

PROGRAM FOR REVITALIZATION OF THE RURAL ECONOMY

(HO-0144)

EXECUTIVE SUMMARY

Borrower:	Republic of Honduras	
Executing agency:	Ministry of Agriculture (SAG)	
Amount and source:	IDB: (FSO)	US\$30,000,000
	Local:	US\$ 3,333,000
	Total:	US\$33,333,000
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	4 years
	Interest rate:	1% for first 10 years, 2% for next 30 years
	Inspection and supervision:	1.0%
	Credit fee:	0.5%
Objectives:	The objective of the program is to help revitalize the Honduran rural economy, with emphasis on improving the competitiveness of rural productive sectors, especially the agrifood sector, and thereby help reduce poverty.	
Description:	The program will achieve its objectives by focusing on three areas of activity: (1) strengthening the capacity for the formulation of national policies on matters relating to the development of physical infrastructure and productive services in rural areas and the framework of incentives for production in the agrifood sector; (2) improving the quality of public plant and animal health and food safety services; and (3) promoting, through participatory mechanisms, the identification of deficiencies in the supply of goods and services of a public and community nature, and financing the necessary investment through demand-driven competitive processes.	
The Bank's country and sector strategy:	The proposed operation is in accord with the mandates of the Bank's Eighth Replenishment to strengthen and modernize the agricultural sector, as well as the operational policy on rural development and the strategies for rural poverty reduction and agricultural development.	

The operation is also consistent with the Bank's country strategy (see country paper), which stipulates that the Bank's operations in Honduras should: (1) help create the conditions necessary for long-term sustainable growth in gross domestic product (GDP), leading to a significant improvement in the real incomes of Hondurans and the beginning of a sustained process of poverty reduction; and (2), in close conjunction with the previous objective, help in meet the most urgent needs of the poorest segment of the population in terms of health, sanitation, education, and nutrition. The version of the country paper prepared after Hurricane Mitch is based on the Honduran Master Plan for Reconstruction and National Transformation (MPRNT) and proposes an assistance strategy that takes as its starting point the need to restart rapid growth and reduce poverty through the reconstruction process (see paragraph 1.14).

The proposed program responds to the conclusions and proposals of an assessment carried out in April 1999 by an interdivisional working group of the Bank's Regional Operations Department 2 and presented in the document "Honduras post-Mitch: problemas y oportunidades para el desarrollo de la economía rural" [Post-Mitch Honduras: Problems and Opportunities for Rural Economic Development].

**Environmental
and social
review:**

The strategy proposed in this operation is to improve the national policy framework in order to bring about an increase in the incomes of rural families by boosting the competitiveness of rural productive sectors. These actions are to be implemented with financing for investments deemed public goods. The program proposes a resource allocation scheme for investment in productive projects chosen through a competitive selection process, using a local participatory approach for project identification and selection.

The program will incorporate social equity criteria in the selection of the geographic coverage area, based on the human development index (HDI) of the municipalities. Predominantly rural municipalities with an HDI of under 0.6 are to be targeted. 252 municipalities would thus be eligible to participate, accounting for 80% of the country's rural population. Based on available statistical data, it is estimated that more than 75% of the target population for the project consists of poor rural inhabitants. With regard to gender considerations, under the component that includes productive projects for groups, one of the categories of projects and investments eligible for support will be projects that benefit women.

The environmental review conducted recommended measures to strengthen environmental management capacity through the incorporation of an environmental unit into the program. That unit—under an agreement with the national environmental authority, the

Ministry of Natural Resources and Environment will support the enforcement of environmental protection standards and the mitigation of any direct adverse environmental impact in projects carried out under the program. Environmental impact assessment procedures will also be incorporated into the methodology for analyzing the feasibility of productive investments, and the costs of mitigation measures will be factored into the investment costs for projects.

Benefits:

The program will yield benefits in the short and medium terms through its direct local, regional, and national impact.

Investment in activities such as rehabilitation of rural roads, for example, will have an immediate and foreseeable impact on income by reducing transportation costs. Transportation normally accounts for 10% of the price of a product on the market, which the program will reduce around 50%, thus yielding benefits equivalent to 5% of the value of production each year. Similar benefits are expected from the investments in rural electrification and telecommunications. Modern productive processes (owing to their reliance on new technologies) are highly dependent on these services, especially to increase value added at the farm level and reduce transaction costs throughout the chain of production (e.g., through improvements in communication systems). In sum, the investment in production proposed under the program will help increase income in rural areas by reducing production and transaction costs and will promote private investment in the target areas.

The improvements in the quality of plant and animal health and food safety services will have national impact, which will also be immediate benefits by enhancing the competitiveness of Honduran agricultural exports on international markets.

In the short, medium, and long terms, the development and implementation of national and sectoral policies is also expected to create a framework of incentives that will lead to improved competitiveness in rural areas and consequently to higher rural incomes.

Risks:

In order to fully realize the benefits of the program, it will be necessary to achieve close complementarity between the development of public policies and investment in the supply of goods and services in order to boost the competitiveness of rural productive sectors. To mitigate this implicit risk, as part of the public policy development component, it will be essential to identify and address, from the outset, any constraints that constitute a direct impediment to the effectiveness and sustainability of the productive investment.

The risks associated with program execution concern the executing agency's managerial capacity to carry out the planned activities. To mitigate these risks, support for institutional strengthening will be provided. In addition, an integrated institutional scheme has been designed, in which the capacity of the central-level institutions will be complemented by a participatory, decentralized process at the local level that involves both national private-sector organizations and civil society at the municipal level and enlists the support of nongovernmental intermediaries.

**Special
contractual
clauses:**

As a condition precedent to the first disbursement, the program coordinating unit must be set up (see paragraph 3.4).

As a condition precedent to the first disbursement for component 2, the general regulations under the Plant and Animal Health Law, Decree 157-94, must be established, with special reference to the regulations under Article 7 of that law, which concerns the frequency and methodology for updating the rates for services based on cost increases (see paragraph 2.12).

The following will be conditions precedent to the first disbursement for component 3 (productive investment): hiring of the technical and administrative personnel for the National Directorate of Sustainable Rural Development (DINADERS) and the National Fund for Rural Sustainable Development (FONADERS) and implementation of their operations manuals; implementation of the Operating Regulations for component 3; and drafting of pro forma model contracts to be signed with program intermediaries and beneficiaries (see paragraph 2.29).

Irrespective of whether the conditions precedent to the first disbursement have been met, the Bank may disburse up to US\$200,000 for program startup, provided that the basic terms established in the General Conditions of the loan contract have been fulfilled (see paragraph 3.28).

An independent firm will be hired, using funds from this loan, to conduct an external audit of the program (see paragraph 3.36).

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

This operation qualifies as a social equity enhancing project, as described in the key objectives for Bank activities set forth in the report on the Eighth General Increase in Resources (document AB-1704). It also qualifies as a poverty-targeted investment (PTI) (see paragraph 4.9). The borrower will be using the 10 percentage points in additional financing. The operation qualifies as a PTI based on numeric criteria (see paragraph 4.10).

Exceptions to Bank policy: None.

Procurement: International competitive bidding will be required for construction projects valued at US\$1,500,000 or more (none of the projects in this program is expected to exceed that amount), procurement of goods or equipment valued at US\$250,000 or more, and consulting services valued at US\$200,000 or more. Procurement of goods and services below these thresholds will be carried out in accordance with Bank procedures, as set forth in Annex D to the loan contract.

I. FRAME OF REFERENCE

A. Economic growth and poverty

- 1.1 Early in the last decade, the Government of Honduras launched a process of structural adjustment of its economy. The reforms introduced in the initial program focused on liberalization of trade and financial sector policies, including: floating nominal exchange rates, lifting of interest rate and agrifood price controls, and partial elimination of restrictions on external trade. Subsequent sectoral reforms targeted the infrastructure, agriculture, environment, and social sectors. These structural reforms were accompanied by fiscal and monetary policies aimed at maintaining macroeconomic stability. The implementation of this adjustment program led to a resumption of economic growth, which in turn resulted in a significant decline in the incidence of poverty. Between 1991 and 1998, per capita gross domestic product (GDP) increased by slightly over 4%, while the incidence of poverty fell from 74.8% to 63.1%.¹
- 1.2 The upward trend of real GDP during the second half of the 1990s (4% per year between 1995-1998) was interrupted by Hurricane and Tropical Storm Mitch. In 1999, Honduras's GDP declined 1.9%, due mainly to a reduction of economic activity in the agriculture sector, which dropped 8.7%. The impact of the hurricane was especially severe in rural areas, where most of the country's poor population resides, and in the agriculture sector, which provides that population's livelihood. In the aftermath of the hurricane, the country saw a rise in the incidence of poverty, particularly in rural areas, where the percentage of poor households climbed from 69.2% to almost 75%, of which 61% are indigent.²
- 1.3 In view of the generalized development lag in the Honduran rural environment, in early 1999 an interdivisional working group within the Regional Operations Department 2 of the Bank prepared a document which was discussed with government authorities and representatives of civil society and the private sector. The main objective of that document was to analyze the principal problems and opportunities for development of the Honduran rural economy.³ It concluded that, with the widespread rural poverty and low levels of per capita income in the country, any strategy aimed at combating poverty would require a balance between the economic and social dimensions of government action and a reorientation of social spending, taking account of the relative importance of rural poverty vis-à-vis

¹ Despite the growth that occurred in the 1990s, in 1998 per capita GDP in Honduras remained lower than it had been in 1980, owing to stagnation of the per capita GDP during the 1980s.

² The incidence of rural poverty is higher in rural areas than in urban areas, where the rates of poverty and indigence are 57% and 31%, respectively.

³ The document is entitled "Honduras Post-Mitch: *Problemas y oportunidades para desarrollo de la economía rural*" [Honduras Post-Mitch: Problems and Opportunities for Development of the Rural Economy].

urban poverty. A national economic policy that would generate economic surpluses, employment, and income was seen as a necessary, though not sufficient, condition for achieving meaningful progress toward the reduction of rural poverty. Those actions should be complemented, *inter alia*, by: (i) an intensification of action geared toward social protection and investment in the rural environment versus the urban environment; and (ii) government action aimed expressly at reducing transaction costs in the rural environment, especially in order to facilitate access to information and markets and improve the interaction between rural producers and the rural business sector.

