions increase their capacity for proposing and implementing projects in their areas of responsibility. Those activities must make a significant contribution to the institutional capacity of the technical units of the public sector to implement the reconstruction programs.
- 3.9 The activities in the component will consist of: (a) support for the preparation of requests to the technical assistance component and for project execution; and (ii) advisory services on organization and administration to improve the technical and operational capacity of the institutions and organizations responsible for preparing and executing the reconstruction projects.
- 3.10 The institutional strengthening component must organize a roster of international experts in disaster reconstruction and establish a

working relationship with the counterpart agencies in charge of the reconstruction projects.

- 3.11 The component calls for the contracting of short-term, local and international consultants, by sector, to support the preparation of requests for technical assistance funds. This includes in particular the identification of weaknesses in execution and the corresponding proposals to strengthen the institutional management capacity.

3. Procurement support component (US\$300,000)

- 3.12 At the request of the executing agency, the Bank will assist in the drafting of terms of reference and selection and contracting of international consultants to support the government's contracting of works and consulting services included in the master plan for national reconstruction.

C. Organization for execution (US\$36,000)

- 3.13 The Ministry of Finance, through the Office of Public Credit, will be the executing agency and will be ultimately responsible for the program. The program coordinator will be responsible for coordinating the activities and will be contracted using resources other than those of this technical cooperation operation. He/she will be supported by the sector specialists at the Country Office in Honduras during the technical evaluation of sector proposals.
- 3.14 Using program resources, the Bank and the executing agency will select and contract the services of a local consultant who will support program coordination activities during the execution period. The program coordination must be proactive at the sector level, promoting program-related initiatives, in addition to assuming the regular functions of processing and monitoring the program. The contracting by the Bank, instead of by the executing agency, is justified given the material and institutional limitations to properly manage program execution, resulting from the damage caused by Hurricane Mitch. To attenuate this situation, at the request of the Ministry of Finance, the Bank's Country Office will contract the national consultant, actively collaborate in the contracting processes, and provide advisory services for selecting different program consultants.
- 3.15 At the request of the executing agency, the Bank's Country Office will collaborate on selecting the consulting services programmed and preparing the corresponding contracts. The executing agency will be responsible for negotiating with and contracting the consultants (with the exception of the consultant mentioned in paragraph 3.14), in keeping with Bank procedures. The executing agency will also be responsible for: (i) selecting concrete areas of action for which reconstruction plans will be prepared; (ii) determining the technical training needs of the responsible

institutions; and (iii) technical assistance for conducting sector studies.

D. Execution

- 3.16 With the agreement of the executing agency, the sector ministries will present proposals to the coordinator through a form outlining basic requirements. The form will include the terms of reference for the tasks to be carried out, the estimated budget, and general and specific eligibility criteria for receiving financing under the program.
- 3.17 The proposals approved by the executing agency will be presented to the Bank's Country Office for its consideration. The Country Office will perform a technical evaluation, with support from its sector specialists, and will recommend to the executing agency the appropriate financing modality (study or advisory services) and execution mechanism for carrying out the requested activities. The executing agency, following the approval of the financing modality for each proposal, will sign a letter of agreement with the respective sectoral agency, specifying the terms of the operation, the modality of execution, and the amount of funding granted.
- 3.18 The executing agency may request that a program revolving fund be opened and/or that the Country Office pay service providers directly.
- 3.19 To facilitate access to and execution of the technical assistance resources, Operating Regulations will be prepared (see Annex II) specifying the phases, sectors of activity, general and specific eligibility criteria, mechanisms for allocating resources, and other related operational aspects.
- 3.20 Independent entities may be contracted using program resources to perform financial, technical, operational, and comprehensive environmental and social audits, in order to monitor execution of program activities.

E. Environmental aspects

- 3.21 The terms of reference for the environmental and social evaluation being considered for inclusion in the studies that would be requested for program financing will set forth the requirements contained in national legislation and Bank policies. The scope of the environmental analysis will take into account the fact that they are studies for reconstruction and rehabilitation works. When pertinent, the social and environmental analysis will take into account aspects related to regional, ethnic development programs.

