

**SUPPLEMENTARY FINANCING FOR THE ROAD INFRASTRUCTURE
SUBPROJECT OF LOAN 1029/SF-HO**

(HO-0164)

EXECUTIVE SUMMARY

Borrower:	Republic of Honduras	
Executing agency:	Ministry of Public Works, Transport, and Housing (SOPTRAVI)	
Amount and source:	IDB:	US\$26.8 million (FSO)
	Local:	US\$ 4.9 million
	Total:	US\$31.7 million
Financial terms and conditions:	Amortization period:	40 years
	Physical start-up:	12 months
	Disbursement period:	24 months
	Interest rate:	1% for the first 10 years 2% for the next 30 years
	Inspection and supervision:	1%
	Credit fee:	0.5%
Objectives:	<p>The purpose of the project is to supplement the financing approved by the Bank's Board of Executive Directors in January 1999 for the emergency road and water-supply infrastructure program (HO-0143). The Bank's funding fell short of the Government of Honduras's request for US\$44.1 million, and the difference of US\$18.1 million was borne entirely by the road sector. The Board of Executive Directors approved the loan on the understanding that, depending on the availability of resources in the Fund for Special Operations, Management would subsequently submit a proposal to the Board for additional funding.</p>	
Description:	<p>The additional resources would be used to: (i) rebuild and restore 89 km of paved primary roads; (ii) rebuild and pave 17 km of secondary roads; (iii) build 340 meters and repair 260 meters of bridges; and (iv) repair the damage in Taulabé, at km 140 on the Tegucigalpa-San Pedro Sula highway. In addition, consulting services will be funded for: (i) supervision of work; (ii) review of final engineering studies; (iii) concurrent financial auditing; and (iv) institutional strengthening of SOPTRAVI. Resources for purchasing computer equipment are also included.</p>	

The Bank's country and sector strategy:	The Bank's support is consistent with the objective of collaborating with the country to mitigate and reduce the social, environmental, and economic costs and to repair the damage caused by Hurricane Mitch.
Environmental and social review:	<p>The rehabilitation work will be carried out in developed areas and will have no adverse environmental or social impact. The impacts likely during execution will be localized, small-scale, brief, foreseeable and mitigable.</p> <p>The Committee on Environment and Social Impact approved the project's environmental aspects (including the environmental brief for the emergency program) at its meeting of December 15, 1998 (see paragraphs 3.13 through 3.19).</p>
Benefits:	Considering that the resources will finance the rebuilding, restoration and improvement of roads that link the country's production centers and markets, the investment will yield a high rate of return (see paragraph 4.6).
Risks:	Experience since Hurricane Mitch has shown that the principal risk of this project lies in the massiveness of the rebuilding task, which encompasses the road sector as well as other sectors competing for support from the government and the international collaborative group for the coordinated use of resources (see paragraphs 4.19 through 4.22). This risk is mitigated by SOPTRAVI's demonstrated capacity for program implementation under the first financing from the Bank (see paragraphs 2.1 through 2.3).
Special contractual clauses:	<p>The following are <u>conditions precedent to the first disbursement</u>: (i) evidence that the consulting contracts for the manager and specialists of the executing unit have been signed (see paragraph 3.3); (ii) the environmental specialists for SOPTRAVI's Environmental Management Unit have been hired (see paragraph 3.7); and (iii) the consulting services to conduct the concurrent project audit have been hired (see paragraph 3.12).</p> <p><u>As a condition precedent to awarding the works projects</u>, evidence is to be presented that the consulting firm has been hired to provide quality control and technical supervision of the respective project and the environmental impact measures that are to be implemented (see paragraph 3.10).</p> <p>Agreement will also be reached on implementation arrangements (see paragraph 3.8) and project monitoring and evaluation arrangements (see paragraphs 3.23 through 3.25).</p>

Poverty-targeting and social sector classification:

The emergency project qualifies geographically as a poverty-targeted investment as stipulated in the Bank's Eighth Replenishment (document AB-1704), inasmuch as 75% or more of the overall length of the targeted roads lies in municipios whose populations live below the poverty line (see paragraphs 4.17 and 4.18).

Exceptions to Bank policy:

It is recommended that the contract with the firm responsible for the concurrent project audit of loan 1029/SF-HO be extended or, if an extension is not possible, that another firm be hired on the basis of a restricted call for proposals (see paragraphs 3.11 and 3.12).

Procurement:

Standard Bank procurement procedures will be used. International competitive bidding will be required for contract amounts above: US\$350,000 for goods and related services, US\$3,000,000 for construction work, and US\$200,000 for consulting services (see paragraphs 3.20 through 3.22).