B. Socioeconomic features of the rural environment

- 1.4 Opportunities for development of the rural economy depend largely on the capacity to integrate rural economic activity into the rest of the economy, including linkage to international markets. In keeping with this perspective, efforts are being directed toward identifying and addressing the need for investment in goods and services of a public or semipublic nature that will help to overcome obstacles to development by substantially improving the competitiveness of rural productive sectors (e.g., investment in road infrastructure, education, technology, health and safety, and market information). At the same time, it is considered important to address national and sectoral policy issues that have a significant impact on the development of the rural economy.
- 1.5 In Honduras, the rural environment has economic, environmental, and social importance. Its economic importance stems from three fundamental elements: (i) the contribution of the agricultural sector to total GDP (the primary sector accounts for around 25%; the contribution rises to almost 50% if the larger agricultural sector is considered); (ii) its sizable contribution to the value of total exports (63%); and (iii) its capacity for employment generation (more than 33% of the country's economically active population (EAP) is employed in the agricultural sector). Nontraditional agricultural exports and coffee.⁴ are the products that have registered the greatest relative growth in recent years and have spawned an increase in agricultural employment in areas such as Choluteca, Comayagua, and Juticalpa. Moreover, the behavior of the agricultural sector has a direct influence on the pattern of nonagricultural rural activities, which are gaining increasing economic importance for small- and medium-scale agricultural producers. It is estimated that around one fifth of rural income comes from nonagricultural activities, accounting for even higher proportions in areas in which the agrifood industry is most highly developed, such as the southern and northern regions of the country.
- 1.6 The environmental importance of the rural environment lies in the fact that the country's natural resource capital base is concentrated in rural areas. This natural

⁴ In 1997, the value of nontraditional agricultural exports equaled that of banana exports (US\$250 million). Coffee production in the last ten years increased 80%, rising from US\$190 million to US\$335 million.

resource base yields major environmental benefits, such as water supply and its contribution to natural disaster mitigation and carbon fixation. Honduras's natural resources are characterized by great variety and geographic extension. Forests cover around 50% of its surface area, which makes Honduras the country with the most extensive forest coverage in Central America. Although there is great potential for sustainable extraction of natural resources, only a small proportion is actually extracted. Similarly, although significant potential exists for use of water resources, they have not been used as a major factor for agricultural production. The tourist potential of the country's rural areas—which boast more than 100 protected areas and an extensive Caribbean coastline—have also been underused.

- 1.7 The social importance of the rural environment arises in part from the geographic distribution of the population, the majority of which remains rural (>52%), despite rapid urban growth (4.7% per year). Other factors contributing to its social importance are the high incidence of poverty in rural areas and the fact that a large proportion of the poor urban population consists of recent rural-urban migrants. The deficiencies in social investment are more acute in rural areas than in urban areas, with a net primary coverage rate of around 72%, compared to 90% in urban areas. Health services cover only around 51% of the rural population, while virtually 100% of the urban population has health care coverage. In recent years, the Government of Honduras, with support from the Bank, has financed operations aimed at addressing these social deficiencies. The most important programs have been those executed by the Fondo Hondureño de Inversión Social [Honduran Social Investment Fund] (FHIS), which finances investments in social infrastructure in both urban and rural areas, and the Programa de Asignaciones Familiares [Family Allowance Program] (PRAF), which provides monetary allowances to poor families to help cover food needs and provide an incentive for these families to keep their children in school. The program for revitalization of the rural economy proposed here will complement these social spending projects through productive investments that will improve rural producers' options for generating income.
- 1.8 The level of investment in productive rural infrastructure has been very low. Official data on investment in basic physical infrastructure reflect low relative investment in the Honduran rural environment. Investment in activities related to maintenance and rehabilitation of rural roads, especially in areas not interconnected to the primary highway network, has been particularly low. Only 20% of the rural road system is in good or fair condition. The coverage of rural electrical power services is also quite low. At present, around 80% of rural households lack electricity. Telecommunication services are scarce in the rural environment, as well. Of the country's 298 municipalities, over 100 have no telecommunication services whatsoever (not even public telephones) and another 50 have access only to telegraph service, radio service for private users, or some other modality of poor quality, with little capacity for interconnection with the national telephone system. There are also major deficiencies in investment to improve productive processes in

rural businesses, including mini-irrigation, post-harvest, and bulking center projects.

C. Country strategy for the sector

- 1.9 The Government of Honduras, through the *Secretaría de Agricultura y Ganadería* [Ministry of Agriculture] (SAG), is seeking to create the necessary conditions to achieve sustained development of the agricultural sector through sustained growth of export agriculture, with greater access to international markets for small-scale producers. During the last decade, the SAG focused its efforts on implementing the Law on Modernization and Development of the Agricultural Sector (LMDSA), enacted in 1992 as a policy framework for promoting market development in the agricultural sector. With support from international cooperation agencies, the Ministry has also been coordinating the execution of rural development projects, whose objective has been to address the productive needs of the most marginalized rural areas in the country. The strategy employed in these projects has been to improve the technological capacity of farmers in these areas. This strategy has resulted in the formulation of rural development projects that address needs in circumscribed geographic areas; however, the experience gained from these projects has thus far not been incorporated into the process of policy formulation or decision-making about investment in physical infrastructure, which has limited the integration of these areas into the rest of the national and international economy.
- 1.10 Given the need for coordinated public action in the rural environment, the Honduran government adopted, on March 30, 2000, the Law on Rural Sustainable Development, which created the *Programa Nacional de Desarrollo Rural Sostenible* [National Program for Rural Sustainable Development] (PRONADERS). The executive order officially launching PRONADERS's operations and authorizing the appointment of its staff was issued on June 30, 2000.
- 1.11 In addition to putting in place this institutional structure, the SAG has adopted a strategy for ensuring the supply of public goods and services that will help to enhance the competitiveness of the agrifood sector. To that end, in 1996 the government established a program to strengthen technical assistance and technology generation services, which is executed through the *Dirección de Ciencia y Tecnología Agropecuaria* [Department of Agricultural Science and Technology] (DICTA). Animal and plant health services, however, continue to function deficiently, limiting the sector's competitiveness on international markets. Hence, as part of its efforts to improve policy-making and investment with regard to public agrifood services, the SAG is endeavoring to develop initiatives that will lead to better agrifood health and safety services.
- 1.12 Development of the rural economy requires a multisectoral vision that will make it possible to carry out a set of actions that goes beyond the mandate of individual sectoral units. In the aftermath of Hurricane Mitch, the Plan Maestro de

Reconstrucción y Transformación Nacional [Master Plan for Reconstruction and National Transformation] (MPRNT) was formulated under the coordination of the *Unidad Nacional de Apoyo Técnico* [National Technical Support Unit] (UNAT) within the Office of the President of the Republic. UNAT is currently preparing a poverty reduction strategy. In both cases, the Government of Honduras has proposed a strategy based on the reactivation of the sustainable economic growth as an essential element for alleviating poverty. At the same time, it has assigned special priority to the involvement of local entities and civil society (e.g., municipal governments and NGOs) in the development and execution of projects.

D. The Bank's sector strategy

- 1.13 The proposed operation is closely linked to and consistent with: (i) the mandate of the Eighth Replenishment to modernize and strengthen the agricultural sector (August 1994); (ii) the operational policy on rural development (OP-752, December 1994); and (iii) the strategies for rural poverty reduction (approved in 1999) and agricultural development (approved in January 2000).
- a. With reference to the agricultural sector, Paragraph 2.35 (f) of the Eighth Replenishment states, among other things, that: "Efforts must be directed at enhancing competitiveness at regional and international levels and substituting for crops with declining commercial potential. In this regard, particular attention should be given to programs that benefit productive capacity and marketing of small producers." This operation fulfills that mandate, inasmuch as it seeks to strengthen the development of the rural economy, promote competitiveness, and improve access to markets for small producers.
 - b. The general objective of the rural development policy is "sustained improvement of the quality of life of the low-income rural population while at the same time seeking to assure an effective and efficient contribution by the rural economy to the national development process."
 - c. The rural poverty reduction strategy states that, in order to achieve satisfactory results in the reduction of poverty, the macroeconomic policy framework must be complemented by social strategies that will bring about structural changes in the development of human capital and in the quality of life of the population. It stresses the importance of creating the necessary conditions for the development of productive agricultural and nonagricultural activities. The strategy for agricultural development establishes certain investment areas of particular interest for the Bank, including the following: (i) consolidation of public policy reforms to ensure the reduction of distortions in markets; (ii) modernization and reform of the State, including strengthening of basic services for the sector; and (iii) strengthening of human resources and the development of rural infrastructure for production and to improve the quality of life in rural areas.

- 1.14 This operation is also consistent with the central objectives stated in the Honduras country paper, which establishes that Bank operations in Honduras should: (i) assist in creating the conditions for sustained growth in GDP, leading to a significant improvement in the real incomes of Hondurans and the beginning of a long-term process of poverty reduction; and (ii), in close conjunction with the previous objective, to assist in meeting the most urgent needs of the poorest segment of the population in terms of health, sanitation, education, and nutrition. The version of the country paper prepared after Hurricane Mitch is based on the MPRNT and proposes an assistance strategy that takes as its starting point the need to restart rapid growth and reduce poverty through the reconstruction process. As part of that strategy, recognizing the strategic importance of the country's natural capital, the Bank is preparing other programs that address needs in the area of forestry development, land management, and watershed management.
- 1.15 The Bank has significant proven experience in various areas with programs such as the one proposed here. It has financed several similar operations—one in Bolivia and two in Nicaragua—that include the use of competitive, demand-driven, locally managed resources for the financing of productive projects in the rural environment.

E. Program strategy

- 1.16 The strategy for development of the rural economy proposed here relies on the development of national policies that will bring about an increase in the incomes of rural families by boosting the competitiveness of rural productive sectors, complementing these actions with financing for investment of a public goods nature and financing for social compensation programs.
- 1.17 To take better and broader advantage of the opportunities offered by the market, especially at the international level, Honduras needs to develop a more integrative productive vision that will seek to extend the impact of the areas of greatest agricultural development to those that are least developed. A feasible way of approaching this challenge is to improve the scope and quality of public agricultural services, coupled with targeted productive investments to compensate for the deficiencies of the less-developed areas. It is also necessary to manage macroeconomic policy in such a way that it does not negatively affect the competitiveness of the rural sector, develop non-distorting sectoral policies, institute legal mechanisms for enforcing property rights, and modernize the financial system.
- 1.18 Honduras has requested that the Bank prepare an operation to help revitalize its rural economy. Based on information yielded by the situation assessment, a program was designed to help improve the competitiveness of rural productive sectors, focusing, though not exclusively, on the agricultural sector, through interventions aimed at: (i) strengthening institutional capacity at the central level for

the formulation, harmonization, and implementation of policies to support rural development; (ii) improving the delivery of public services to support production; and (iii) channeling productive investments to the rural environment, seeking to reduce transaction costs through a demand-driven process managed by local organizations and local governments. This process is also expected to contribute to the development of institutional capacity at the central, regional, and local levels for managing rural development.