F. Program cost

- 3.22 The program has an estimated cost equivalent to US\$1,100,000, of which the Bank will contribute up to US\$1,000,000 from the net income of the Fund for Special Operations on a nonreimbursable basis in foreign exchange. The Government of Honduras will contribute the equivalent of US\$100,000 in office equipment, supplies, and support staff, through the sectoral beneficiary institutions. Bank resources will finance the specific and general sector studies set forth in the technical assistance component and be used to pay the consultants for the institutional strengthening component.

CONSOLIDATED BUDGET BY COMPONENT (in thousands of U.S. dollars)				
Budget categories	Bank	Gov. of Honduras	Total	%
Technical assistance component	<u>511.0</u>		<u>511.0</u>	46.4%
- Specific, general, and environmental studies	511.0			
Institutional strengthening component	<u>134.0</u>		<u>134.0</u>	12.2%
- Long-term consulting services in sectoral institutions	84.0			
- Project consulting services	50.0			
Procurement support component	<u>300.0</u>		<u>300.0</u>	27.3%
- International consulting services	300.0		300.0	
Program coordination	<u>36.0</u>	<u>100.0</u>	<u>136.0</u>	12.4%
- Local consultant	36.0			
- General support from sector institutions				
Support staff		50.0		
Office equipment		50.0		
Contingencies	<u>19.0</u>		<u>19.0</u>	1.7%
TOTAL	<u>1,000.0</u>	<u>100.0</u>	<u>1,100.0</u>	100%

G. Execution period

- 3.23 The execution period will be 24 months, starting on the date of the signature of the technical cooperation agreement with the Government of Honduras.

IV. BENEFITS AND RISKS

A. Benefits

- 4.1 The principal benefit of the operation will be the institutional strengthening of the public agencies with priority responsibility for the national reconstruction process. The entire Honduran population affected by the hurricane will benefit, particularly groups that are discriminated against or marginalized (low-income groups, women, and children), through an efficient, relevant, and systematic national reconstruction process.

B. Risks

- 4.2 The primary risk of the technical cooperation operation would be the limited capacity of the sector institutions in charge of the national reconstruction process. In addition, the process of learning to gain access to and use the technical assistance resources may be slow. The proposed institutional strengthening activities - through the contracting of consultants and specialized advisors - are aimed at reducing that risk. The program will have a full-time coordinator, who will be supported by a local consultant. Operating Regulations will be prepared to govern and facilitate program execution.

V. MONITORING AND EVALUATION

- 5.1 The Bank's Country Office in Honduras will be responsible for program execution, supervision, and monitoring, in close collaboration with the project team and the Country Division (RE2/OD3).
- 5.2 The Bank and the executing agency will hold quarterly meetings to monitor the program. During those meetings, the program's execution schedule and the level of fulfillment thereof will be reviewed.
- 5.3 The coordinator will also prepare the reports indicated below:
- a. Reports on program execution, within 60 days of the end of each six-month period in the calendar year. A preliminary report will be prepared, establishing a detailed plan of action of the activities to be conducted over the following six months, including timetables, the resources required, responsibilities assigned, and goals to achieve.
 - b. Other reports that may be reasonably requested regarding the sums allocated, the use of the goods procured therewith, and program progress.