I. FRAME OF REFERENCE

A. Background

- 1.1 On January 20, 1999, the Bank's Board of Executive Directors approved a US\$18.8 million loan (1029/SF-HO) to repair part of the damage caused by Hurricane Mitch. The emergency road and water-supply infrastructure project (HO-0143) included US\$8.8 million for the road sector and US\$10 million for water supply. At that time, the Board also approved the reformulation of US\$7 million from the current portfolio for the road subsector.
- 1.2 In light of the shortage of funds in the Fund for Special Operations (FSO), the Bank loan was insufficient to meet the request for US\$44.1 million submitted by the Government of Honduras. The difference of US\$18.1 million fell entirely to the road sector. The Board of Executive Directors approved the loan with the understanding that, depending on the availability of FSO resources, Management would subsequently submit a proposal to the Board for additional funding for the road sector.
- 1.3 The present request for supplementary financing recommends that the Board approve an additional US\$26.8 million. Together with the US\$7 million made available pursuant to the above-mentioned reformulation, the Bank's participation in the road sector under this project would come to a total of US\$42.6 million.

B. The emergency program

- 1.4 In keeping with the country's priorities, the emergency assistance from the Bank was initially part of a short- and medium-term program that the Government of Honduras had formulated in late 1998 based on preliminary data on the hurricane's damage. The initial formulation for the road sector included priority work to re-establish road serviceability by repairing bridges and sections of primary and secondary roads.
- 1.5 In May 1999, following a more detailed evaluation of the damage, the government submitted the Master Plan for National Reconstruction and Transformation at the meeting of the Consultative Group in Stockholm. For the road subsector, the plan contains a more specific, revised assessment of needs, incorporates work to rebuild and restore the road system more comprehensively, and includes a more complete statement of the most urgent work.
- 1.6 The road work under the plan for 1999-2005 has a cost of US\$463.3 million, including infrastructure work and institutional-strengthening activities to mitigate damage caused by natural disasters; decentralize programming, financing and maintenance responsibilities to the municipalities; and promote financial sustainability of road maintenance.

C. The Bank's support strategy

- 1.7 The Bank's support strategy for the road sector includes this supplementary financing for the most urgent work over the next twelve months, as well as ongoing preparations for the road system improvement, restoration and sustainability program (HO-0116), with priority attention being given to the aforementioned institutional objectives.

D. International support

- 1.8 To implement the plan, the government has secured: US\$20 million in International Development Agency (World Bank) funding (an additional US\$50 million under a new operation is expected to be approved in 2000); US\$3 million from the Central American Bank for Economic Integration; US\$65 million from the Government of Japan, for restoring and replacing seven bridges; US\$43 million from the Government of Sweden, for repairing eleven bridges; and US\$33 million from Kuwait, for routine maintenance. Other sources of financing still to be confirmed include bilateral assistance from the Nordic Fund and the Spanish Fund.
- 1.9 For road work not included in the plan, the U.S. Agency for International Development is contributing US\$50 million for improvement of 2,000 km of unpaved local and secondary roads and for reconstruction of 2,000 meters of bridges. The Swiss Development Cooperation Agency is contributing US\$720,000 to improve 54 km of secondary roads.
- 1.10 The flexible financing structure proposed in the Bank's emergency project, which allows for financing from bilateral sources, includes US\$2 million cofinanced by the Organization of the Petroleum Exporting Countries. The number of road-work projects was accommodated to the newly available resources while preserving the consistency and rationality of the overall project (see Table II-2).

II. THE PROJECT

A. Status of the current project

- 2.1 After a six-month waiting period for legislative approval of the loan contract, the loan was declared eligible for disbursement on September 30, 1999. Despite this delay, the executing unit moved forward with the preparation of applications for environmental permits and the tenders for work and service contracts. Consequently, the road works and supervision of road and bridge work have already been bid upon and awarded, and the contracts were signed in late October 1999.
- 2.2 All the consulting services have been contracted, including the firm in charge of the concurrent audit. The full amount of the funds approved in January 1999 by the Board of Executive Directors has been committed.
- 2.3 The environmental procedures set forth in the contract and described in detail in the agreement between the Ministry of Public Works, Transport, and Housing (SOPTRAVI) and the Ministry of Natural Resources and Environment (SERNA) are being carried out satisfactorily. These arrangements have made it possible to conduct the appropriate environmental studies and obtain environmental permits for each subproject. The outcomes were obtained thanks to the support and advisory assistance of the environmental specialists hired with project funds. Significantly, for the first time, SOPTRAVI has environmental permits for road work in compliance with national environmental laws. The World Bank and the Government of Japan have indicated to the Government of Honduras that they want the funds provided by them for the road sector to be administered in accordance with these same environmental procedures.