II. THE PROGRAM

A. Objectives and description

- 2.1 The objective of the program is to help revitalize of the Honduran rural economy, with emphasis on improving the competitiveness of rural productive sectors, especially the agrifood sector, and thereby help reduce poverty.
- 2.2 The program will achieve its objectives through three mutually complementary components: (i) a component for the formulation of national policies to promote the development of the rural economy; (ii) a component for improving plant and animal health and food safety services; and (iii) a component for productive investment in rural areas in public goods, selected with local community participation, through demand-driven competitive processes.

B. Structure of the program

1. Component 1: Policy Development

- 2.3 Development of the rural economy requires a policy framework that will remove the most important restrictions contained in the current economic policies and regulatory framework in order thus to achieve the expansion of the rural economy. The component aimed at strengthening the capacity of the public sector to formulate, implement, and monitor national policies on rural development will be executed bearing in mind that the public policy framework relating to the rural economy is multisectoral in nature and that the way in which macroeconomic policies are managed has a direct impact on the competitiveness of rural productive sectors, just as do policies relating to investment in rural infrastructure, education (human capital formation), rural finance, commercial policies, and management of natural resources for productive use (water, forests, soil). At the same time, development of local managerial capacity is directly related to communities' capacity for sustainable management of investments in public goods and services.
- 2.4 The public sector has limited capacity to formulate and implement national and sectoral policies that incorporate an integrative vision of rural economic development. There are relatively few human resources in the public sector with the skills required for policy analysis, formulation, and monitoring, and the officials nominally assigned these functions in fact are obliged to devote most of their time to addressing more pressing government-related matters. This situation has limited the public sector's capacity to develop policies that would ensure a neutral atmosphere for decision-making about investment. Although some progress has been achieved, there continue to be distorting effects in the design and application of trade policies.

- 2.5 By way of example, the taxes and restrictions that continue to be imposed on exports have a differential impact on the competitiveness of traditional export products, such as coffee and bananas, and protective measures are applied to import products such as corn and rice. As regards financial policy, a regulatory framework of loan guarantees is needed to facilitate access to financial services. In the area of natural resources, a policy for sustainable management of water resources is required. With respect to productive physical infrastructure, it is necessary to develop a policy or strategy on rural roads that will provide for sustainable maintenance of the rural road system, with active participation by the beneficiary communities.
- 2.6 The main objective of the public policy development component will be to determine the areas in which there are *critical* limitations to the development of the rural economy and identify opportunities for development oriented toward integrating rural economic activity into the rest of the economy, including linkages to international markets. At the same time, this component will support institutional development by providing training for national technical personnel in policy formulation and development, an objective which will cut across all three components. Component 1 will encompass the following stages: (i) formation of an interinstitutional working group and development of its terms of reference; (ii) *in-depth* examination and initial presentation of the issues to be addressed; (iii) analysis of opinion with the participation of other relevant institutions concerned with the development of policy options; (iv) preparation of a complete draft of the policy document; (v) circulation of the draft for review and comment among the concerned institutions, private-sector interest groups, and civil society groups; and (vi) preparation of a second version of the policy for consideration by government authorities in the various ministries and in the Economic Cabinet. A common thread running through all stages will be institutional development by means of onsite training (see paragraphs 3.9 and 3.13).
- 2.7 Based on the assessment undertaken by the Bank (see: Honduras post-Mitch: problemas y oportunidades para el desarrollo de la economía rural, April 1999), which was validated by the project team, an agreement has been reached with national authorities on nine main areas in which policies will be developed in the course of the program: (1) rural education; (2) rural financial services; (3) rural infrastructure (includes energy, roads, and rural telephony); (4) impact of macroeconomic policies on the rural economy; (5) trade policies; (6) land markets; (7) management of water resources; (8) local development; and (9) labor markets. Despite the diversity of these policy areas, all the elements of the policy framework to be revised and developed are intended to help enhance the competitiveness of rural economic activities and increase the capacity of families to carry out these activities. An important consideration that affects all these thematic areas is the environmental implications of public policies, which will be taken into account in the preparation of all studies (see the indicative terms of reference in the RE2/ EN2 technical files). The public policy framework to be developed under this operation

will form the basis for a long-term strategy for the development of the rural economy.

- 2.8 One of the aims in executing this component is to identify concrete actions that might be implemented by the government to improve the efficiency of domestic markets, reduce transaction costs, and heighten the competitiveness of rural productive sectors, especially the agricultural sector. The outputs of this component will be the technical documents formulated and approved in each policy development area. An indicator of a higher level of performance will be the adoption and implementation of policies by means of agreements, decrees, laws, and specific measures relating to public investment. The impact of the policies will be evidenced by improvements in the framework of production incentives in the rural environment.

2. Component 2: Strengthening of plant and animal health and food safety services

- 2.9 Plant and animal health and food safety are issues of special importance for the growth of the rural economy in Honduras, and they are crucial to the success of the country's strategy for increasing agricultural exports and making profitable use of its advantages for producing a considerable number of tropical products that are in demand on international markets.
- 2.10 The services currently being provided by the public agricultural sector do not meet national needs. The growth in international trade of agrifood products, coupled with the perception of rising incidence of foodborne disease, makes phytosanitary and zoosanitary protection and food safety important needs for enhancing sectoral competitiveness. To achieve that end, Honduras must be in a position to certify the safety of its agricultural export products and comply with the agreements of the World Trade Organization (WTO) on sanitary, phytosanitary, and zoosanitary measures. In addition, practices such as using health permits as trade barriers must be discontinued.
- 2.11 This component will help strengthen the *Servicio Nacional de Sanidad Animal y Vegetal* [National Plant and Animal Health Service] (SENASA), an agency of the Ministry of Agriculture, increasing its efficiency and enabling it to perform the services and functions that fall within its mandate. In designing the areas and activities to be supported with Bank financing, account has been taken of the assistance and financial support that SENASA will be receiving from the United States Department of Agriculture (USDA). The project team has established contact with the USDA officials responsible for this assistance, and coordination and exchange with those officials will continue throughout the program execution period. The areas to be addressed under this component are as follows:

- 2.12 **Institutional development**, including: (i) the establishment of a system for updating the rates for services in accordance with costs increases; this will be accomplished through the issuance of the regulations under Article 7 of the Law on Plant and Animal Health, Decree No. 157-94, which is one of the conditions precedent to disbursement of the financing of component 2; (ii) the implementation of a system for the accreditation of services that might be provided more efficiently by the private sector or other specialized institutions; an example of the latter is the agreement signed in May 2000 between the Ministry of Agriculture and the International Regional Organization for Plant and Animal Health (OIRSA) for the administration and operation of agricultural quarantine services, which was approved by the National Congress on July 6, 2000; (iii) enhancement of the existing regulatory framework through revision and issuance of administrative guidelines and standards, including, inter alia, the regulations mentioned in subparagraph (i) above; (iv) a study to identify methods for streamlining SENASA's activities and implementation of the resulting recommendations within a year from the date of eligibility for disbursement of the financing; (v) establishment of a plant and animal health analysis unit; and (vi) establishment of a quality management system, by means of which procedures will be put in place to ensure that activities are carried out systematically and uniformly.
- 2.13 **Phytosanitary and zoosanitary surveillance to prevent blights and diseases:** Over a period of three years, starting from the date of eligibility for disbursements, a system of phytosanitary and zoosanitary surveillance will be established. The system will meet present and foreseeable future needs through: (i) the establishment of an international quarantine site, located in a place that can provide a certain level of protection, for the purpose of preventing the spread of blights and diseases by imported animals; and (ii) creation of internal checkpoints (7) in areas of identified epidemiological interest and a system of epidemiological surveillance that includes diseases of aquaculture and inland fisheries.
- 2.14 **Phytosanitary and zoosanitary control or eradication campaigns:** Honduras is seeking to carry out phytosanitary and zoosanitary campaigns in order to eradicate or control various diseases and blights and thus overcome obstacles to export, facilitating its access to international markets. The anticipated control campaigns will target the following animal diseases: brucellosis and bovine tuberculosis, classical swine fever, avian influenza, avian laryngotracheitis and salmonellosis, Venezuelan equine encephalomyelitis, cysticercosis, and rabies. In the area of plant protection, efforts will be redoubled to combat fruit fly, lethal yellowing of coconut palm, flying locust, khapra beetle, pink hibiscus mealy bug, *Thrips palmi*, long-horned beetle, citrus leprosis, and pink bollworm. In planning and conducting these campaigns, SENASA will adhere to environmental regulations and other national and regional standards for the use and handling of pesticides and other materials.
- 2.15 **Food quality control and safety.** Within SENASA a food safety unit, with the corresponding regulatory framework, will be established to complement and

coordinate with the work of the Ministry of Health in this area. SENASA will develop a plan of best practices in agriculture and will collaborate in the surveillance of the health-hygiene conditions and food safety in plants that process products of animal and vegetable origin. A residue control and food safety plan will be designed, including a program for surveillance and monitoring of the drug and pesticide residues in foods of animal and vegetable origin. Technicians, producers, and employees of processing facilities will be trained in food safety and quality assurance systems (such as the Hazard Analysis and Critical Control Points (HACCP) system). Government and government-accredited programs to certify the quality and safety of products and by-products of plant and animal origin will be established. The institutional responsibilities of the ministries of agriculture, health, and industry and trade in this area will be reviewed and adapted. One outcome of this interinstitutional cooperation is expected to be the development of complementary procedures, which will become part of a national food quality and safety system.

3. Component 3: Productive investment

- 2.16 The productive investment component will complement the components aimed at strengthening the capacity for introducing policy reforms and improving plant and animal health and food safety services. This component calls for a resource allocation scheme to finance productive investments, chosen competitively, using a local participatory approach for the identification and selection of projects. The performance indicators are discussed in the logical framework, attached as Annex I.
- 2.17 The basic criterion that will guide the channeling of program resources in general, and resources for the productive investment component in particular, is efficiency in the allocation of investments to reactivate the rural economy and help reduce poverty. Under the approach proposed by the program, these two objectives are complementary, given the high percentage of rural poverty in Honduras and the fact that rural areas have the greatest deficiencies in services for productive physical infrastructure, human capital and other sources of productive capital that could be enhanced through the actions of the program.
- 2.18 The program will finance investments in projects, utilizing participatory mechanisms for the establishment of local priorities. The concept of local participation is central to the program's design and implementation. In order to fully operationalize that concept, opportunities for the involvement of municipal governments and civil society will be built into the program to assure that processes of identification and prioritization of projects are sufficiently participatory. Gender specialists will ensure the inclusion of gender considerations, which are of utmost importance to the participatory process. To qualify for financing, projects will be required to fulfill technical, economic, environmental other eligibility requirements.