Logical Framework
Support for the National Reconstruction Process

SUMMARY OF OBJECTIVES	INDICATORS		MEANS OF VERIFICATION	ASSUMPTIONS																		
GOAL To work with the government on tasks related to the national reconstruction process based on a sector approach.	Program resources are allocated to prepare sector studies and specific and general projects and to provide direct advisory services to the sector ministries.		Sector strategies and plans of action have been designed for use as an analytical tool for the preparation of the master plan for national reconstruction, of which the projects are a part.	The government must guarantee the source of project financing, including recurring expenses. The reconstruction process is directly linked to the effectiveness of the Cabinet for Reconstruction in executing and coordinating the required actions. The system for prioritizing projects is effective.																		
PURPOSE To support the selection of concrete areas of action and prepare the corresponding plans and specific procedures for executing the reconstruction components. To strengthen the technical and executive capacity of the institutions responsible for the reconstruction in order to improve execution and performance.	Program resources are used to prepare seven sector studies and seven specific and general projects for funding from the Bank or other sources in the international community. To provide direct advisory services to seven ministries.		Quarterly meetings for monitoring purposes, conducted as scheduled. Progress reports on program execution.	There is an ongoing, timely flow of foreign aid from the international community. The Government of Honduras proactively contributes to coordinating the reconstruction effort.																		
COMPONENTS Technical assistance. Resources to finance sector studies and vulnerability studies related to natural disasters. Preparation of specific, general, and environmental projects. Institutional strengthening. Support the preparation of requests to the program and the projects that support execution.	The processing of requests for technical assistance funds to conduct seven sector studies and prepare seven specific and general projects. Direct advisory services are provided to seven ministries in charge of reconstruction projects. Program resources are used in a satisfactory manner.		Letters of agreement with the institutions responsible for the projects. Contracts that are signed with the corresponding consulting firms and individual consultants. Satisfactory progress reports on the program. There are fewer obstacles to project processing and execution. Financial execution, by component.	The Cabinet for Reconstruction does not object to the projects proposed by the sector ministries. There is an ongoing, timely flow of foreign aid from the international community. The sector ministries implement the recommendations made by the consultants on institutional strengthening.																		
ACTIVITIES 1. To conduct prefeasibility and feasibility studies and prepare final designs for the rehabilitation and reconstruction process/sector and environmental studies to prepare new projects; 2. Direct advisory services and support for the preparation and execution of the reconstruction projects; 3. Support for the Government of Honduras in contracting works and consulting services; and 4. Contingencies.	<table><thead><tr><th></th><th><u>Bank</u></th><th><u>Gov. of Honduras</u></th></tr></thead><tbody><tr><td>1.</td><td>511.0</td><td>-</td></tr><tr><td>2.</td><td>134.0</td><td>-</td></tr><tr><td>3.</td><td>300.0</td><td>-</td></tr><tr><td>4.</td><td>36.0</td><td>100</td></tr><tr><td>Total</td><td>1,000.0</td><td>100</td></tr></tbody></table>		<u>Bank</u>	<u>Gov. of Honduras</u>	1.	511.0	-	2.	134.0	-	3.	300.0	-	4.	36.0	100	Total	1,000.0	100		Accounting and financial monitoring of the program by the Bank.	A program coordinator is hired, as well as a local consultant in charge of supporting the coordination activities. Consulting firms are contracted to prepare projects, and local and external, short- and long-term consultants are hired to provide advisory services.
	<u>Bank</u>	<u>Gov. of Honduras</u>																				
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OPERATING REGULATIONS

I. PURPOSE

These Operating Regulations set forth the requirements for the use of technical cooperation funds (hereinafter the "program") financed in part by the Inter-American Development Bank (hereinafter the "Bank") through technical cooperation No. , to be executed by the Bank's Country Office in Honduras.

II. OBJECTIVES

The program includes: (i) technical assistance funds to finance preinvestment expenses for preparing the projects needed for the national reconstruction process, including sector studies and studies on vulnerability to natural disasters, and to prepare loan operations for the reconstruction that can be accessed and disbursed rapidly; and (ii) institutional strengthening activities to improve the technical and operational capacity of the institutions and organizations responsible for preparing and executing the reconstruction projects.

III. STUDIES TO BE FINANCED

The studies eligible for financing from program resources may be either general or specific, in keeping with the features indicated below:

1. Specific studies

Prefeasibility studies aimed at making a preliminary determination of the best alternatives for investment projects, in terms of their technical, financial, economic, environmental, and institutional feasibility. They should include a preliminary calculation of economic indicators for the different project alternatives.