B. Objectives of the supplementary financing

- 2.4 This project is intended to supplement the resources provided under operation HO-0143 to mitigate and reduce the social, environmental, and economic costs resulting from Hurricane Mitch's impact on the country's road infrastructure. The specific objectives of the supplementary financing are to: (i) rebuild and restore 89 km of paved primary roads; (ii) rebuild and pave 17.4 km of secondary roads; (iii) build 340 meters and repair 260 meters of bridges; and (iv) repair the damage in Taulabé, at km 140 on the Tegucigalpa-San Pedro Sula highway. In addition, consulting services will be funded for: (i) supervision of work; (ii) review of final engineering studies; (iii) concurrent financial auditing; and (iv) institutional strengthening of SOPTRAVI. Resources for purchasing computer equipment are also included.

C. Sizing of the supplementary financing for the emergency road project

- 2.5 The sizing of the present project was determined on the basis of the progress made in implementing the emergency project, as well as an evaluation of the most urgent needs under the plan and the capacity for implementation and availability of national resources.
- 2.6 The work to be carried out under the project has been assigned priority, taking into account criteria such as the importance of the section of road and the level of execution required. The specific work included in this supplementary financing has already been identified; the details, cost budgets, and viability are analyzed in paragraphs 4.6, 4.10 and 4.13.

D. Project cost and financing

- 2.7 The Bank will provide supplementary financing in the amount of US\$26.8 million from FSO resources; the local counterpart will total US\$4.9 million (see Table II-1). Approximately 80% of the project resources will be used to finance direct costs, and 9% will be for work supervision and project administration.
- 2.8 The cost of each project will vary according to the kind of work to be done. The design costs were covered by local resources; the amount budgeted here for preinvestment covers only the cost of updating those designs.

**Table II-1: Cost and financing
(US\$ millions)**

Investment category	IDB	Local contribution	Total	%
1. Supervision and administration	2.3	0.5	2.8	8.8
2. Direct costs	22.1	3.2	25.3	79.8
2.1 Roads	19.8	3.2	23.0	
2.2 Bridges	2.3		2.3	
3. Concurrent costs	1.5	0.0	1.5	4.7
3.1 Institutional strengthening	0.7		0.7	
3.2 Preinvestment	0.3		0.3	
3.3 Concurrent audit	0.4		0.4	
3.4 Equipment	0.1		0.1	
4. Unallocated	0.6	0.0	0.6	2.0
5. Financial costs	0.3	1.2	1.5	4.7
5.1 Interest		0.7	0.7	
5.2 Credit fee		0.5	0.5	
5.3 Inspection and supervision	0.3		0.3	
Total	26.8	4.9	31.7	-
Percentage	84.5	15.5	-	100.0

- 2.9 Environmental studies are an integral part of the design process for emergency projects. They present specifics on works that include the necessary actions to address adverse environmental impacts. To defray these costs, the budget for works projects includes an amount between 4% and 8% of the total, which is a normal range for this type of work in Central America.
- 2.10 With these additional resources, the total Bank financing for the road subsector under the emergency project would come to US\$42.6 million (see Table II-2), of which US\$35.6 million would be new FSO resources and US\$7 million would be made available through the reformulation of previous projects.

Table II-2:
Road Infrastructure Emergency Project
Cost and financing
(US\$ millions)

Investment category	IDB			OPEC*	Local contri- bution	Total	%
	HO- 0164	HO-0143					
		1029/ SF-HO	906 & 981/SF-HO				
1. Supervision and administration	2.3	1.6	0.0		0.9	4.8	9.0
2. Direct costs	22.1	4.4	7.0	2.0	6.1	41.6	77.7
1. Roads	19.8	2.5	7.0	2.0	5.8	37.1	
2. Bridges	2.3	1.9			0.3	4.5	
3. Concurrent costs	1.5	2.2	0.0		0.0	3.7	6.9
4. Unallocated	0.6	0.5	0.0		0.0	1.1	2.1
5. Financial costs	0.3	0.1	0.0		1.9	2.3	4.3
Total	26.8	8.8	7.0	2.0	8.9	53.5	-
Percentage	50.1	16.4	13.1	3.7	16.6	-	100