- 2.19 To guide the identification of priorities for investment under this component, the principal determinants of rural development were studied and it was concluded that the development of self-management capabilities in rural communities would require substantial progress in four main areas: (i) *human capital*, which is the primary determinant of rural inhabitants' capacity to evolve, adapt, and take advantage of changing circumstances in the marketplace and in technological production, processing, and marketing processes; (ii) *capital for the productive environment*, which consists mainly of basic physical infrastructure: roads, electricity, telecommunications, and financial services; (iii) *private capital* of a physical nature, including land, water, and physical facilities for processing and storage; and (iv) *environmental capital*, including natural resources and rural environmental management.
- 2.20 The range of needs in these areas is extremely broad. Consistent with the findings of the situation assessment, the investments under the program will focus on financing of public and quasi-public goods for communal use. The resources will be transferred to the beneficiary organizations in the form of nonreimbursable financing. The beneficiaries will also contribute resources to cofinance the investments. The percentages of counterpart financing from the beneficiary communities will differ and will be established in the Operating Regulations for the productive investment component. It is proposed that the minimum contribution be 10% for investments in goods and services traditionally regarded as public goods, such as road rehabilitation, and 35% for investments in activities that will ultimately benefit the greater community but that are private undertakings by organized groups of producers, such as construction of bulking and marketing centers.

a. Project typology

- 2.21 Under the proposed project typology, projects for investment in public goods or projects that will benefit the community will be eligible for financing. The typology comprises the following four project categories:
- a. **Basic physical infrastructure projects:** rural road rehabilitation, rural electricity supply, rural drinking water supply, rural telephony services. The demands for basic physical infrastructure are considerable, as is evidenced by the demand identification surveys conducted. The program will finance projects for rehabilitation of rural roads, but not construction of new roads or rehabilitation of roads that traverse protected areas. An essential eligibility criterion for investments in rehabilitation of road infrastructure, as well as other projects in this category, is a formal commitment by the community and/or municipality, as applicable, to contractually ensure maintenance of the works, directly or with technical support, and if possible financial support, from the national Road Fund.

- b. **Investment in human capital:** The program does not seek to address the major needs of rural residents in terms of primary and secondary education. However, the program will contribute to human capital formation through the creation of rural business centers. These centers will be facilities equipped with essential physical features, such as drinking water, electricity, telephone, meeting space, Internet connections, and access to price and market information; in addition, they will receive periodic visits from trainers and speakers who will present and discuss information on topics of interest to the community. The rural business centers are considered important forums for promoting community development and discussing investment priorities.
- c. **Investments in productive capital in the private sector:** In this category, financing will be provided for projects designed to facilitate the handling and initial processing of primary products, such as communal storage, drying and packaging, and marketing facilities, and projects that will enable small groups of producers to utilize water for irrigation through financing for communal irrigation channels. Given the private nature of these works and services—although they will also benefit the community as a whole—the program's participation in the financing will be proportionally less, while the contribution of the beneficiaries will be greater than in the other project categories. Discussion of gender priorities and interests will be important for identifying projects within this category that will benefit women.
- d. **Natural resource management projects:** The projects financed in this category will be aimed at protecting and recovering soils exposed to intense erosion and ensuring flood control and drainage for the good of the beneficiary communities and groups.

b. Scope of the program and general eligibility conditions

- 2.22 The program will be national in scope. Two considerations of a practical nature will delimit the scope of the productive investment component: (i) the availability of resources is limited, and (ii) PRONADERS is a new entity and will therefore need to develop experience and put in place procedures for managing this type of project.
- 2.23 It is proposed that the program target predominantly rural municipalities with a human development index of under 0.6. If these criteria are applied, 252 municipalities would be eligible to participate. Around 80% of the total of rural population resides in those municipalities. Based on poverty line indicators, 75% of the Honduran population is poor. Hence, the majority of the beneficiary population is below the poverty line.
- 2.24 The productive investments for projects such as rural road rehabilitation and telecommunications included in this component will help to place relatively underdeveloped areas on a more equal footing, in terms of both productive

infrastructure and human capital, with the more highly developed areas (which are excluded from the program), where the country's urban population is concentrated (70%). It is hoped that this greater integration of the rural sector, especially through better access to markets, will lead to increased economic growth and thus improve opportunities for employment and higher incomes in rural areas.

c. Eligibility criteria for participants and maximum amounts per project and beneficiary

- 2.25 Organized groups of small producers, including traditional indigenous organizations, will be eligible to participate in the program. These groups may be organized specifically for the purpose of taking part in the program, or they may be formally established cooperatives or small businesses engaged in economic activities in the municipalities that fall within the scope of the productive investment component. It is proposed that there be a minimum of 20 beneficiaries per project. Since the resources are nonreimbursable, it is also proposed that there be a maximum limit, equivalent to US\$2,000, per beneficiary family group.
- 2.26 In addition, a maximum level of investment of program resources per project is proposed. It is anticipated that at least half of the investments will be for basic infrastructure. Bearing that in mind, it is proposed that the maximum investment of program resources per basic infrastructure project be US\$400,000. This figure was derived from studies of the costs of rural road rehabilitation, which are expected to average US\$20,000 per kilometer rehabilitated. The rural roads under consideration, which connect to secondary roads, rarely extend for a distance of more than 20 km. within any municipality. Two or more municipalities could participate in common basic infrastructure projects, in which case the maximum amounts would be the sum of the maximum amounts per project and per municipality. The proposed maximum amount for other types of projects included in the typology would be US\$200,000; the minimum would be US\$20,000.
- 2.27 **Project evaluation.** Two methodologies will be used to assess the eligibility of projects. If the investments are for the equivalent of US\$100,000 or more, feasibility studies will be carried out, including a calculation of the net present value and internal rate of return, using 12% as the opportunity cost rate for the capital. When the investments are for less than US\$100,000, simpler cost-effectiveness criteria will be applied.
- 2.28 **Maximum amounts for productive projects.** The maximum value of each project will not exceed the maximum limit of US\$400,000; however, two or more projects in neighboring municipalities may be combined, with joint bidding, in the case of road rehabilitation, rural electrification, or rural telephony projects.
- 2.29 **Operating Regulations:** Implementation of the Operating Regulations for the productive investments component of the project will be a condition precedent to

disbursement of the resources allocated for the financing of activities under that component. In addition to the regulations on procedures for project selection and prioritization, typology of eligible projects, and project cycle and analysis, the Operating Regulations will contain as annexes the text of the following agreements between the Ministry of Agriculture (SAG) and the specialized entities involved in the basic productive infrastructure projects:

- a. Agreement between the SAG and the *Secretaría de Obras Públicas, Transporte y Vivienda* [Ministry of Public Works, Transportation, and Housing] (SOPTRAVI) on coordination of the planning of road rehabilitation, assistance, and establishment of technical standards.
- b. Agreement between the SAG and the *Fondo Vial* [Road Fund] on technical assistance and minimum conditions of eligibility for the transfer of technical responsibility for maintenance to the *Fondo Vial*, with financial contributions from the beneficiary communities and municipalities.
- c. Agreement between the SAG and the *Empresa Nacional de Energía Eléctrica* [National Electricity Company] (ENEE) on coordination and procedures for the execution of rural electrification projects.
- d. Agreement between the SAG and the *Comisión Nacional de Telecomunicaciones* [National Telecommunications Commission] (CONATEL) on coordination and procedures for the execution of rural telephony projects.
- e. Agreement between the SAG and the *Secretaría de Recursos Naturales y Ambiente* [Ministry of Natural Resources and Environment] (SERNA) on environmental management under the productive investments component in accordance with the principles set out in Honduran environmental legislation.

2.30 **Conceptual differences with programs of the Honduran Social Investment Fund (FHIS):** The preceding paragraphs have described in some detail the conceptual basis for the productive investment component and explained how that component complements the other two, within a strategy of support for the rural economy based on economic growth and enhanced competitiveness of the rural sector.

2.31 The conceptual approach developed for the program differs clearly in several respects from the principles that guide the activities of the FHIS, but the main differences are (i) the FHIS's focus on *addressing basic unmet social needs* as the foundation for its Social Assistance Plan, and (ii) its *preallocation* of social spending among the municipalities, based on statistical information from poverty maps and on the target population to be assisted.

C. Cost and financing

- 2.32 It is recommended that a loan in an amount equivalent to US\$30 million be granted out of the Fund for Special Operations (FSO). During the program execution period, the interest will be financed with resources from the loan. The total cost of the proposed program is the equivalent of US\$33,333,000. A breakdown of the program costs by category of investment and sources of financing is shown in the following table.

Program Costs
(in thousands of U.S. dollars)

CATEGORY OF INVESTMENT		BANK/ FSO	BORROWER	TOTAL	%
I.	Management	600		600	2
1.1	Coordinating unit	300		300	
1.2	Monitoring and evaluation	300		300	
II.	Policy development	1,985		1,985	6
2.1	Consulting and training	1,555		1555	
2.2	Seminars and publications	395		395	
2.3	Computer equipment	35		35	
III.	Strengthening of SENASA	2,000		2,000	6
3.1	Consulting and training	300		300	
3.2	Equipment	950		950	
3.3	Vehicles	300		300	
3.4	Upgrading of laboratories	150		150	
3.5	Laboratory supplies	300		300	
IV.	Productive investments	24,095	3,183	27,288	82
4.1	Information dissemination and training	300		300	
4.2	Additional technical personnel	256	615	871	
4.3	Vehicles	250		250	
4.4	Computer and office equipment	365		365	
4.5	Associated costs		178	178	
4.6	Productive investments	22,924	2,400	25,324	
Subtotal		28,680	3,183	31,863	
V.	Unallocated funds	420		420	1
VI.	Financing expenses	900	150	1,050	3
Interest		600		600	
Credit fee			150	150	
Inspection and supervision (FIV)		300		300	
Total		30,000	3,333	33,333	100
Percentages		0.90	0.10	100	

III. PROGRAM EXECUTION

A. Borrower, guarantor, and executing agency

- 3.1 El borrower is the Republic of Honduras and the executing agency is the *Secretaría de Agricultura y Ganadería* [Ministry of Agriculture] (SAG). The executing entities for each component are all agencies of the SAG.

