

MULTIPHASE PROGRAM FOR NATURAL-RESOURCES MANAGEMENT IN PRIORITY WATERSHEDS - PHASE I

(HO-0179)

EXECUTIVE SUMMARY

Borrower:	Republic of Honduras		
Executing agency:	Ministry of Agriculture, through the National Sustainable Rural Development Program		
Amount and source:		Phase I (US\$)	Phase II (US\$)
	IDB: (FSO)	25,000,000	44,000,000
	Local counterpart:	2,800,000	<u>4,400,000</u>
	Total:	27,800,000	48,400,000
Financial terms and conditions:	Amortization period:	40 years	
	Grace period:	10 years	
	Disbursement period:	3 years	
	Interest rate:		
	First 10 years	1 %	
	Following 30 years	2%	
	Inspection and supervision:	1%	
	Credit fee:	0.5%	
Objectives:	<p>The program's general objective is to spur processes that can achieve sustainable rural development, by strengthening natural-resources management in central government agencies and at the local level. The aim is to help reduce poverty and leave critical rural areas in the selected watersheds less physically, economically, and environmentally vulnerable and thereby improve communities' quality of life and their prospects for sustainable development.</p> <p>Specific objectives are to: (i) develop and implement efficient and effective management instruments to make for sustainable natural-resources use, including institutional and strategic capacity building in key areas of central government and decentralized institutions, and (ii) support investment initiatives in sustainable natural-resources management and vulnerability management in selected subbasins. The investment projects would be the fruit of participatory processes, to address regional, municipal, and community needs and particularly the needs of small rural producers.</p>		

Description: The proposed operation is a multiphase program targeting 14 subbasins in the Ulúa, Nacaome, and Chamelecón River basins, encompassing an area of 17,600 square kilometers with a population of 1,167,000. The first phase, running for an estimated three years, would set the organizational apparatus in place, strengthen institutions, build local participatory processes, and test investment mechanisms. A second phase for expansion and consolidation would last five years. The phase I work will be done in 10 subbasins, targeting most actions to seven of them: Grande de Reitoca and Verdugo (Nacaome), Copán (Chamelecón), Higuito (Ulúa), and areas of influence of the El Cajón project (Humuya middle watershed, Sulaco, Lake Yojoa). The three program components described below will operate throughout both phases, with the difference that investment coverage will broaden in phase II because a sturdy organizational apparatus will then be in place. The descriptions and amounts in the following summary are those envisaged in the phase I design.

Component 1. Development of strategic and management capacity (US\$8.5 million). This component will address the institutional, strategic, regulatory, and management capacity needs of key sector agencies, giving priority to problems that are impeding natural-resources management in rural parts of the selected subbasins and in Honduras generally. The component is made up of five modules to support: (i) the National Sustainable Rural Development Program, strengthening participatory processes, systematizing of experiences and processes that create a supply and demand for technical assistance, and delivery of services to small producers; (ii) environmental and water resources management and land-use planning; (iii) management of forests and protected areas; (iv) risk management and vulnerability reduction, and (v) decentralized management processes (see paragraphs 2.7 to 2.11).

Component 2. Investments in priority subbasins (US\$14.5 million). This component's aim is to channel investment funding to the priority subbasins for projects to address natural-resources management demands and needs within a participatory, regional framework. Three mutually complementary modules comprise this component. The first will start up preparatory work and create an enabling environment for stakeholder involvement; the second will strengthen local capacity to participate in the investment program devised for each subbasin, and the third will furnish investment funding for projects for which a demand is created by virtue of the first two modules.

Module 1. Promotion and organization. This module will create bottom-up participatory processes by way of: (i) initial promotion of the program; (ii) a participatory diagnostic assessment of the subbasin; and (iii) promotion of a local organizational apparatus and institutional agreements to set up a regional advisory and consensus-building agency that is representative of the subbasin's principal stakeholders.

Module 2. Strengthening local institutional and organizational capacity. This module's objective is to build capacity in local organizations to equip them to implement program-funded investment projects.

Module 3. Investment resources

Funding will be furnished for investments that respond to three levels of demand for projects in a given subbasin:

- a. Support for sustainable production systems, benefiting primarily farms and communities in microwatersheds.
- b. Support for municipal natural-resources and environmental management initiatives executed by and benefiting local governments.
- c. Support for regional investments, benefiting not just communities and municipalities but a region (subbasin).

Component 3. Program administration and monitoring (US\$3.1 million). This component will defray the cost of coordination requirements for the program overall and within each subbasin.

Triggers for the second phase. The achievement, by the end of phase I, of indicators listed in the three sets of conditions outlined below will be considered to justify the startup of phase II. They will be attained through the Component 1 institutional-support activities and drawing on the experience gained in the first three years of the project.