* Organization of the Petroleum Exporting Countries

III. PROJECT EXECUTION

A. The executing agency

- 3.1 The Ministry of Public Works, Transport, and Housing (SOPTRAVI) will be responsible for implementing the supplementary financing. It will do so through its IDB Project Execution Unit, which operates under the Highways Directorate and has managed a total of 13 Bank-financed projects since 1972.
- 3.2 The progress made thus far on the project that was approved in January 1999 shows that SOPTRAVI has the institutional capacity to carry out the additional work and the overall project (see paragraphs 2.1-2.3). The implementation arrangements have facilitated the outcomes achieved to date. In order to strengthen its technical capabilities and enable it to handle a larger volume of work, continued support will be given to the project management unit for the analysis, evaluation and timely approval of engineering designs and for supervision of the consulting services and construction contracts.
- 3.3 Consequently, the executing unit will retain its autonomy, independence and the necessary authority to continue implementing the project and to achieve the proposed objectives and goals efficiently. The unit will have a chief and two consultants to perform the tasks described. **Extension of the contracts or the hiring of these consultants will be a condition precedent to the first disbursement of resources from this financing.**
- 3.4 The financing also includes resources to support SOPTRAVI in implementing the human resources management system and training its staff in the use of computer systems, use of the geographic information system, and in project and staff management practices.
- 3.5 SOPTRAVI has an Environmental Management Unit (UGA) that, pursuant to the environmental regulations in force, is responsible for performing initial environmental assessments, preclassifying subprojects, processing environmental permits for road and construction work, and monitoring implementation of the recommended mitigation measures included in the bidding documents for construction and project supervision as well as the SERNA-authorized agreements on mitigation measures.
- 3.6 During execution of project HO-0143, the UGA was moved to the Undersecretariat for Public Works. For purposes of the project's environmental management, interinstitutional coordination will be ensured through a SOPTRAVI-SERNA agreement that establishes procedures for environmental management and control of work financed through this project. Under the agreement, the UGA and SERNA have been strengthened by hiring one environmental expert for the UGA and

another for SERNA. These experts advise on environmental classification and assessment of subprojects, analysis of environmental surveys (ERAs), environmental management plans (PAMAs) and environmental and social impact evaluations (EIASs), processing of environmental permits, and supervision and performance of environmental audits on subprojects. As with the project currently under way, the firms responsible for work supervision will retain an environmental expert to ensure the environmental quality of work performed.

- 3.7 To guarantee continuity in the environmental management process for the additional work and strengthen the current implementation plan with resources from this financing, it is proposed that SOPTRAVI be given temporary support for hiring highly qualified staff to fill the positions of the UGA chief and assistant. Funds will also be provided for specific consulting services to prepare terms of reference for the environmental impact studies and new environmental regulations, as well as for training of UGA staff in the use of the geographic information system to identify risk areas and for UGA participation in the planning of maintenance and construction work. **The hiring of UGA staff will be a condition precedent to the first disbursement.**

B. Special aspects related to project execution

- 3.8 Although the project includes an exhaustive list of works for which long-term solutions have been formulated (agreed on during the analysis mission), the project design allows for adjustments to be made when the scope of necessary work extends beyond the emergency objectives of the present project. When a long-term solution requires more detailed analysis, evaluation and study, a temporary solution will be provided (if necessary) while the studies for the final work are being conducted. All such temporary solutions –and possibly the studies– would be part of this project, but the permanent construction work would be part of the road reconstruction program (HO-0116). The eligibility criteria and implementation arrangements are set forth in the operating regulations agreed with the Bank for operation HO-0143. The regulations were presented to the Bank as a condition precedent to disbursement and will remain in effect for the present operation.
- 3.9 A case has already arisen that shows how this principle will be applied in practice. During the work to identify and design repairs for the Tegucigalpa-San Pedro Sula highway, a site of major damage was identified in the Taulabé area. Based on the agreed procedures, resources from operation HO-0143 were used to finance rehabilitation work as a temporary solution, while the French Technical Cooperation Fund will finance the studies to find a permanent solution to the problem. Resources from the present operation would be used to implement that permanent solution.

- 3.10 The work will be performed by private contractors and supervised by consulting firms hired for that purpose. Participation will be open to consultants and firms from any IDB member country.
- 3.11 To expedite implementation of project HO-0143 without compromising its transparency or quality, SOPTRAVI issued a restricted call for proposals from specialized firms and, in August 1999, hired an auditing firm using project resources. The firm performs concurrent financial auditing and controls, and is helping to improve monitoring and supervision by the executing unit. The consulting services are being performed satisfactorily, the initial assessment has been completed, and observations and recommendations for implementation arrangements and procedures have been submitted to SOPTRAVI, which is currently following through with the recommendations.
- 3.12 For the present operation, it is recommended that concurrent auditing be continued and that the contract of the firm responsible for the concurrent auditing of loan 1029/SF-HO be extended accordingly, at an estimated cost of US\$450,000. If an extension is not possible, it is recommended that a restricted call for proposals be organized to select a firm. **The contract extension or the selection and hiring of another firm will be a condition precedent to disbursement of this financing.**

C. Environmental aspects

- 3.13 The supplementary financing will be used to rebuild and restore existing roads in developed areas and will have no adverse environmental or social impact. The impacts likely during project execution will be localized, small-scale, brief, foreseeable and mitigable. No relocation of residents or major road realignments are anticipated.
- 3.14 The Committee on Environment and Social Impact approved the environmental aspects of the project, including the environmental brief for the emergency program, at its December 15, 1998, meeting. The pertinent information was made available to the public on that same date. These procedures are already being followed successfully, as described in paragraph 2.3.
- 3.15 Environmental considerations play a key role in project execution. The proposed arrangements for environmental impact assessment, as agreed with the National Environmental Impact System, will ensure that the work will be carried out in accordance with the environmental policies of the country and the Bank. For more complex work, SERNA will ask for an environmental survey and recommendations for preventing and mitigating negative impacts. If the case so merits, SERNA may request a complete social and environmental impact assessment, and the works contracts will include the technical environmental standards proposed in the environmental management plan for each subproject. The necessary actions for

addressing adverse environmental impact are included in the project costs (see paragraph 2.9).