B. Program execution and management

- 3.2 Overall responsibility for program execution and management will be entrusted to the SAG. The SAG underwent institutional restructuring pursuant to the Reform of the General Law on Public Administration in 1996. Its mandate is to formulate, coordinate, implement, and evaluate policies relating to the production, preservation, and marketing of foods and the provision of services.
- 3.3 In order to carry out the general coordination of the program, execute specific tasks such as monitoring of the execution of components, submit reports and financial statements to the Bank, and request and justify the disbursements, a coordinating unit will be created within the *Unidad de Planeación, Seguimiento y Evaluación* [Planning, Monitoring, and Evaluation Unit] of the SAG (UPEG/SAG). The coordinating unit will be staffed by a technical team consisting of two professionals and one administrative assistant.
- 3.4 The coordinating unit will be responsible for implementing and maintaining a system for financial accounting and management and standardized internal control within the coordinating unit and the executing entities for each component; integrating the financial information within the SAG and presenting it in consolidated form for the program as whole; and maintaining documentation of eligible expenses and permitting their verification and analysis. Establishment of the program coordinating unit will be a condition precedent to the first disbursement of the financing.

1. Component 1: Policy development

- 3.5 This component will be executed by the SAG, under the coordination of UPEG/SAG, jointly with the National Program for Rural Sustainable Development (PRONADERS) and the National Technical Support Unit (UNAT), an agency under the Office of the President of the Republic.
- 3.6 In Honduras, the public sector's capacity for policy formulation resides in the UPEGs of the ministries and the UNAT. This capacity remains limited, especially in regard to the formulation and monitoring of policies on development of the rural economy. The UNAT, as the technical arm of the government sectoral cabinets

organized by the President of the Republic, has broad responsibility with respect to the development of public policy.

- 3.7 The private sector will be involved through dialogue and consultation with representatives of trade associations of agricultural producers, institutions of higher education, the national agrarian council, indigenous organizations, and civil society organizations. The SAG will issue invitations to participate in the dialogues and consultations by means of the mass media and/or by direct invitation to the concerned parties. It is worth noting in this connection that, in March 2000, the associations of agricultural producers established a federated organization, the *Consejo Agroempresarial de Honduras* [Agribusiness Council of Honduras] (COAGROH), which seeks to coordinate the efforts of its members to promote the improvement of their social and economic conditions and serve as a channel for dialogue between the private sector and the government.
- 3.8 Policy studies will be prepared by interinstitutional working groups formed for that purpose. The composition of these groups will vary according to the policy area to be dealt with, but typically will include technical personnel from PRONADERS, UPEG/SAG, other ministries or government agencies, the private sector, and UNAT.
- 3.9 The working group made up of national professional personnel from government agencies and representatives of the private sector and rural communities will be supported by international and national consultants with expertise in the policy area in question. In addition to the specific benefit of helping to ensure the preparation of well-conceptualized policy documents with a solid technical and economic foundation, the support of the expert consultants will also have the important effect of providing on-site training for national policy analysts.
- 3.10 In order to distribute the responsibilities among these institutions, it has been agreed that during the first year of the program steps will be taken to strengthen the capacity of UPEG/SAG to evaluate the impact of macroeconomic policy on the rural economy, which currently—owing to a significant rise in real exchange rates and high real interest rates—are having a negative impact on the agricultural sector's competitiveness. In addition, studies will be undertaken to measure the extent to which agricultural products are protected (or not protected) as a result of current trade and macroeconomic policies.
- 3.11 UNAT will coordinate the analysis of policies on rural infrastructure development, especially those relating to the framework of incentives for the maintenance of rural roads, investments in rural electrification outside the official ENEE power grid, and rural telecommunication services. UNAT will also coordinate the efforts to develop rural financial services, focusing on the identification of mechanisms for improving the framework of real guarantees in the rural environment. PRONADERS, through the *Dirección Nacional de Desarrollo Rural Sostenible* [National Directorate of

Sustainable Rural Development] (DINADERS), will coordinate the technical studies and proposals on local development, identifying policy options that will help to enhance local government and community action.

- 3.12 During the execution of the program, the UPEG, which will be responsible for coordinating the combined actions in the area of policy development, will move forward with the work concerning land markets and water resources, while the UNAT will oversee the work in the area of rural education and rural labor markets. During the execution of this component, the policy working groups coordinated by each of these institutions will ensure the complementarity of their initiatives and will make joint proposals to decision-makers.
- 3.13 As was indicated above, training of professional personnel in the institutions involved in policy formulation will be accomplished mainly through interaction between the interinstitutional working groups and the national and international consultants who will be assisting in the processes of detailed study and presentation of issues, opinion analysis and formulation of policy options, and discussions with interest groups. In addition, with a view to enriching the capacity for policy analysis and development, members of the interinstitutional working groups, including the representatives of the private sector, will have the opportunity to participate in a series of national (20) and international (25) study trips and seminars. Resources will also be allocated to for dissemination of the documents prepared and to cover the costs of the consultation processes. A detailed description may be found in the program files.

2. Component 2: Strengthening of plant and animal health and food safety services

- 3.14 This component will be executed by SAG through SENASA.
- 3.15 SENASA was created in 1995 under Law 157-94 on Plant and Animal Health. It currently has two major technical divisions: Plant Health and Animal Health. The former is responsible for matters relating to quarantine, certification of seeds, control and use of pesticides, and phytosanitary inspection. The Animal Health Division oversees the work of two laboratories and is also responsible for inspection of products of animal origin, meats, dairy products, fish, and veterinary epidemiological control.
- 3.16 To assist SENASA in carrying out the plan for institutional development, specialized international consultants will be retained (their indicative terms of reference and timetable of activities appear in the RE2/EN2 technical files). Execution of the SENASA institutional strengthening component will also include training of human resources, equipping and upgrading of the central reference laboratory, and procurement of equipment and vehicles.

3. Component 3: Productive investments

- 3.17 The productive investment component will be executed by PRONADERS, through its two decentralized agencies: DINADERS and the *Fondo Nacional de Desarrollo Rural Sostenible* [National Fund for Sustainable Rural Development] (FONADERS).
- 3.18 On March 30, 2000, the Honduran Congress enacted the Law on Rural Sustainable Development, which created PRONADERS. The Executive Order officially launching PRONADERS's operations and authorizing the appointment of its staff has been issued, as have the general regulations for application of the Law on Rural Sustainable Development. On August 11, 2000, a budget structure for PRONADERS was established and resources were allocated for its operations during the remainder of the current fiscal year. In addition, the core technical and administrative staff have been recruited, and PRONADERS has formally initiated its activities. PRONADERS is divided into two agencies for the management and financing of rural development: DINADERS, a decentralized agency of the SAG with responsibility for promoting, coordinating, and overseeing rural development projects, and FONADERS. The latter was established to serve as a financial and administrative instrument for channeling funds from the national budget or from international sources for the execution of projects relating to sustainable productive development of the country's rural areas. With a view to maintaining a broad vision of the rural economy, PRONADERS will have two administrative organs. One is the Advisory Council, an advisory and consulting body composed of representatives of the SAG and the ministries of finance, public works, transportation and housing, and technical cooperation, as well as of the private sector, municipal governments, and civil society. In addition, an Executive Committee has been created to coordinate and integrate activities within PRONADERS. Recruitment of the technical staff of DINADERS and FONADERS and implementation of their Operating Manuals will be a condition precedent to the first disbursement for this component.
- 3.19 **Procedures for project selection and financing:** The project selection cycle will be participatory. Ideas or proposals for projects will be generated in rural communities and given concrete expression in the form of a basic written description, which must meet specific eligibility requirements. Community participation, both in the identification of projects and in their execution, will be one of the basic criteria for the selection of projects. The project abstracts or profiles that meet the eligibility requirements will be discussed and prioritized at the local level. The preferred forum for carrying out this prioritization is the *consejo de desarrollo municipal* [municipal development council] (CDM) of each municipality. The Law on Municipal Government provides for the establishment of these councils, with equitable participation of representatives of the municipal government and representatives designated by the communities for that purpose. (See Figure 1, Flow Chart of the Productive Project Cycle at the end of this

document.) The activities related to identification and assistance in the preparation of project profiles will be supported by intermediary entities (IE), which may be public or private, but must be legally established, nonprofit entities qualified to perform this role. The formation of CDMs will be promoted by the program in the municipalities in which they have not yet been organized. Municipal authorities will also take part in managing the rural road rehabilitation projects and other basic physical infrastructure projects in which they have an interest and to which they might be in a position to contribute financing, such as projects for rural electrification, telephony, and community bulking and marketing centers. As indicated in paragraph 2.29, the SAG will enter into agreements with, inter alia, the Road Fund for road maintenance. The Road Fund, in turn, will require financial support from the beneficiaries, including local governments, in order to carry out that maintenance.

- 3.20 The basic organizational structure of the productive investment component will include public information agents within each of the three regional offices, which will be responsible for meeting information dissemination, promotion, and service needs (one office will be located in the western region, possibly in Santa Rosa de Copán; another will be in the northeast, possibly in Yoro; and the third will be in the south, possibly in Choluteca). In addition, to ensure the participation of rural communities, including indigenous communities, the program will finance the publication of information explaining what support is available through the program, where the regional offices are located, and how to obtain information and contact the program information agents and intermediary entities. This information will be made available through the mass media (print and radio), as well as pamphlets and special radio broadcasts.
- 3.21 In keeping with the human capital formation objectives of the program, financing will also be provided for the creation of the Rural Business Centers, which qualify as eligible investment projects. These centers will offer extensive information on the activities of the program and will support producers in organizing themselves and discussing their problems and priorities. They will also support dissemination of information about the program through producer trade associations, indigenous organizations, and the SAG departmental agencies.
- 3.22 To be considered complete, a project profile must contain information on community development objectives, a list of beneficiaries, initial estimated cost, an offer of cofinancing, and a description of the existing or proposed organizational modality for participating in or overseeing project execution and operation. The abstracts of project that have been assigned the highest priority at the local level will be included in the portfolio of possible projects to be financed under the program. The projects in this portfolio will then be subject to a technical, economic, and environmental feasibility analysis.