- a. **Conditions relating to stronger central and local organization.** An organizational apparatus will be in place and operational at the central government and local levels in the program subbasins, with a participatory, subbasin-wide approach to supportive actions and investments. One feature of this organizational framework will be central government implementation mechanisms that work well. **It also will mean that in at least three subbasins:** (i) the supply of technical assistance, delivered by service providers, has been developed;

(ii) Regional Subbasin Councils (CRSCs) have been created and are operating as decision-making, consensus-building bodies to devise agreements, set priorities, and approve subbasin activities; and (iii) key local institutions in the three subbasins (community-based organizations and municipal agencies, including the respective Municipal Environment Units), have been strengthened. **Indicators for gauging the fulfillment of these conditions in each subbasin will be as follows:** (i) a sufficient number of service providers to satisfy the demand, as evidenced by PRONADERS' accreditation and evaluation roster; (ii) a Regional Natural-Resources Management Plan drawn up and agreed on in each CSRC, based on land-use planning processes and participatory demand surveys, and at least 60% participation of the subbasin's key local agencies in Regional Council decisions, both at the grass-roots level (including indigenous communities) and the municipal level, as evidenced by minutes of regional meetings; and (iii) active involvement of key local agencies in generating projects, as evidenced by the investment plans and projects developed by agencies at each of the three levels (local, municipal, regional), and presentation of eligible investment projects by each of those levels.

- b. **Conditions relating to strengthening of the regulatory framework.** By the end of phase I there will be an agreed, harmonized framework of enabling policies and strategies in the following areas for the program's implementation in the subbasins: (i) a proposal for mechanisms to charge users for environmental services (water); (ii) integrated water resources management, including master water-resources plans in at least four subbasins; (iii) management of national and communal forests, underpinned by site classification and land tenure regularization and formalization; (iv) land-use planning employing proven methodologies in each subbasin; (v) building a natural-resources agenda into the decentralization process; and (vi) reducing physical vulnerability as a way of furthering rural development. **The output that will signal fulfillment of this condition will be:** a policy and strategy paper for integrated natural-resources management in the program subbasins, taking in the above-noted concepts. The document will have been discussed in consultations with communities, local organizations, the private sector, and civil society generally, approved by the program's Interagency Coordination Committee, and endorsed by the government agencies having jurisdiction.

- c. **Conditions as to impact of investments.** It must be demonstrated that at least 80% of the funded projects are very likely to achieve their design objectives; financial, economic, and environmental sustainability conditions for the target groups, including indigenous communities, small farmers, and women in the targeted subbasins, have improved; and the agreed execution targets have been attained. To measure these achievements an evaluation will be done of each funded project, comparing performance benchmark values at the end of phase I against the baseline values. **In each targeted area, the program (by way of the evaluation and monitoring system) and the communities themselves (by reference to their action plans) will evaluate progress benchmarks relating to:** (i) household income; (ii) quality of life of the family group, of women and of children; (iii) water quality; (iv) availability and abundance of water at its sources, and abundance of forests; (v) yield/harvest of each main crop/product; (vi) extent of farm chemical use; (vii) percentage of cropland and woodland relative to the total holding; (viii) protection of water sources; (ix) risk and vulnerability to natural disasters, and (x) soil loss.

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

This operation tackles root causes of poverty, environmental degradation, and vulnerability by promoting sustainable development, in line with the Bank's country strategy and supporting the objectives of the Bank-headed post-Mitch Consultative Group. The program also will help put into practice the strategy lines in the RE2 document "Post-Mitch Honduras: Problems and Opportunities for Rural Economic Development" and in the Bank's strategy for integrated water resources management. The proposed program also will directly help strengthen the Meso-American Biological Corridor, a region-wide initiative sponsored by the Central American countries.

**Environmental
and social
review:**

Since the program is designed to remedy natural-resources management problems, its overall impact is expected to be positive. All the planned physical works must adhere to specific environmental procedures set out in the Operating Regulations, including an environmental impact assessment where required, to mitigate any adverse impacts. From a social impact standpoint, participation and consultation are central to the design, with special provisions for active involvement of families and of women as beneficiaries and major stakeholders in the projects proposed, and special attention to the situation of the indigenous population in the program area.

Benefits:

The program will yield direct and indirect benefits in the short and medium term on a local, municipal, regional, and national scale. Within each subbasin the population's income will rise as more

rational and efficient use is made of natural resources. Communities will be better organized, more aware, better educated, and better equipped to manage their natural resources and reduce their vulnerability. The result will be improved natural-resources management tools across the country.

Risks:

As an agency still being developed, the National Sustainable Rural Development Program (PRONADERS) carries with it the risks of any new institutional apparatus. The program will strengthen the agency so it can coordinate activities and marshal the contributions of the various parties, in component 1. A Bank-funded program to revitalize the rural economy (loan 1063/SF-HO) which will be starting up shortly also will strengthen PRONADERS. Other typical risks in programs of this kind are complex organizational frameworks that can delay the startup of investments; weak local institutions; few good service providers at the outset in some of the subbasins; the financial sustainability of initiatives, particularly on the part of small producers and local governments; the land tenure situation, and weak community acceptance of or involvement in the program actions. The operation proposed here was conceived as a multiphase program precisely to counter such risks, to develop solid capacity, strengthen institutions and participatory processes in order to instill a sense of ownership of the projects, focus on income generation and sustainability, and strengthen decentralized processes.

Special contractual clauses:**Conditions precedent to the first disbursement**

Setup of the Program Coordination Unit with at least the program's coordinator in place (paragraph 3.22), and presentation of the record of establishment of the Interagency Coordination Committee (CCI) (paragraph 3.19).