- 3.16 The environmental management plan resulting from the analysis of each subproject (also included in the supplementary financing) is a procedure for environmental analysis of the work to be financed. It is based on the SERNA-SOPTRAVI agreement establishing the respective responsibilities for analysis, permit issuance and monitoring of the subprojects, as set forth in the Environmental Affairs Act.
- 3.17 From an institutional standpoint, continued strengthening is proposed for the UGA, which is responsible for the environmental aspects of the works projects. The UGA chief, assistant, and specific consultants will be hired; and training will be provided. The terms of reference for the firms providing project supervision will include the participation of an environmental expert.
- 3.18 The impact of this assistance has been positive thus far. Since the process requires a period of development and evaluation of results, it will be necessary to include ongoing consulting support during the course of the project.
- 3.19 The current project (HO-0143) provides for an environmental audit. The recommendations arising from the audit will be duly incorporated into the performance of work under the supplementary financing. To round out the analysis of the effectiveness of the environmental management, an independent environmental audit of this project is proposed.

D. Procurement

- 3.20 All goods and services, construction work, and consulting services will be procured in accordance with Bank procedures, which will form part of the prospective loan agreement.
- 3.21 It is recommended that the following limits be used for procurement procedures:
 - a. **International competitive bidding** for the procurement of goods in amounts equal to or greater than US\$350,000, related work and services in amounts equal to or greater than US\$3,000,000, and consulting services in amounts equal to or greater than US\$200,000.
 - b. **Local competitive bidding** for the procurement of goods in amounts between US\$25,000 and US\$349,999, related work and services in amounts between US\$50,000 and US\$2,999,999, and consulting services in amounts between US\$25,000 and US\$199,999. Procurements for lesser amounts will be conducted through limited bidding or a restricted call for proposals.

- 3.22 For procurements in the amounts indicated in paragraph 3.21 (b) above, the simplified procedures provided for under Honduran law will be followed, in full compliance with Bank policies and procedures.

E. Project monitoring

- 3.23 The project will be monitored using the same arrangements as the current emergency project. With regard to the additional resources, the executing unit will submit to the Bank (as it does under the current project) an initial report establishing a detailed action plan for the project activities, including a schedule, funding requirements, assigned responsibilities, and targets. This report will be submitted as part of the initial report called for by the general conditions of Bank contracts.
- 3.24 The executing unit will submit semiannual progress reports with appropriate details on evaluation and compliance with the action plan indicated in the preceding paragraph. These reports will include information on the work and equipment financed, benefits provided, procedures applied in using the financing resources, and the number of projects approved during the six-month period. The progress report for the last six months of the execution period will serve as the final project report.
- 3.25 One month after each report is submitted, project monitoring meetings will be held to examine issues related to bidding, environmental aspects, disbursements, attainment of logical framework targets (see Annex III-2), any problems that have arisen during project execution and ways to overcome them, and other aspects of interest to project implementation. The details of the action plan for the next six months will also be agreed at these meetings.

F. Revolving fund

- 3.26 The loan proceeds will be disbursed through a revolving fund equivalent to 5% of the total loan amount (US\$1.34 million), in keeping with normal Bank procedures.

G. Physical initiation and disbursement periods

- 3.27 The physical initiation of work is to occur within 12 months; the disbursement period will extend over 24 months. These periods will be calculated as of the effective date of the loan contract. The following table shows the disbursement schedule:

Table III-1
Disbursement Schedule

	Semester I		Semester II		Semester III		Semester IV	
	Amount	%	Amount	%	Amount	%	Amount	%
Bank	5	18.7	8.3	31.0	8.4	31.1	5.1	22.4
Local	1	25.6	1.5	25.6	1.5	25.6	0.9	23.2
Total	6	19.5	9.8	30.3	9.9	30.6	6.0	19.5

H. Financial audits

- 3.28 The executing agency will submit to the Bank audited financial statements for the project, duly certified by the outside auditing firm that will be conducting the concurrent financial auditing. The project auditing reports are to be submitted within 120 days after the close of the respective fiscal year.

I. Project completion report

- 3.29 Three months after project completion, the Bank will prepare a project completion report, with special emphasis on environmental considerations, the quality of work, and the enhancement of institutional capacity at SOPTRAVI.