Feasibility studies aimed at expanding the analysis of the alternatives set forth in the prefeasibility studies conducted. They should include a complete economic evaluation of the project.

Final engineering designs, including calculations, plans, and the technical specifications needed to execute an investment project, the feasibility of which has been duly proven. As part of the preparation of the final design of an investment project, an update may be included on any aspect needed to show that the final design maximizes the net present value of the investment options considered and, when relevant, substantially minimizes any negative impact on the environment.

2. General studies

Basic, general, sector studies, including research aimed at identifying potential specific programs and projects, as well as the overall quantification of investment needs.

Preliminary studies (or profiles) to consider alternatives from a technical, environmental, financial, economic, and institutional standpoint in order to decide on the advisability of analyzing a program, project, or group of projects more extensively or in more detail.

IV. CRITERIA FOR SELECTING STUDIES

Studies and projects to be financed using technical assistance funds will be selected based on: (i) country priorities; (ii) the impact on the target population; (iii) Bank strategy and programming in the country; (iv) studies with secured financing from multilateral or bilateral institutions; (v) sectoral and environmental studies and studies on vulnerability related to natural disasters, that could lay the foundation for identifying and preparing new projects; (vi) community and municipal participation; and (vii) one essential requirement, which is for the application to establish that the initiative is coordinated with other potential aid received by the requesting agency.

To be eligible for program financing, projects must be designed so as to reduce the long-term risk of destruction to population and property from a natural disaster. Each technical assistance project can total up to US\$100,000.

1. Specific studies

For specific studies, the requirements listed below for each type of study must be taken into account:

- a. Prefeasibility studies. A precondition for this type of study is that the problems to be solved and the options set forth to do so must be explicitly stated. The latter must clearly indicate the estimated costs and benefits, beneficiaries, technical, environmental, financial, or institutional problems, and any other pertinent aspects.
- b. Feasibility studies. A precondition for this type of study is a preliminary (prefeasibility) study that shows that the project has the basis to be economically profitable and technically, environmentally, financially, and institutionally feasible and must indicate all aspects that need to be examined in more depth.
- c. Final engineering designs. The prerequisite is that a proper feasibility study shows that the project is technically,

environmentally, economically, financially, and institutionally feasible.

2. General studies

The general studies proposed must correspond to sectors, subsectors, and/or priority areas that have specific or general problems that need to be studied, in order to establish actions to solve them. In order to maximize the use of program resources, if appropriate information is available, an analysis must be conducted to set relevant, preliminary technical, economic, environmental, and social parameters that must be further explored within the framework of the proposed study. The presentation of each proposal must list the consequences and the potential application of the conclusions that are expected to be drawn from the proposed study.

3. Common criteria for the studies

- a. Social sectors: concrete proposals for the urgent restoration of basic services and the design, identification, and implementation of new institutional structures with broad potential for improving the delivery of basic social services, with the appropriate quality, quantity, and timeliness. Preference will be given to proposals aimed at overcoming the vulnerability of the sectors with regard to the allocation of resources.
- b. Risk and disaster management: specific proposals to strengthen the institutional framework for risk and disaster management.
- c. Housing and human settlements: proposals for relocating and resettling the affected population in shelters in Tegucigalpa and San Pedro Sula.
- d. Water supply and sanitation: reconstruction of water and sanitary sewerage networks and liquid and solid waste disposal systems that were severely damaged or destroyed. Recovery of river beds (and the protection or diversion of) rivers or ditches that traverse cities or that run alongside or in the vicinity of villages.
- e. Communication and transportation: determining which principal roads and bridges to rebuild immediately, since they are key highways or commercial corridors for the transportation of products essential to the national, regional, and local economy. Communication routes such as railroads and ports, including those on lakes and rivers.
- f. Environmental reconstruction: studies on managing priority watersheds with strong community and municipal participation; studies on susceptibility to damage, such as that caused by Mitch, in areas along the agricultural frontier. Provision of the final review and approval of the territorial management bill.