- 3.23 The feasibility studies will be prepared by specialized consultants or consulting firms, which will be selected and contracted by the eventual beneficiaries with the participation of the IEs. DINADERS will assist in this process by making available to IEs and the beneficiary communities the list of accredited consultants who have been prequalified to carry out feasibility studies. Funding may be advanced for the feasibility studies for projects having to do with the provision of public goods and services.
- 3.24 The feasibility studies will be submitted formally to the regional office of DINADERS, together with the application for financing and the confirmation of the commitments for financial contribution and participation in the operation and maintenance of the investments. These commitments will be formalized contractually at the time that the project financing is approved by FONADERS. DINADERS will undertake all necessary verification of compliance with the eligibility and qualification parameters. Projects that fulfill the requirements and whose technical, economic, and environmental feasibility parameters are satisfactory will be deemed qualified by DINADERS and will be incorporated in the portfolio of eligible projects that will be submitted to FONADERS for verification. FONADERS will review the project portfolio every six months and will issue a formal decision approving or not approving projects.
- 3.25 The list of approved projects, with the corresponding documentation, will be submitted, also every six months, to the Bank's Country Office for the Bank's review and no objection. After receiving clearance from the Bank, FONADERS will make available to the public and the concerned parties the lists of approved and nonapproved projects, with an indication of the amounts and beneficiaries, as well as the ratings obtained by projects in the selection process.
- 3.26 FONADERS will establish contracts with the beneficiary communities or entities. The beneficiary communities will participate, directly or through designated executing entities (EE), in the process of selecting and appointing contractors to execute the approved projects. This selection process will be carried out in accordance with Bank procedures, which will be explained in the loan contract in Annex D, which relates to procurement of items for lesser amounts. Submission to the Bank of the pro forma model contracts to be signed with intermediaries and beneficiaries of the program will be a condition precedent to disbursement of the financing for the third component.
- 3.27 FONADERS will pay the contractor, out of the funds contributed by the beneficiary community, the sums provided for under the contract and in accordance with the progress of the work. It will be mandatory to hire expert engineer supervisors when the magnitude and complexity of the projects require it. The engineer supervisor will verify the technical quality of the work and its adherence to specifications and will certify the estimates submitted by the contractor.

C. Procurement of goods and services

- 3.28 Irrespective of whether the conditions precedent to the first disbursement have been met, the Bank may disburse up to US\$200,000 for program startup activities, provided that the basic terms established in the General Conditions of the loan contract have been fulfilled.
- 3.29 **Component 1: Policy development.** The program will cover the costs of hiring of international and national consultants in accordance with the terms of reference submitted, to the satisfaction of the Bank, by the entity responsible for coordinating the execution of this component, the UPEG/SAG. The indicative terms of reference and the timetable for engaging these services may be found in the program files. Additionally, the program will finance the procurement of computer equipment, as well as printing and dissemination of the policy studies produced under this component. Financing will also be provided for short study and observation trips and for meetings to discuss the policy documents proposed by the working groups.
- 3.30 **Component 2: Strengthening of plant and animal health and food safety services.** Program resources will be used to finance the acquisition of goods and services needed to carry out the Institutional Development Plan of SENASA, in keeping with the activities described in paragraphs 2.12, 2.13, 2.14, and 2.15. The RE2/EN2 technical files contain the timetable for execution, the indicative terms of reference for the consulting services to be engaged, and the list of equipment to be purchased.
- 3.31 **Component 3: Productive investments.** The Program will finance, by means of nonreimbursable transfers, the execution of projects that meet the eligibility requirements outlined in paragraphs 2.16 to 2.23 of this document and set out in greater detail in the Operating Regulations, which the executing entity will be required to implement as a condition precedent to the first disbursement of financing under this component, in accordance with the draft Operating Regulations for project included in the program files.
- 3.32 No exceptions are foreseen with regard to Bank policy on procurement.

D. Execution period and disbursement timetable

- 3.33 The execution period for the program will be four years, starting from the effective date of the loan contract. Annex 2 contains a table showing the amounts and frequency of disbursements planned in accordance with the timetable for execution of each component.

E. Monitoring and evaluation

- 3.34 Fulfillment of the objectives and execution of the activities of the program, as a whole and for each of the components, will be monitored through the application of

performance indicators, which are described in the Logical Framework for the program, which appears in Annex 1.

- 3.35 The principle outputs of each component, which will serve as performance indicators, can be summarized as follows: (i) the public policy documents produced, discussed with the interest groups, and presented to the Economic Cabinet for implementation; (ii) the Honduran products traded extraregionally, regionally, and domestically that meet national and regional agrifood health and safety standards; and (iii) the number of productive projects approved, executed, and handed over to the rural beneficiary communities, and the degree of participation by women and indigenous groups. Given the competitive, demand-driven nature of the productive investment component, no ex ante indicative goals have been set; rather, assumptions based on reasonable estimates are given, as shown under the goals and outputs in the Logical Framework (Annex 1). Nevertheless, it is expected that a precise assessment of the impact of these investments will be obtained by comparing the baseline studies with the evaluation carried out at the conclusion of the program.
- 3.36 Detailed monitoring of program execution will be accomplished through periodic measurement of the attainment of goals to be agreed with the Bank, both in terms of time and quality. The monitoring of the three components—(i) development of the capacity for policy formulation, (ii) institutional strengthening of SENASA, and (iii) productive investment projects executed by PRONADERS—will be based on submission by the SAG to the Bank of biannual reports on execution and progress in implementing the outcomes. Minimally, these reports will describe the following: (i) progress in execution of the budget and the project itself, with particular reference to the recruiting of consultants, offering of training, and procurement of goods and services; (ii) extent to which the goods and services acquired with program resources are being utilized; and (iii) monitoring report on the environmental and social performance of the program, based on the following performance indicators: level of participation by women and indigenous groups, qualitative evaluation of the verification of compliance with environmental requirements, and number of projects relating to natural resource management. Biannual monitoring reports will also be presented by an independent auditing firm (external audits), deemed acceptable to the Bank and retained with resources from the financing.
- 3.37 **External audit.** The external audit will be conducted in accordance with terms of reference approved by the Bank. The auditing firm engaged for this purpose will issue biannual opinions based on: (i) evaluation of the internal control structure of the program; (ii) evaluation of compliance by the executing agencies with the terms and conditions established in the loan contract; (iii) examination of a sample of the documentation related to the procurement of goods, works, and consulting services financed with program resources; (iv) inspection visits to a sample of the projects financed with program resources; (v) examination of a sample of the supporting

documentation accompanying the disbursement requests submitted to the Bank; (vi) the biannual progress report; and (vii) use of the revolving fund. The cost of the external auditing services will be charged to the Bank financing.

- 3.38 **Accounting and financial management.** A system of accounting and financial management and internal control will be established to permit: (i) identification of the sources and uses of program resources; (ii) determination of the accountability of beneficiaries and intermediaries for eligible expenses; (iii) verification by the Bank of eligible expenses; and (iv) preparation of the financial reports on the program.
- 3.39 **Transfer of resources.** Specific bank accounts will be opened to manage the program resources. IDB and national counterpart funds will be deposited by the Ministry of Finance into a specific account or accounts of the SAG. The SAG will place the resources at the disposal of its participating agencies or departments—UPEG/SAG, SENASA, and PRONADERS—with the understanding that all program resources will be deposited in specific, separate bank accounts.
- 3.40 **Methodology for assessing the impact of the program.** Two household surveys will be conducted to assess the impact of the program. The first survey will be conducted at the start of the program, and the data obtained will serve as a baseline. The second survey will be carried out at the end of the program, and the data will be used for an ex post evaluation of the program. Households will be selected randomly to participate in the baseline survey. At the end of the program, the same households will be visited, which will yield data on a panel of subjects over time. For statistical purposes, 1,200 rural households distributed in 40 municipalities eligible to participate in the investment program will be selected. Given the competitive nature of the program, not all the eligible municipalities will carry out program-financed projects. This will make it possible to better assess the impact of the program, since data will be available on households that have not benefited directly from the program as well as on households that have benefited.
- 3.41 The data obtained from the surveys will include economic, demographic, social, and environmental information. The household surveys will include special modules for obtaining data on production costs at the farm and/or family business level, income from these businesses, and agricultural and nonagricultural employment. The relationship between these data and available information on the types of projects executed in the area under study will be examined using cross-tabulation analysis. This procedure will make it possible not only to ascertain the impact of the program in terms of changes in the income of beneficiary households, but also to identify the factors that spur development of the rural economy. The indicative terms of reference for the household surveys are included in the program files.

- 3.42 **Midterm evaluation.** There will be a midterm evaluation in which an economic-financial analysis of the productive investments made under the program will be performed. Corrective actions will be recommended for the execution of the remainder of the program. The information obtained will also serve to identify future activities in terms of a typology of investments and/or complementary programs for the Honduran rural environment.
- 3.43 **Coordination at the local level and with donors.** The design of the various components of this operation incorporates institutional mechanisms to facilitate coordination between the national institutions. The policy development component, for instance, will be carried out by interinstitutional working groups. The productive investment component will require the signing of interagency agreements (e.g., with SERNA, SOPTRAVI, the Road Fund, ENEE, and CONATEL) to coordinate technical aspects and ensure the financial sustainability of the investments. During the preparation of the operation, the project team held numerous technical and coordination meetings with representatives of the United States Agency for International Development (USAID), the Food and Agriculture Organization of the United Nations (FAO), the United Nations Development Program (UNDP), the International Fund for Agricultural Development (IFAD), and the World Bank. During program execution, the Bank's Country Office in Honduras will continue to coordinate with these and other cooperation agencies. At the government level, one of the key functions of PRONADERS will be to coordinate the actions of the government and the international partners to ensure sustainable rural development in the country.

IV. VIABILITY AND RISKS

A. Institutional viability

- 4.1 The institutional viability of the program as a whole derives from its institutional design, which includes multiple decision-making and verification levels. The Ministry of Agriculture of Honduras, represented by the Minister of Agriculture and two Vice-Ministers, has the institutional capacity and the mandate to oversee the execution of the program. The three program components will be executed by entities specializing in the subject area of each component. In each case, measures have been included to strengthen institutional capacity in order to improve performance.
- 4.2 The institutional design of the three components provides for participation by representatives of the private sector and civil society. Public consultation processes have also been built into these components through the PRONADERS advisory group, in the case of the productive investment component, and through the participation of representatives of the producer trade associations academic institutions, and other representatives of civil society, for the policy development component.
- 4.3 In the case of the productive investment component, the rural communities in the municipalities targeted by the component will participate in the process of prioritizing investments and selecting projects, as will representatives of the private sector and local governments.
- 4.4 The institutional design also includes verification and control mechanisms in order to assure transparency in the execution process.

B. Socioeconomic viability

- 4.5 This operation seeks to break down the barriers to rural economic development in Honduras by improving access for rural producers to markets for products, goods, and services. The program's three components are aimed at addressing the main obstacles that have been identified.
- 4.6 Components 1 and 2 are concerned with the rural economy as a whole and are neutral in terms of specific rural population groups. The development of public policy is based on a participatory process of consultation and dissemination of technical proposals, with implications for the formulation of public policy. The strengthening of health and safety the services will fill an important gap in the quality of public agricultural services; the implementation of this component will improve opportunities for export of Honduran agricultural products, especially for products with high added value that require high levels of rural labor. These two

components will thus help to improve the competitiveness of rural productive sectors, especially the agrifood sector, as will be evidenced through growth in agrifood exports.