IV. VIABILITY, RISKS, AND BENEFITS

- 4.1 The feasibility of carrying out the proposed project in the established time frames and achieving the objectives was analyzed in light of: (i) SOPTRAVI's ability to oversee and manage the rehabilitation works within the established periods, (ii) the technical studies and selection criteria for project works, and (iii) the financial resources, staff, and organization of the Highways Directorate and the Highway Maintenance Directorate.
 - 4.2 The analysis showed a solid institutional organization for project execution within the established time frames; the most important road sections have well-prepared studies that point to significant economic benefits and a positive impact on low-income groups; and no financial difficulties are foreseen on the part of the government in terms of making the counterpart funding available. Accordingly, the risks in terms of implementation and of achieving the objective of rehabilitating project roads in the established time frames will be those normally foreseen for this type of operation.
- A. Institutional viability**
- 4.3 The executing agency SOPTRAVI holds responsibility for the entire transportation sector (roads, ports, and civil aviation) as well as housing. Its road responsibilities are clearly assigned to two offices within the ministry: construction and rehabilitation are the responsibility of the Highways Directorate, while maintenance falls to the Highway Maintenance Directorate. The Highways Directorate has three executing units: one for IDB projects, one for World Bank projects, and one for projects of the Central American Bank for Economic Integration (CABEI). The IDB unit will directly administer the financial resources, thus streamlining the processes of payment, accounting, and financial evaluation of the project.
 - 4.4 This structure has proven to be efficient and expeditious even within the constraints imposed by restrictions on the availability of financial resources and legislation on procurement. SOPTRAVI has demonstrated satisfactory capacity to carry out road rehabilitation projects in the recent past during implementation of IDB loans 668/OC-HO and 875/SF-HO in the amount of US\$100 million, World Bank loan IB-2458-HO in the amount of US\$65 million, and various other highway-sector loans from CABEI and the United States Agency for International Development (USAID).
 - 4.5 More recently, operating arrangements have been strengthened by streamlining personnel and contracting a high percentage of road maintenance work out to private firms. SOPTRAVI's operating efficiency and flexibility will be increased under the project with the hiring of specialized staff to support the management and administration of project works in the technical and environmental areas.

B. Economic viability

- 4.6 The road sections to be rehabilitated were selected on the basis of the user population in the service area of the damaged sections, levels of vehicle traffic, and estimated savings in vehicle operating costs. SOPTRAVI has estimated the net present value (NPV) and economic internal rates of return (EIRRs) for four of the five road sections, which represent 80% of the project's direct costs. Table IV-1 presents a summary of the economic evaluations for these sections. The EIRRs range from 29% to 35%; even if costs are increased by 20% and benefits are reduced by 20%, the EIRR will not fall below 20%.
- 4.7 The EIRRs for the rehabilitation work reflect significant savings in vehicle operating costs, which will occur when normal driving conditions are re-established on sections that are in especially poor condition owing to hurricane damage. The estimated economic costs of the rehabilitation work include adjustments to reflect the impact of an undervalued exchange rate (10%) on the cost of imported components, as well as the impact on wages in view of the unemployment level (a factor of 0.74 for skilled labor and 0.57 for unskilled labor). Savings in vehicle operating costs and travel times were also expressed in terms of opportunity costs using the same adjustment factors for imported inputs and labor.

Table IV-1
Economic Evaluation of Project Road Sections

Road section	Length (km)	Average daily traffic (veh./day)	Financial cost (US\$ millions)	NPV (US\$ millions)	EIRR (%)	Cost + 20% and Benef. - 20%	
						NPV	EIRR
Tegucigalpa-Talanga- Río Dulce	56.3	2,270	11.55	9.10	35.0	6.8	26.0
Choluteca-Marcovia- Los Mangles	15.2	2,000	5.50	n.a.	n.a.	n.a.	n.a.
Tegucigalpa-Parque NU-Picacho-Hatillo- Limonas	17.3	1,200	2.80	2.46	29.0	1.9	21.5
Valle de Ángeles-San Juan de Flores	17.4	470	1.75	1.54	29.0	0.9	20.0
Total (average)	106.2	(1,485)	21.60	13.10	31.0	8.9	22.5

n.a. = not available

- 4.8 Although no economic evaluation study has been done for the section connecting Choluteca, Marcovia, and Los Mangles, the return will be high since this is an alternate route for the Pan American Highway, which – owing to the poor condition of the hanging bridge – will not be able to handle heavy traffic for at least three more years.

- 4.9 The project also calls for the construction and upgrading of three bridges, including the aforementioned hanging bridge, with daily traffic of some 3,000 vehicles.

C. Technical viability

- 4.10 Final engineering studies and plans have been completed for the rehabilitation and improvement of sections of the primary (paved) network and paving of the secondary network. Alternative solutions were presented, and a selection was made on the basis of those that involved best practices consistent with the objective of a high level of service as well as cost limitations.