Conditions precedent to disbursement of funds for Component 1 activities for each coexecuting agency

An interagency agreement must have been signed between each coexecuting unit and the Ministry of Agriculture, on terms agreed on with the Bank (paragraph 3.7), and be in effect.

Other contractual conditions

The program's phase I revolving fund will be 10%, in order to meet the planned investment, technical assistance, and organizational support needs (paragraph 3.55).

Poverty-targeting and social sector classification:

This operation qualifies as a poverty targeted investment by virtue of its geographic targeting. The selected subbasins are home to about 1.2 million people, 70% of them rural dwellers. The subbasins have the country's highest poverty indicators, with strong rural/farming population pressures. In the most recent Human Development Report, Honduras rated a Human Development Index of 0.653, placing it at a medium development level. Breaking this index down into city and rural populations, the rural HDI is 0.596 and the urban figure is 0.701. The average HDI for municipalities in the targeted area is 0.396, well below the country average. The municipality of San Manuel del Colohete (department of Lempira) has the lowest index (0.164); the highest (0.571) is in Las Lajas, department of Comayagua. The highest index in the program area is below the national average. Overall, the program area municipalities have an index of under 0.575, indicating a medium-low, low, and very low level of development. According to official figures, 75% of rural Hondurans are living below the poverty line. The expectation is that the entire rural population of the targeted area will benefit directly and indirectly from the program. Approximately 330,000 people (55,000 households) stand to benefit directly.

Exceptions to Bank policy:

None

Procurement:

Contracts for construction work and for goods and services will be awarded following Bank procedures. None of the construction work envisaged is large-scale or complex.

International competitive bidding will be required for goods and related services costing US\$250,000 or more and for construction contracts of US\$1,500,000 and up. International calls for proposals will be held for consulting contracts of US\$200,000 or more. Rules for goods and services procurement below those thresholds are outlined in paragraphs 3.57 and 3.58.

I. FRAME OF REFERENCE

A. Honduran natural resources and their management

- 1.1 The Republic of Honduras occupies 112,492 square kilometers of very rugged terrain. Over 75% of its territory is hilly (slopes of more than 25%) with mainly forestry potential. Precipitation varies throughout the year, from 800 to 3,400 millimeters, and is heaviest in the Atlantic region. The country has 17 primary watersheds, 11 of which flow toward the Atlantic Ocean, capturing over 87% of all rain water. Water in the other six basins flows toward the Pacific.
- 1.2 The country's rich natural-resources endowment is the mainstay of its economy. Environmental services generated in its watersheds are vital to meet mounting water and energy demands and sustain production in various spheres. Thanks to its varied ecosystems of broadleaf and coniferous tree stands, cloud forests, mangrove swamps, lagoons, marine estuaries, and coral reefs, Honduras is a pocket of rich biodiversity.
- 1.3 However, the misuse of this strong natural asset base is limiting opportunities for sustainable development. Overall, the country is quickly losing soil and water quality, forests, and biodiversity. Deforestation, erosion, and pollution are on the rise in its major watersheds, with direct impacts on the ecological balance and sustainable production not just in areas where these processes are occurring but in vast tracts of productive land downstream as well. It is estimated that Honduras is losing about 1,400 square kilometers of forest every year as the agricultural frontier is pushed back and woodlands are destroyed by forest fires. Hurricane Mitch in 1998 pointed up how the misuse of water, soil, and forest resources was leaving the country even more vulnerable physically, environmentally, economically, and socially.
- 1.4 The legal and institutional framework for natural-resources management is scattered among different sectors and uncoordinated. The legislative cornerstone is the 1993 Environment Act and the 1990 Municipalities Act. The fundamental objective of the environment statute is environmental and natural-resources protection, conservation, and sustainable management, which are held to be in the public interest. According to that law, the central government and municipalities are responsible for ensuring rational use and sustainable management of natural resources. The Municipalities Act charges each municipality with managing environmental quality and the natural resources falling within its jurisdiction.
- 1.5 Drafts of four pieces of legislation are currently being discussed—laws governing water resources, forestry, energy, and land-use planning. Harmonizing the regulatory frameworks that come out of these laws would help set the stage for natural-resources management.

B. The National Master Plan for Reconstruction and Transformation and the new vision of sustainable rural development

- 1.6 To remedy the country's evident natural-resources problems, and in response to the aftermath of Hurricane Mitch, the Honduran government has devised a Master Plan for Reconstruction and Transformation (PMRTN) in the framework of the Stockholm agreements. One of the plan's objectives is to find medium- and long-range solutions to halt and reverse the deterioration of natural resources in priority watersheds.
- 1.7 The PMRTN identifies seven watersheds as being the most critical in terms of vulnerability and amelioration needs. Many of the problems originate in rural areas in the upper parts of these river basins, the result of production practices and socioeconomic processes that are not environmentally or economically sustainable. The main actors in these processes are small and mid-sized hillside farmers, foresters, and ranchers, and communities located in the upper watersheds.
- 1.8 The Ministry of Agriculture (SAG) has adopted a new approach to rural development, the premise being that rural production and socioeconomic questions cannot be looked at in isolation from a framework of natural-resources sustainability and interdependence. This vision is embodied in the National Sustainable Rural Development Program (PRONADERS) recently approved by law. Through its executive and financial arms—the National Sustainable Rural Development Directorate (DINADERS) and the National Sustainable Rural Development Fund (FONADERS), respectively—PRONADERS offers a new strategic institutional apparatus in support of sustainable rural development initiatives. Among its features are principles of integrated natural-resources management, vulnerability prevention, interagency coordination, decentralized management, and participatory processes whereby communities themselves generate a demand for initiatives. The PRONADERS vision of rural development looks at the rural economy as a whole, to pursue the core objective of eradicating rural poverty. SAG/PRONADERS intends to help create a rural environment that prizes sustainable development of soil, water, and forest resources. The program proposed here comes out of that approach.