- 4.7 The productive rural investment component focuses on the areas that have the greatest physical infrastructure deficiencies, which lead to high transaction costs and thus limit the ability of these areas to compete on national and international markets. Excluded from this component are communities where the levels and quality of investment in productive infrastructure are currently higher and where the country's urban population is concentrated. Also excluded are the Atlantic coastal areas and the Department of Gracias a Dios, where the population density is much lower than in the rest of the country and where special assistance programs are needed and, in fact, are being executed.
- 4.8 The mechanism for competitive selection of projects is based on strict technical and economic evaluation criteria. The geographical distribution of the investments and the project selection criteria will ensure that these investments have a high probability of yielding socioeconomic benefits and also contributing to technological innovation in rural communities. The economic benefits expected from these investments will be manifested mainly through higher incomes for rural inhabitants and increased profitability of productive activities as a result of the reduction in production and transaction costs in the areas in which the investments are made. These improvements, in turn, will be reflected in enhanced competitiveness of rural producers in the targeted areas.
- 4.9 Equally important from the standpoint of social capital development, the process of prioritizing the rural investments will require broad community participation. This will assure that the processes of project selection will help to strengthen local government action. In the case of the private investment projects that are eligible for financing under the "investment in productive capital" category of the project typology, the development of projects that will benefit groups of women will be promoted.
- 4.10 **Social equity and poverty reduction classification.** The program does not specify explicit performance indicators to measure poverty reduction and social equity enhancement. This operation qualifies as a poverty-targeted investment (PTI) based on numeric and geographic targeting criteria. According to official data, 75% of Honduran rural households live below the poverty line; the investment component of this operation focuses on rural areas in the municipalities with the lowest human development indices. Hence, the incidence of poverty among the population targeted by the program is expected to be higher than 75%. The components on policy development and institutional strengthening of health and safety services will create conditions that will boost the competitiveness of rural producers and will include concrete actions aimed at generating greater opportunity for the inhabitants

of rural areas to better their income and employment levels, without distinctions among specific groups.

C. Financial viability

- 4.11 The financial viability of the overall program will be assured by the commitments agreed to by the national counterpart, the Government of Honduras, which attaches great importance to rural development. The establishment, by law, of a new institutional structure to oversee rural development efforts, is a reflection of this priority.
- 4.12 The cofinancing contributed by the beneficiary communities and groups under the third component, productive investment, will further add to the program's financial viability.
- 4.13 The financial viability of the productive investments will be verified *ex ante* through feasibility studies to be submitted to the program by the participating communities. A special aspect of this verification by DINADERS will be the commitments regarding operation and maintenance of the investments, which will be established in the contracts between PRONADERS and the beneficiaries. In the case of physical productive infrastructure projects, such as those for rural road rehabilitation, the maintenance commitments may include institutional agreements with entities such as the Road Fund, the communities, and the municipal governments involved.

D. Environmental impact

- 4.14 The framework for regulation of natural resources and the environment in Honduras is provided by the General Law on the Environment and its accompanying regulations, as well as the Health Code. The Ministry of Natural Resources and Environment is the authority responsible for enforcing environmental regulations. The Law on Municipal Government gives the municipal governments responsibility for environmental protection and natural resource management within their respective jurisdictions, as a complement to the authority and scope of action of the central government institutions. The General Law on the Environment created two important agencies for environmental management: (i) the *Procuraduría General del Ambiente* [Office the Attorney General for the Environment], which is responsible for representing the interests of the State in environmental matters; and (ii) the *Sistema Nacional de Evaluación de Impacto Ambiental* [National Environmental Impact Assessment System] (SINEA). SINEA's operating guidelines provide for the creation of environmental units in the state and municipal offices to serve as collaborators in environmental management, the nature of the relationship with the Ministry of Natural Resources and Environment (SERNA) to be established by means of specific agreements.

- 4.15 The activities and small productive investment projects carried out under the program will have generally positive environmental impacts. Negative environmental impacts might also occur, especially direct negative impacts, if mitigation measures are not taken. To address this issue, a plan has been designed, as an integral part of the operation, to ensure the environmental feasibility of the operations through the following basic activities: (i) an environmental assessment procedure will be put in place in order to verify that each project has the environmental permits required under national regulations and that measures are implemented to mitigate direct negative impacts; (ii) the incorporation of environmental mitigation measures into the design and execution of each project will be assured by including a provision to that effect in all contracts for works and by means of supervision activities; and (iii) the investment costs for each project will include the resources needed to carry out the mitigation and protection measures that the feasibility studies have shown to be necessary.
- 4.16 **Environmental management of the program.** An environmental strategy has been developed with a view to ensuring compliance with Honduran environmental legislation and the policies of the Bank. In this context, an Environmental Management Plan has been formulated and included in the Project Operating Regulations. The plan has the following objectives:
- a. to ensure environmental analysis of the projects and activities financed under the program and the implementation of measures to prevent, mitigate, or offset negative environmental impacts.
 - b. to develop the capacity and strengthen, from an environmental standpoint, the executing agency for the program, the SAG, in order to achieve satisfactory environmental management at the sector level.
- 4.17 To fulfill these objectives, the following actions will be taken under the Environmental Management Plan: (i) support for the creation and strengthening of an environmental unit within the SAG; (ii) signing of a memorandum of understanding between SERNA and SAG on the environmental management of the program, in accordance with the principles of Honduran environmental legislation (see paragraph 2.29); (iii) establishment of environmental eligibility criteria for projects to be financed under the productive investment component; (iv) inclusion, in the process of formulating public policies on rural development, of criteria for conducting environmental assessment, carrying out consultation and participation in the formulation of public policies, and promoting the involvement of women in development and as beneficiaries of support for the rural sector, as well as the inclusion of different ethnic groups as beneficiaries of the actions undertaken by the government in general and the program in particular. The SAG environmental unit will submit periodic reports on the outcomes of the environmental management activities; these reports will be included in the biannual reports to the Bank (see paragraph 3.36).

- 4.18 The proposed activities have been duly incorporate into the description of each component, the terms of reference for the studies, the costs tables, and the Operating Regulations.

E. Benefits

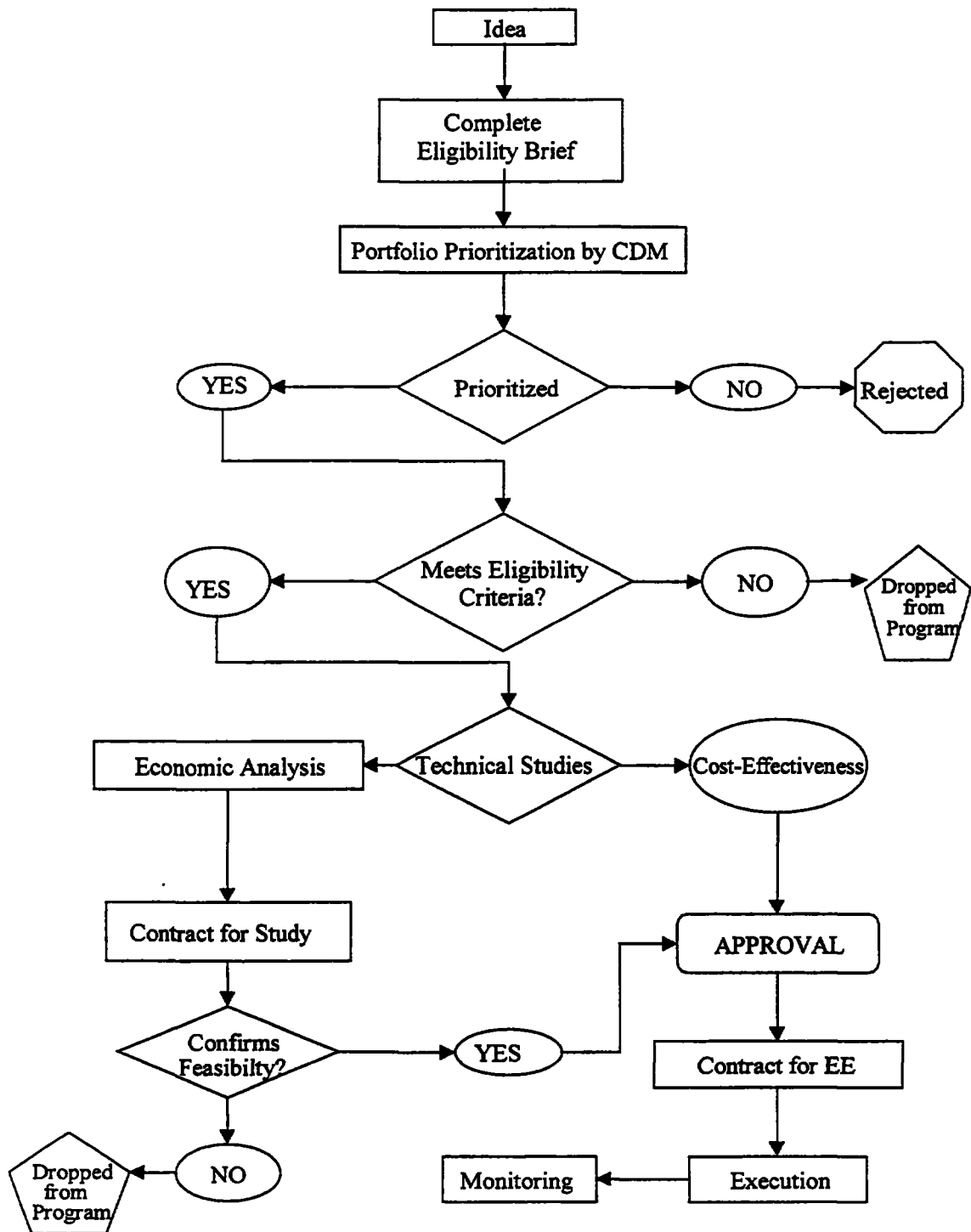
- 4.19 The program will yield benefits in the short and medium terms through direct local, regional, and national impacts.
- 4.20 Investments in activities such as rehabilitation of rural roads, for example, will have an immediate and foreseeable impact on income by reducing transportation costs. Transportation normally accounts for 10% of the price of a product on the market. The project will reduce that cost by around 50%, and it will therefore yield benefits equivalent to 5% of the value of production each year. Similar benefits are expected from the investments in rural electrification and telecommunications. Modern productive processes (owing to their reliance on new technologies) are highly dependent on these services, especially to increase value added at the farm level and reduce transaction costs throughout the production process (e.g., through improvements in communication systems). In sum, the productive investments proposed under the program will help raise wages in rural areas by reducing production and transaction costs and will promote private investment in the beneficiary areas.
- 4.21 The improvements in the quality of plant and animal health and food safety services will have national impact and will also yield immediate benefits by enhancing the competitiveness of Honduran agricultural exports on international markets.
- 4.22 In the short, medium, and long terms, the impact of developing and applying national and sectoral policies, creating a neutral framework of incentives, will improve competitiveness in the rural environment and thereby raise rural incomes.