D. Financial viability

- 4.11 The project's financial viability was established on the strength of an analysis that took into account: (i) the allocation of additional resources to defray the maintenance costs stipulated by law; (ii) SOPTRAVI's ability to implement its budget for 1999-2002; and (iii) the use of external resources from multilateral agencies (IDB and the World Bank) and other sources.
- 4.12 Table IV-2 presents the expenditures and financing of road sector activities for which SOPTRAVI is responsible; annual averages are given for 1994-98 as well as projections for 1999-2003. Over the past five years, actual expenditure on road works averaged US\$68 million per year, which represents a level of budget execution of 82% by SOPTRAVI. Such a high percentage reflects SOPTRAVI's satisfactory performance in using the financial resources allocated to it. During the period, the government financed (using its own resources) 50% of SOPTRAVI's road work activity, covering general administrative costs and counterpart funds for external resources.
- 4.13 The investment plan calls for the building of new roads and the rehabilitation, improvement and periodic maintenance of the network in the amount of US\$463.3 million, to be carried out over a seven-year period; US\$330 million would be spent in 1999-2003. Financing would be as follows: US\$42.6 million plus an additional amount yet to be determined from the IDB; US\$70 million from the World Bank; US\$33 million from Kuwait; US\$65 million from Japan; US\$43 million from Sweden; and the remaining US\$333 million from local and other as-yet unidentified sources.

Table IV-2
Road Sector Expenditures and Financing
(in millions of US\$)

Expenditures and Financing	Average 1994-98	Average 1999-2003
1. Administration, studies, etc.	7.6	12.0
2. Routine maintenance	3.3	14.0
3. Periodic maintenance	21.3	35.0
4. Rehabilitation and improvements	19.4	55.0
5. Construction	16.3	11.0
Total	67.9	127.0
1. Government's own resources	36.2	47.6
2. External resources	31.7	79.4
IDB	8.7	21.4
World Bank	10.8	20.0
Central American Bank for Economic Integration	3.6	1.0
Japan	1.1	15.0
Kuwait	6.7	12.0
Other	0.8	10.0

- 4.14 With support from the IDB and the World Bank, Honduras has set up a Road Fund to ensure sustainable financing for road maintenance activities.
- 4.15 The Road Fund Act was amended in January 1999 to formalize the government's commitment to contribute 38% of fuel tax revenue towards routine and periodic maintenance. Accordingly, the national budget for 2000 includes the amount of US\$46.6 million, which will be deposited in the Road Fund's special account.
- 4.16 The financial projections presented in Table IV-2 indicate that the government will need to make a supplementary contribution of some US\$11 million over what it contributed in the past five years. However, the percentage of road-sector expenditures financed with national resources (37%) is lower than for the previous five-year period (53%).

E. Impact on low-income groups

- 4.17 In 1997, the poverty line for Honduras stood at US\$720 per year, with 77% of the rural population living below that threshold. This indicator is a weighted average of four groups of indicators: access to water, nutritional level of schoolchildren, literacy, and access to basic sanitation.
- 4.18 Based on a poverty map (by municipio) drawn up by the Honduran Social Investment Fund, the sections to be rehabilitated under the project were identified;

they are located in municipios were the poverty indicator displayed values of “deficient”, “poor”, or “very poor”. This exercise showed that at least 75% of the total length of project road sections runs through municipios whose population lives below the poverty level. The data on vehicle traffic show that around 40% are buses and small trucks, which is the vehicle category used mainly by low-income groups.

F. Risks

- 4.19 Experience since Hurricane Mitch has shown that the main risk to the project lies in the massiveness of the reconstruction work in the road and other sectors that are competing for support from the government and the international group for the coordinated use of resources. However, this risk is low for the project, given SOPTRAVI’s demonstrated capacity in carrying out program works under the first IDB financing (see paragraphs 2.1 through 2.3).
- 4.20 An important part of the total cost of the present project is concentrated in four projects for which studies and designs have been adequately prepared. The bidding and implementation phases are expected to proceed normally.
- 4.21 With support from the IDB and the World Bank, the necessary institutional strengthening actions were identified for SOPTRAVI. Funding is included here for implementation of those actions.
- 4.22 To mitigate the risk of sustainability of the infrastructure, the Road Fund should provide sufficient internal funds for maintenance of the road network (see paragraph 4.15).