C. Geographical siting of a natural-resources management program in priority watersheds

- 1.9 For the proposed program, three watersheds have been chosen as priorities from among the seven watersheds identified as critical in the PMRTN: the Ulúa, Chamelecón, and Nacaome basins. Among the selection criteria were the following: (i) pressure on natural resources and deterioration of resources in the upper watersheds; (ii) concentration of the rural population and poverty levels; (iii) the watershed's economic and productive importance; and (iv) physical vulnerability of the river basin and causal links between conditions in upper and lower watersheds.
- 1.10 The watersheds selected cover 28,300 square kilometers (one quarter of Honduran territory), and contribute close to 50% of gross domestic product. At this stage it

would not be feasible to cover the entire watersheds, as the requisite institutional, operational, and financial capacity and conditions and legislation are not yet in place in Honduras to tackle integrated watershed management. Thus, without losing sight of the watershed concept as a frame of reference, the proposed program focuses on rural and natural-resources management problems in the upper watersheds, taking subbasins as geographic target areas to benefit from more integrated participatory processes involving producers, communities, local governments, and regional organizations. With that in mind, the program targets 14 subbasins selected from the above-mentioned three major watersheds.

TABLE I-1. PRIORITY SUBBASINS TARGETED BY THE PROGRAM			
Watershed	Subbasin/Area	Area (km²)	Population
Ulúa	Higuito	1,748.7	101,223
	Mejocote	1,259.5	46,368
	Gualcarque	1,883.5	128,885
	Río Grande de Otoro and Jaitique	2,012.4	123,169
	Jicatuyo	1,287.1	96,777
	Middle Humuya	1,140.2	60,635
	Humuya	2,490.4	257,308
	Sulaco	1,695.0	63,331
	Playas	611.5	17,239
	Lake Yojoa	329.3	38,002
Nacaome	Grande de Reitoca	584.5	23,000
	Verdugo	506.0	20,078
Chamelecón	Copán	642.1	59,230
	La Entrada and Quimistán	1,450.7	131,537
Total		17,640.9	1,166,782

D. Socioeconomic and environmental features of the program subbasins

- 1.11 The selected subbasins have the highest poverty indicators in the country, with heavy rural/farming population pressures. An estimated 70% of the prospective beneficiaries live below the poverty line. About 85% of the roughly 1.2 million population are rural households of small and mid-sized traditional farmers. Farm lots average 6.3 hectares, though operations of less than 5 hectares predominate. The chief crops are basic grains, coffee, vegetables, and pasture crops.
- 1.12 Honduras has about 850,000 hectares of forest (covering 49% of the land surface in the 14 selected subbasins)—66% pine, 20% broadleaf trees, and 14% mixed forest. Most of these are sparsely wooded tracts; 20% of the total woodland is in protected

areas. There are 19 designated protected areas covering about 1,800 square kilometers. Four indigenous groups live in the subbasins, scattered among various villages. At a rough estimate, up to 10% of the producers are women in charge of farm operations. There are 80 municipalities in the 14 subbasins.

- 1.13 In these subbasins there is evidence of severe soil erosion, expansion of the agricultural frontier, extensive ranching on marginal land, and loss of forests and biodiversity. There also is pressure on the water resource: some water sources are depleted (Nacaome), and important bodies of water in other basins are polluted (Lake Yojoa).
- 1.14 According to the demand surveys conducted, communities are concerned about poverty and environmental degradation. Their chief concerns are access to clean, safe drinking water and, above all, the difficulties they face in trying to raise their income and living standards. Socioeconomic data reveal this population's very limited access to public services, education, and secure land tenure, even though 70% of producers—according to census figures—are landowners.
- 1.15 The selected areas are geographically linked, downstream, with major infrastructure works, population centers, and productive areas. The upper Chamelecón and Ulúa watersheds affect the Sula Valley, the country's economic hub. The areas identified also are highly vulnerable, locally and regionally, to landslides, flooding, and forest fires.

E. The roots of natural-resources problems

- 1.16 The roots of the problems evident in the watersheds in question include a series of issues that need to be addressed and remedied simultaneously, taking a long-range view. The most pressing problems have to do with:
 - a. ***Institutional shortcomings and inadequate central government regulatory strategy frameworks.*** The institutional and legal framework for natural-resources management is dispersed, weak, and contradictory. In the absence of effective management instruments there are market flaws and signals and incentives that open the way for natural-resources exploitation.
 - b. ***Weak local and regional institutional and organizational capacity.*** Local and regional institutions are key to natural-resources management, but their framework is weak and they lack financial, technical, and human resources to rise to this challenge.
 - c. ***Constraints and unmet needs of rural producers, households, and communities.*** There are huge unmet needs in rural areas as far as education, access to services, information flows, and commercial opportunities are concerned, which makes it difficult to take efficient decisions on natural-resources use. Generally speaking, the backdrop for rural dwellers is structural poverty that perpetuates a vicious

circle of interdependence between the marginal conditions in which the population is subsisting and overexploitation of natural resources.