F. Risks

- 4.23 In order to fully realize the benefits of the program, it will be necessary to achieve close complementarity between the development of public policies and the investments in the supply of goods and services in order to boost the competitiveness of rural productive sectors. To overcome this implicit risk, as part of the execution of the public policy development component, it will be essential to identify and address, from the outset, any constraints that directly threaten the effectiveness and sustainability of the productive investments.
- 4.24 The risks associated with the execution of the program are related to the executing agency's managerial capacity to develop and carry out the planned activities. To minimize these risks, support for institutional strengthening will be provided. In addition, an integrative institutional scheme has been designed, in which the capacity of central-level institutions will be complemented through a participatory,

decentralized process at the local level that involves both national private-sector organizations and civil society at the municipal level and enlists the support of intermediary nongovernmental entities.

I. FIGURE 1. FLOWCHART OF THE PRODUCTIVE PROJECTS CYCLE



HONDURAS

PROGRAM FOR REVITALIZATION OF THE RURAL ECONOMY LOGICAL FRAMEWORK

Narrative Summary	Indicators*	Means of Verification	Assumptions
economy of Honduras reactivated.	<p>GDP of the agricultural sector shows positive growth, over 3% per year.</p> <p>Level of underemployment less than 30%.</p> <p>Incidence of rural poverty under 70%.</p>	<p>Official figures of the Banco Central de Honduras (BCH) and the Ministry of Agriculture (SAG).</p> <p>Official figures of the Government of Honduras, obtained via multipurpose household surveys.</p>	<p>There will be no natural disasters that will impede efforts to revitalize the agricultural sector.</p> <p>There will be no macroeconomic shocks that will negatively impact the national economy.</p>
Productive: Competitiveness of rural productive sectors increased. Poverty reduced in the program's direct influence.	<p>Increased volume/value of Honduran agroexports.</p> <p>Nonagricultural rural incomes increased with respect to the baseline.</p> <p>Productivity of labor and land in the program's areas of direct influence increased with respect to baseline.</p> <p>Incomes of beneficiary households increased with respect to baseline.</p>	<p>Official figures published by BCH and SAG.</p> <p>Baseline surveys and program impact evaluation.</p>	<p>None of Honduras's trading partners will experience an economic crisis.</p> <p>Honduran trade policies will continue to improve. A stable macroeconomic policy will be implemented and export biases will be implemented.</p>
Component 1 Policies that promote an environment of economic and social equality developed.	<p>Ten policy proposals submitted to the Honduran Economic Cabinet.</p> <p>Five policy proposals in the form of draft legislation submitted to the National Congress.</p>	<p>Records of the Economic Cabinet.</p> <p>Draft legislation submitted to the National Congress by the Executive.</p>	<p>Favorable attitude among government decision-makers toward the implementation of economic policies.</p> <p>Technical policy proposals presented and validated in discussion forums.</p>

*All indicators are to be evaluated during the program execution period (2001-2004).

Narrative Summary	Indicators	Means of Verification	Assumptions
<p>Component 2</p> <p>Plant and Animal Health Service (SA) strengthened and consolidated.</p>	<p>Honduran products for export and domestic consumption meet regional health and food safety standards.</p> <p>Reduction in production losses caused by blights and diseases.</p>	<p>INE and SAG agricultural production statistics.</p> <p>Baseline study on phytosanitary and zoosanitary quality of Honduran products and annual comparisons of performance statistics.</p>	<p>The investments under this component will be made as proposed.</p> <p>Producers, processors, and exporters will implement SENASA recommendations.</p>
<p>Component 3 (*)</p> <p>Productive investments made in rural areas</p>	<p>80 projects approved and executed.</p> <p>140 rural communities have benefited directly from the productive investments.</p> <p>63,000 direct beneficiaries of rural investments.</p>	<p>Operations reports prepared by the coordinating unit and reviewed through a Bank-sponsored external audit.</p>	<p>The communities or beneficiaries will have the capacity to execute projects.</p> <p>The communities will, in the future, be involved as counterparts in the execution and maintenance of projects.</p>

Narrative Summary	Indicators'	Means of Verification	Assumptions
<p>Component 1</p> <p>Formation of working groups</p> <p>Preparation of terms of reference</p> <p>Signing of contracts to consultants</p> <p>Workshops to discuss findings and proposals</p> <p>Production of policy documents.</p> <p>Submission of policy documents to the Economic Cabinet.</p> <p>Participation in international study trips and seminars.</p>	<p>A working group formed for each policy issue.</p> <p>Terms of reference prepared for each consulting job (minimum 20).</p> <p>Ten international consultants and 10 national consultants retained.</p> <p>A minimum of 15 seminars conducted at the national level.</p> <p>A minimum of 10 policy documents submitted to the Economic Cabinet.</p> <p>A minimum of 10 technical policy analysis documents published.</p> <p>Participation by 25 national professionals in international professional study trips and/or seminars.</p>	<p>Progress reports on the program</p>	<p>Coordination will be achieved between the working groups of different institutions.</p> <p>The interinstitutional coordination teams will organize and coordinate discussion groups with the participation of civil society and the private sector.</p>
<p>Component 2</p> <p>Implementation of a system for updating rates and prices.</p> <p>Implementation of an accreditation system for professional services.</p> <p>Improvement of the existing regulatory framework.</p> <p>Conducting a study on alternatives for strengthening SENASA's activities and presentation of the recommendations.</p> <p>Implementation of an international quarantine</p>	<p>An updated system of rates that will cover the operating costs of the services.</p> <p>2 national laboratories accredited to provide services to national producers, importers, and exporters.</p> <p>Processes, time required, and formats necessary to process documents in SENASA improved.</p> <p>Regulatory framework under the Law creating SENASA written, reviewed, and approved by the Executive.</p> <p>One quarantine station finished and operating.</p>	<p>Financial reports from SENASA, relating services rates to operating costs.</p> <p>Assessments of SENASA procedures before and after the implementation of new administrative procedures.</p> <p>Progress reports on the program.</p>	<p>Recommendations from studies and administrative procedures implemented.</p> <p>The Government of Honduras supply counterpart resources on a timely basis.</p>

Narrative Summary	Indicators*	Means of Verification	Assumptions
<p>Establishment of internal checkpoints</p> <p>Establishment of epidemiological surveillance system.</p> <p>Establishment of food safety unit within SENASA.</p>	<p>Seven internal checkpoints finished and operating.</p> <p>Epidemiological surveillance system created.</p> <p>Food safety unit established and operating within SENASA.</p>		
<p>Component 3 (*)</p> <p>Promotional campaigns at the regional level, coordinated by regional offices of FONADERS.</p> <p>Generation of project ideas at the local level</p> <p>Generation of project eligibility abstracts.</p> <p>Organization of meetings of municipal development councils to set priorities.</p> <p>Identification of mechanisms for counterpart support of projects.</p> <p>Review of project eligibility criteria.</p> <p>Generation of technical studies of projects.</p> <p>Approval of projects</p> <p>Signing of contracts to intermediary entities.</p> <p>Signing of contracts to project executing entities.</p> <p>Monitoring of projects.</p>	<p>Eight promotional campaigns conducted to publicize the opening of the loan window.</p> <p>200 project ideas presented and project abstracts prepared.</p> <p>120 municipal development council meetings held to prioritize projects.</p> <p>Counterpart support mechanisms established for 120 projects.</p> <p>Eligibility reviews carried out for 120 projects and 110 projects accepted.</p> <p>Technical analysis of 110 projects and 80 projects approved.</p> <p>Contracts awarded to 80 executing entities.</p> <p>Monitoring of 80 projects approved and under way.</p>	<p>Reports of the DINADERS regional offices</p> <p>Records of the municipal development committees</p> <p>Project abstracts</p> <p>Technical studies submitted to FONADERS board of directors</p> <p>Contracts awarded to executing and intermediary entities</p>	<p>Promotional campaigns will be carried out in the communities and will succeed in generating ideas for project ideas.</p> <p>The forums for discussing and prioritizing project ideas at the municipal/local level will be effective.</p> <p>The technical studies will be carried out satisfactorily on the physical, technical, and economic criteria.</p>

Indicators associated with Component 3 are estimates and do not reflect preestablished targets for the program.

HONDURAS

PROGRAM FOR REVITALIZATION OF THE RURAL ECONOMY (HO-0144)

DISBURSEMENT SCHEDULE (IN THOUSANDS OF U.S. DOLLARS)

Categories	1			2			3			4			Total		
	IDB/ FSO	Local	Total	IDB/ FSO	Local	Total	IDB/FSO	Local	Total	IDB/ FSO	Local	Total	IDB/ FSO	Local	Total
nt and monitoring	125	0	125	275	0	275	125	0	125	275	0	275	800	0	800
elopment	800	0	800	850	0	850	335	0	335	0	0	0	1,985	0	1,985
ng of SENASA	800	0	800	700	0	700	500	0	500	0	0	0	2,000	0	2,000
Investment	5,000	800	5,800	6,000	800	6,800	7,000	800	7,800	6,095	764	6,859	24,095	3,164	27,259
	6,725	800	7,525	7,825	800	8,625	7,960	800	8,760	6,370	764	7,134	28,880	3,164	32,044
	50	0	50	60	0	60	60	0	60	60	0	60	230	0	230
Charges	108	0	108	182	95	277	263	54	317	337	17	354	890	166	1,056
	6,883	800	7,683	8,067	895	8,962	8,283	854	9,137	6,767	781	7,548	30,000	3,330	33,330
			23.1			26.9			27.4			22.6	90	10	100

RGII-HO193P
HO-0144
Original: Spanish

PROPOSED RESOLUTION

HONDURAS. LOAN No. ____ / SF-HO TO THE REPUBLICA DE HONDURAS
(Economic Revitalization Program for Rural Areas)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Economic Revitalization Program for Rural Areas. Such financing will be for the amount of up to US\$30,000,000, or its equivalent in other currencies, except that of Honduras, which are part of the resources of the Bank's Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and to the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.