PROCUREMENT PLAN

No.	Main procurement categories	Total (US\$ million)	Financing (%)		Method	Pre-qualification (Yes/No)	Est. publication date of GPN*
			IDB	Local			Quarter/Year
A.	Construction work						
1.	Road restoration						
	1. Rehabilitation and paving	19.9	85	15	ICB	Yes	I/2000
	2. Repair and paving	3.2	85	15	LCB	Yes	I/2000
2.	Bridges						
	1. Replacement and rehabilitation	2.3	100	0	LCB	Yes	I/2000
B.	Equipment						
1.	Computer equipment	0.1	100	0	LB	No	I/2000
C.	Consulting services						
1.	Firms supervising road restoration and repair of Taulabé damage	2.0	100	0	ICB & LCB	Yes	I/2000
2.	Firms supervising bridges	0.3	100	0	LB	No	I/2000
GPN = General procurement notice							
ICB = International competitive bidding							
LB = Limited bidding							
LCB = Local competitive bidding							

SUPPLEMENTARY FINANCING FOR THE ROAD INFRASTRUCTURE SUBPROJECT OF LOAN 1029/SF-HO
LOGICAL FRAMEWORK

Objectives	Indicators ¹	Means of Verification	Assumptions														
Road levels returned to the pre-hurricane situation																	
Use resources of operation to reduce and mitigate the social, and economic costs of Hurricane Mitch in the road sector	<p>Time during which traffic is interrupted on project roads reduced to 0 days/year</p> <p>Structures rebuilt and working by end of 2001</p> <p>Highways rehabilitated</p> <table><thead><tr><th>Amount</th><th>Time</th></tr></thead><tbody><tr><td>40%</td><td>4th quarter 2000</td></tr><tr><td>85%</td><td>2nd quarter 2001</td></tr><tr><td>100%</td><td>4th quarter 2001</td></tr></tbody></table> <p>Bridges replaced/repaired</p> <table><tbody><tr><td>50%</td><td>3rd quarter 2000</td></tr><tr><td>95%</td><td>2nd quarter 2001</td></tr><tr><td>100%</td><td>3rd quarter 2001</td></tr></tbody></table>	Amount	Time	40%	4 th quarter 2000	85%	2 nd quarter 2001	100%	4 th quarter 2001	50%	3 rd quarter 2000	95%	2 nd quarter 2001	100%	3 rd quarter 2001	<p>2000 national census</p> <p>Semiannual project reports</p> <p>SOPTRAVI budget execution</p> <p>SOPTRAVI annual reports</p> <p>Reports of semiannual monitoring meetings</p> <p>Inspection reports</p>	<p>Other road infrastructure work done to complement the project</p> <p>Year-round road use guaranteed for 100 km of roads</p>
Amount	Time																
40%	4 th quarter 2000																
85%	2 nd quarter 2001																
100%	4 th quarter 2001																
50%	3 rd quarter 2000																
95%	2 nd quarter 2001																
100%	3 rd quarter 2001																
Salanga-Río Dulce Arcevia-Los Mangles Arque NU-Picacho-Hatillo-	<p>Concurrent audit contracted – 1st quarter 2000</p> <p>Operating Regulations in effect - 1st quarter 2000</p> <p>Environmental and road experts hired – 1st</p>	<p>Monthly reports from supervisory firms</p> <p>Concurrent audit reports</p> <p>Reports of semiannual monitoring missions</p>	<p>Macroeconomic and business consistent with project objectives</p> <p>The government will receive international support for carrying emergency work</p>														

Contingent on loan agreement effectiveness.

Objectives	Indicators ¹	Means of Verification	Assumptions
<p>es-San Juan de Flores</p> <p>ge area (CA-5, km 140)</p> <p>ños</p> <p>e at Choluteca (Pan</p> <p>away)</p> <p>pport</p> <p>rengthening</p> <p>dit</p>	<p>quarter 2000</p> <p>Consulting firms hired to supervise works - 2nd quarter 2000</p> <p>Computers in use at SOPTRAVI - 3rd quarter 2000</p> <p>SOPTRAVI staff trained during the project, with emphasis on the first six months</p>	<p>Inspection reports</p> <p>SOPTRAVI annual reports</p>	<p>Trained staff will remain at SC</p> <p>The government will follow a reconstruction plan to meet em needs</p> <p>The Government will allocate local counterpart funds in a tim</p> <p>The funds stipulated by law w deposited in the Road Fund's s account</p>
<p>n the budget</p>	<p>Project budget executed within 24 months of loan effectiveness</p>	<p>IDB monitoring arrangements</p> <p>Audit reports</p>	<p>Private construction and super able to perform work</p> <p>SOPTRAVI able to prepare an the project</p> <p>Counterpart funds available</p> <p>Work performed to specificati</p>

PROPOSED RESOLUTION

HONDURAS. LOAN ____/SF-HO TO THE REPUBLICA DE HONDURAS

Supplementary Financing for the Road Infrastructure Subproject,
referred to it in Loan 1029/SF-HO (Document PR-2375)

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 supplementary financing to cooperate in the execution of the Road Infrastructure Subproject, referred to it in Loan 1029/SF-HO (Document PR-2375). Such financing will be for the amount of up to US\$26,800,000, or its equivalent in other currencies, except that of Honduras, which are part of the resources of the Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.