F. Strategy thrust of the program

- 1.17 The program proposed here centers on a search for instruments to attack the roots of the problems outlined in the preceding section. For that reason, the program has been conceived as a natural-resources management operation to support, as changes are brought in: (i) actions to develop management capacity and tools at the central and local levels and (ii) specific investments to ameliorate the rural environment and achieve sustainable rural development in priority areas. This will be done through an investment approach that meets needs articulated by communities, small producers, municipalities and regional organizations, with financing for initiatives that link environmental sustainability to productive, economic, and institutional sustainability, and promoting more income-generation opportunities for rural dwellers.
- 1.18 To remedy problems of deteriorating natural resources there is a need for long-range initiatives with integrated, simultaneous actions on various strategy fronts to be sustainable and improve the lives of the people who rely on natural resources for a living. To that end, the program will need to strengthen, promote, and solidify institutional and regulatory structures; apply effective management instruments; build local and community management capacity; expand technical assistance and training services, and expedite access to investment mechanisms. Because of the interdependencies and externalities generated by the use of natural resources, a spatial view of the problems also is necessary. A subbasin-centered approach, using water as an integrating element associated with soil and plant resources, is the best course of action.
- 1.19 The program needs to take a heavily participatory approach in its implementation, and should take a long-range view in furthering and solidifying processes. Unlike projects that start out with predetermined physical targets, this program will develop participatory processes in each subbasin, so needs and demands will come out of the local and regional spheres. Those demands will become embodied in environmental management plans at the microwatershed and subbasin level where communities will identify and prioritize their concerns and the best options for their particular environment.
- 1.20 Programs of this type take a long time to mature. Experience has shown that investments in natural-resources management may not be sustainable unless local management mechanisms have been strengthened and accepted by communities who feel a sense of ownership and empowerment. **For this reason, the operation proposed here is a multiphase program, in accordance with procedures recently approved by the Bank's Board of Executive Directors (document GN-2085-1).** The first phase of the program will create and strengthen regulatory, organizational, and capacity-building processes at the central and local levels, supported by investments in pilot subbasins and testing investment mechanisms that entail local empowerment. The second phase would foster and expand investments in all the

program subbasins, to make certain that the processes set in motion are solid and will endure.

- 1.21 The proposed program ties in with the recently approved rural economic revitalization program (loan 1063/SF-HO) which will support and strengthen PRONADERS and FONADERS as strategic agencies and coordinators. That loan will promote initiatives to rekindle economic growth, with a focus on making the productive sectors and the national agrifood chain more competitive. The program described here will work within the PRONADERS scheme but with a defined thematic and geographic focus. It also is related to a technical-cooperation operation (ATN/JF-7218-HO) approved for the Ministry of Natural Resources and the Environment for the PRONOT National Land-Use Planning Program. That operation will map out guidelines, so this program will be able to apply its results and recommendations in the targeted areas. Generally, the program's design lends itself to marshalling synergies during the participatory planning process in each subbasin and to complementarity with other programs, to help meet the full spectrum of community needs.

G. Sectoral strategy focuses

- 1.22 Though the proposed program takes an integrated approach based on demands that will come out of participatory processes, some sector-specific strategy focuses are important to mention as well.
- 1.23 **Agriculture sector (crop and livestock farming).** The proposed strategy seeks to change environmentally unsustainable production processes to systems that can make hillside farmers' operations more competitive, through more intense and diversified farming, better use of water, soil, and forests, enhanced market opportunities, and technical assistance options for off-farm activities to boost rural families' incomes. Efforts will be made to stabilize the agricultural frontier by making the rural economy and rural production more sustainable economically and environmentally.
- 1.24 **Forestry.** Growth in forest production will be spurred through sustainable management approaches, guided by management plans, and by building local capacity to manage communal woodlands and protected areas. There will be initiatives to heighten land-tenure security in forest areas, involve indigenous groups more in forest production, make the protected-areas system sustainable, and conserve biodiversity and protect water recharge sources, taking a watershed approach.
- 1.25 **Water.** The unifying thread in the program's various projects will be the watershed concept. The aim is to make optimal use of the water resource to increase production and for human consumption, and to mitigate adverse impacts on the hydrologic cycle and water quality. The concept of environmental services will be developed for water use, in a land-use planning framework and in tandem with social processes in which stakeholders will negotiate and seek a consensus.

- 1.26 **Vulnerability.** The program will address risk and vulnerability factors on two fronts: as an element for project eligibility generally, to make sure that investments are viable and optimized, and as a direct object of investments aimed at prevention. It contains initiatives to instill an awareness of hazards and prevention needs in the rural environment, treating this as a cross-cutting issue and making sure the stakeholder population is involved.
- 1.27 **Local management.** Capacity will be built in local organizations and municipalities to better equip them to design and implement sustainable watershed-centered rural development plans. The program will develop avenues for coordination, communications, and the sharing of experiences, and help build natural-resources management strategies into municipal agendas. A priority is to make local structures such as Municipal Development Councils, Local Development Councils, Municipal Emergency Management Committees, and Municipal Environment Units operational and to establish a subbasin institutional platform.