- g. Productive sectors: 1. agricultural sector: based on the evaluation of damaged or destroyed production areas, proposals on rehabilitating the different crops, plantations, or products of small and medium-sized producers and the requirements for returning to normal levels of production and the protection required to secure investment. This also involves preparing concrete proposals on facilities, machinery, and infrastructure (roads, canals, bridges, communication and transportation networks, dams, dikes, irrigation systems, drainage systems, warehouses, collection centers, etc.) and inputs such as seeds, insurance, working capital, etc.; 2. industrial sector: proposals on the reconstruction and investment required in the small and medium-sized industries and agroindustries that were damaged or destroyed; an appropriate location (including relocation, establishment of new industrial zones, etc.) 3. craft and informal sector: proposals for reconstructing and relocating facilities and basic supplies for manufacturing crafts (including handicrafts, fishing, traditional crafts, small-scale food production, and microenterprises of nontraditional products).
- h. Rural area: specific proposals on topics related to overcoming the relative lag of rural areas, measured through access to social services, poverty rates, productivity of the labor force, and employment opportunities.

V. BENEFICIARY INSTITUTIONS

The project targets agencies in the central, departmental, and local governments, for the preparation of sector and specific and general preinvestment studies and of loan operations for reconstruction and the execution of institutional strengthening activities.

VI. USE OF TECHNICAL ASSISTANCE RESOURCES

Technical assistance resources will be used to contract the professional consulting services needed to conduct the studies, prepare the projects, and carry out the institutional strengthening activities, in accordance with these Operating Regulations. Technical assistance funds will be provided on a nonreimbursable basis.

VII. PROCESSING THE OPERATIONS

The beneficiary agencies will present, with the agreement of the executing agency, eligibility requests for their technical assistance projects to the program coordinator, through a basic requirements form. The requests must contain: (i) the project rationale, accompanied by the studies conducted on the project; (ii) a description of the scope and objectives of the study or service to be commissioned; (iii) the

preliminary terms of reference; (iv) a cost estimate; (v) the rationale for those costs and an indication of the sources of investment financing that have shown interest in the project; and (vi) an execution schedule.

The Bank's Country Office will conduct a technical evaluation of the proposals approved by the executing agency, with the support of its sector specialists, and will make recommendations to the executing agency as to the appropriate modality of financing (study or advisory services) and the appropriate execution mechanism for carrying out the requested activities. The executing agency will approve the financing modality.

VIII. LETTER OF AGREEMENT

After the financing modality for each project is approved, the executing agency will sign a letter of agreement with the respective sector agency, specifying the terms of the operation, the modality of execution, and the amount of financing granted.

IX. PROCEDURES FOR SELECTING AND CONTRACTING CONSULTING SERVICES

Hirings will be in keeping with a mechanism adapted to the modality and amount of each operation. The contracting of services must adhere to Bank policy on contracting consulting firms and individual consultants.

X. MONITORING THE OPERATIONS

The participating beneficiary agencies will be responsible for directly supervising the preparation of the studies, projects, and institutional advisory activities.

PROPOSED RESOLUTION

**HONDURAS. NONREIMBURSABLE TECHNICAL COOPERATION
FOR A PROGRAM TO SUPPORT THE NATIONAL RECONSTRUCTION PROCESS**

The Board of Executive Directors

RESOLVES:

1. 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 agreements as may be necessary with the Republic of Honduras and to adopt such measures as may be pertinent for the execution of the plan of operations referred to in Document AT-_____, with respect to nonreimbursable technical cooperation for a Program to Support the National Reconstruction Process.
2. That up to the sum of US\$1,000,000, or its equivalent in other convertible currencies, is authorized for the purposes of this resolution, chargeable to the net income of the Fund for Special Operations.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.