H. Lessons learned

- 1.28 A number of natural-resources projects are being financed in Honduras with bilateral support, most of them on a small scale. One of the most important is the Bank-funded El Cajón watershed natural-resources management program slated for completion in 2001. Other projects are the land administration program funded by the World Bank and several with bilateral support like PLANDERO, PROLANCHO, GUAYAPE, and PROLESUR.
- 1.29 To help design the program proposed here, and with support from the UNDP's Capacity 21 scheme, a study was done of lessons learned in the course of the six above-mentioned projects. Another study has been commissioned to quantify the El Cajón program performance indicators, primarily relating to production activities and their socioeconomic returns. A preliminary evaluation also has been done of other Bank-funded natural-resources management programs in Nicaragua (970/SF-NI), El Salvador (886/OC-ES), and Guatemala (871/SF-GU). The following are some lessons learned from those projects, upon which the proposed program has drawn.
- a. **Build in participatory processes and a bottom-up approach.** Earlier programs chose technologies that were technically optimal and set physical targets ex ante, then encouraged producers to adopt them. The aim in the proposed program is to have communities define and prioritize their concerns and come up with the best solutions, through participatory organizational processes in each subbasin.
 - b. **Gear technical assistance to producers' needs and demands rather than have the project decide on such assistance in advance, and pay special attention to real market signals.** From this standpoint, technical assistance in marketing, market analysis, and business management is as important, if not more important, than purely agricultural extension services.

- c. **Create an environment for sustainability based on income creation and commercial opportunities.** The premise is that a project's benefits for producers and communities should translate into higher incomes, as a necessary condition for sustainability. This means that off-farm options may do more to improve the lot of small producers and ease pressure on natural resources.
 - d. **Promote user-pay arrangements for environmental services, as a way of making watershed conservation financially sustainable.** This requires a modern watershed-centered policy approach and the establishment of rights and responsibilities of the various watershed stakeholders, based on a real valuation of environmental services generated in the watersheds and financial compensation for their use and development. The most concrete environmental service is the one relating to conservation of water sources.
 - e. **Strengthen decentralization processes as a way of laying local administrative and organizational foundations for natural-resources management.** In programs of this kind, centralized management of decision-making and priority-setting has proved to be a failure. Local empowerment is a necessary condition for sound natural-resources management.
- 1.30 Project performance monitoring reports on similar Bank-funded projects in Honduras and Central America were reviewed, as were OVE reviews. The experiences recounted and recommendations set out in those reports were taken into account in designing the operation proposed here.

I. Experience of the El Cajón program

- 1.31 Two highlights of the El Cajón program are private-sector involvement in its technical-assistance delivery structure and its nimble implementation and administration. In the first years of the program, as a supply and demand for these services was built up, disbursement levels were low, but once the basic capacities were in place annual execution levels have been high. El Cajón was designed with pre-set physical targets and largely direct, targeted technical assistance. Though adjustments have been made as the program has unfolded, it clearly takes some time (longer than in a traditional Bank project) to make certain that the necessary organization and sustainability mechanisms are in place and communities gain a sense of ownership of the project. Other lessons having to do with such issues as land tenure regularization methods in this type of project are an indispensable support tool. As it nears completion, the El Cajón program has succeeded in introducing a participatory approach at the microwatershed level and in a cross-municipal and regional context that needs to be bolstered. For this reason, the El Cajón program's areas of influence are included in the proposed operation, as special areas in which to consolidate processes that can have a strong demonstration effect in other subbasins.
- 1.32 Apart from the El Cajón lessons, the proposed program draws on experience gained in Honduran projects funded by the United States Agency for International

Development, the Food and Agriculture Organization, World Bank, GTZ, International Fund for Agricultural Development, United Nations Development Programme, and various bilateral donors, with which the country has established coordination ties and avenues of communication. Other valuable inputs for this program's design were the experiences of specialized regional institutions like the Tropical Agricultural Research and Education Center (CATIE), the International Center for Tropical Agriculture (CIAT), and the Regional Technical Assistance Unit (RUTA).

J. The Bank's strategy

- 1.33 The Bank's strategy aim in its activities in Honduras over the next four years is to support the national reconstruction effort and initiatives to achieve sustainable economic growth with social equity. The focus will be on five main areas: (i) support for the national reconstruction process; (ii) support for poverty reduction programs; (iii) justice system reform; (iv) improving competitiveness; and (v) support for rational, sustainable use of natural resources, this being the prime objective of the program proposed here. The program also will help strengthen the broader concept of the Meso-American Biological Corridor, a Central American regional initiative, by laying a foundation for environmental and social sustainability.

II. THE PROGRAM

A. Objectives

- 2.1 The program's general objective is to spur processes that can achieve sustainable rural development, by strengthening natural-resources management at the central and local levels. The aim is to help reduce poverty and the physical, economic, and environmental vulnerability of critical rural areas in the selected watersheds, as a foundation for sustainable development of communities and improvements in their residents' living standards.
- 2.2 The specific objectives are to: (i) develop and implement efficient and effective management instruments to make for sustainable natural-resources use, including institutional and strategic capacity building in key areas of central government and decentralized institutions, and (ii) support investment initiatives for sustainable natural-resources management and vulnerability management in selected subbasins, developed via participatory processes that address regional, municipal, and community needs and especially the needs of small rural producers.

B. General structure of the program

- 2.3 The program is divided into three components: (i) strategic and management capacity building in central government and decentralized institutions; (ii) investments in natural-resources management in priority subbasins, and (iii) administration, evaluation, and monitoring of the program.
- 2.4 Component 1 consists of five modules to strengthen each of five key institutions (the program's coexecuting agencies) that have strategy and operational mandates crucial for the program. Component 2 targets a delimited geographical area in which to develop participatory processes, build local capacity, and make investments in projects to be defined and prioritized locally and regionally.
- 2.5 The program will operate in two successive phases. Phase I, lasting an estimated three years, will set the organizational apparatus in place, strengthen institutions, and test investment mechanisms. Phase II, running for five years, will expand on and solidify the first-phase activities, as described later in this proposal. All three components outlined below will operate throughout both phases, with the difference that solid organizational underpinnings will be in place when the phase II investments begin. The descriptions and amounts that follow correspond to the phase I design.

1. Component 1: Strategic and management capacity building (US\$8.5 million)

- 2.6 This component will address the institutional, strategic, regulatory, and management capacity needs of key sector agencies, giving priority to problems that are impeding

natural-resources management in rural parts of the selected subbasins and in Honduras generally. The component consists of five modules (described below), each of them funding a package of technical assistance, training events, information and monitoring systems, key and priority studies, consultation and consensus-building activities, education campaigns, and other activities to achieve the strategy objectives listed below. Each module also will have funding for a liaison officer for administrative, monitoring, and coordination work for the program.

a. Module 1. Support for the National Sustainable Rural Development Program (US\$1.4 million)

- 2.7 This module will help equip the Ministry of Agriculture/National Sustainable Rural Development Program (SAG/PRONADERS) for their tasks as coordinator and expeditor of the proposed program. The module has five strategy aims: (i) strengthen interagency coordination and consensus-building capacity within the PRONADERS institutional apparatus; (ii) devise mechanisms whereby PRONADERS can foster decentralized participatory processes in the subbasins; (iii) establish a process benchmarking mechanism and a monitoring and evaluation system for the program, within an information system framework that integrates all the program modules; (iv) strengthen mechanisms for systematizing and disseminating lessons learned and best practices; and (v) strengthen processes to create a stock of private providers of technical assistance and services to small producers and rural communities, including the development of accreditation systems.

b. Module 2. Water resources, environment, and land-use planning (US\$2.3 million)

- 2.8 This module will support the Ministry of Natural Resources and the Environment (SERNA) to perform its functions within the program. The module has seven objectives: (i) promote training in environmental management, particularly water resources management, for water boards, Municipal Environment Units, Local Development Councils, Municipal Development Councils, and watershed networks in the program subbasins; (ii) foster participatory land-use planning in pilot subbasins in the program, supported by a georeferenced biophysical and socioeconomic atlas to be produced of the program zone; (iii) strengthen formal and nonformal environmental education in the program areas; (iv) help develop and implement a sound regulatory framework for water resources and watersheds; (v) establish a hydrometeorological monitoring system in the subbasins and produce master water-resources management plans in each; (vi) develop a benchmark tracking and evaluation framework integrated into the program system; and (vii) produce detailed studies on environmental services valuation, focusing on water resources in the program subbasins.

**c. Module 3. Management of forests and protected areas
(US\$2.3 million)**

- 2.9 This module will assist Administración Forestal del Estado-Corporación Hondureña de Desarrollo Forestal [State Forest Administration-Honduran Forestry Development Corporation] (AFE-COHDEFOR) in its functions. It will pursue six strategy objectives: (i) support the harmonized development of a regulatory framework for forests and protected areas; (ii) devise core strategies and policies for the sector, including policies on forestry incentives; tenure of woodlands (focusing on issues of tenure regularization and design of arrangements for usufruct and community participation in the social forestry system); forest certification and management of protected areas, and devising a technical assistance strategy for commercialization, market prospecting, and income generation from forest products in national and communal forests and those in indigenous communities, and protected areas; (iii) supplement forest site classification studies and technical standards for the development of management plans; (iv) strengthen the forestry information and statistics system within the framework of the program's information, monitoring, and evaluation system; (v) develop and implement pilot forest certification mechanisms; and (vi) implement an education, publicity, and training program on issues involving forests and protected areas in the program subbasins.

**d. Module 4. Risk management and vulnerability reduction
(US\$1.3 million)**

- 2.10 This module will support the role of the Standing Committee on Emergency Management (COPECO). Its four objectives are to: (i) establish policies, strategies, and standards to build natural-hazard and vulnerability considerations into rural development processes (COPECO/PRONADERS coordination); (ii) create databases, including map databases, to identify, evaluate, and deal systematically with potential natural hazards and vulnerability features in the program's area of influence; (iii) instill a greater risk and prevention awareness in all stakeholders, including affected communities, and (iv) build disaster prevention and management capacity in institutions, communities, and society at large.

e. Module 5. Support for decentralized management (US\$1.2 million)

- 2.11 This module to support the Association of Honduran Municipalities (AMHON) has five specific objectives: (i) develop avenues for coordination and communication with local governments in municipalities in which the program will operate, and devise and foster the adoption of a natural-resources management strategy as part of municipal agendas; (ii) strengthen bodies that coordinate the work of local organizations, NGOs, and government and municipal agencies, and strengthen ties between the local, regional, and national levels; (iii) systematize decentralized management experiences and practices in the program municipalities; (iv) set up an information, evaluation, and monitoring system connected with the program's information system; and (v) expedite processes to train and strengthen municipalities.

2. Component 2: Investments in priority subbasins (US\$14.5 million)

- 2.12 This component will channel investment funding to the priority subbasins to address each subbasin's needs and its residents' demands within a participatory regionwide framework. Three mutually complementary modules comprise this component. The first will start off the preparatory work and create an enabling environment for stakeholder involvement; the second will strengthen local capacity to participate in the investment program to be devised for the subbasin, and the third will channel investment funding through intermediary financial institutions hired to administer the resources. The investment projects funded will come out of the needs created by virtue of the first two modules.

a. Module 1. Publicity/promotion and organization (US\$1.3 million)

- 2.13 This module will lay the groundwork for bottom-up participatory processes by: (i) publicizing and promoting the program at the outset; (ii) validating and producing detailed diagnostic assessments of the subbasins using participatory approaches; and (iii) promoting the local organizational and decision-making framework and interagency agreements to create or solidify local and regional discussion and consensus-building bodies in which the chief subbasin stakeholders are represented (see chapter III for details). Included in this process is support for creating Regional Subbasin Councils (CRSCs) and producing a Regional Natural-Resources Management Plan (PGRRN) that takes in the subbasin investment plans (see chapter III).
- 2.14 The PGRRN is a reference tool that maps out a strategic vision for the subbasin, including a framework of priorities for prospective investment projects that would qualify for program funding. This module also would finance activities to help with local demand surveys for specific projects, development of a biophysical, socioeconomic, environmental, and institutional baseline as each project's starting point, an investment profile for each project, and participatory land-use planning. Support for this module's activities and processes will be provided through contracts with service providers that have a regional presence. These would be private (NGOs, consulting firms, etc.) or public (water or power companies) that would provide specific services for the program's implementation, under contracts or agreements. In special cases, program funds could be used to train service providers, to strengthen the stock of providers for key services.

b. Module 2. Local institutional and organizational capacity building (US\$1.3 million)

- 2.15 The object of this module is to strengthen organizational capacity in local institutions to equip them to implement activities in investment areas eligible for program funding. This module will operate in tandem with module 1; activities in the two modules will reinforce each other. Module 2 will focus on training and technical assistance for local beneficiary/executing agencies (municipal government agencies, Municipal Environment Units, community organizations, local associations) that

have undertaken to participate in the program. Activities slated for funding include training in management and administration (accounting, contract management, etc.), financial procedures for the program, prospecting for additional funding sources, and project planning and development at the feasibility stage.

**c. Module 3. Investments in natural-resources management
(US\$11.9 million)**

- 2.16 The purpose of the investment funding is to satisfy three critical levels of demand in a given subbasin: (i) a first level at which the bulk of the benefits will accrue to individual farms and communities in microwatersheds; (ii) a second level at which actions will be executed and benefits felt in the municipal management sphere, and (iii) a third level where benefits will transcend community and municipal borders to impact the region (subbasin). All these projects will be approved and ranked as to priority by local deliberative bodies.

**(i) Level 1. Support for sustainable production systems
(US\$5.3 million)**

- 2.17 The aim is to finance low-cost, sustainable production system options that can raise the income of farmers and foresters and their families by putting soil, water, and forests to efficient use in production processes. Support will be targeted mainly to agricultural, forestry, and agroforestry projects that are financially viable on individual holdings and are environmentally sustainable at the community and microwatershed level. The strategy aim is to make small and medium-scale hillside farming more competitive by helping producers diversify and find alternatives to subsistence farming, including off-farm occupations. Larger producers will be encouraged to adopt more intensive production options to ease the overgrazing and soil degradation problems that occur with extensive farming systems. Communities and producers' associations in each microwatershed will come up with proposals for projects that fit within the action plan they draw up for their area. The program will fund technology packages (including technical assistance) on a matching-funds basis under contracts with service providers, in accordance with the program's Operating Regulations.
- 2.18 The technical assistance will not be confined to production processes. There also will be strong support for marketing and market access; product certification; land tenure regularization, and access to credit and microfinance. Products of greatest interest to farmers and foresters were identified from demand surveys and after systematizing experiences of similar projects in Honduras. These also are products that make better use of resources—soil, water, and forests. As a result, the kinds of investment projects that would be eligible, within the framework of a microwatershed's action plan, include: (i) diversification of agroforestry production and off-farm options to replace unsustainable practices; (ii) protection and sustainable use of forests; (iii) environmentally sustainable coffee production; (iv) dual-purpose livestock modules; (v) small irrigation systems; (vi) seed production, and (vii) bulking and marketing centers.

(ii) Level 2. Support for municipal natural-resources and environmental management initiatives (US\$3.3 million)

- 2.19 The objective at this investment level is to fund natural-resources projects that can yield public benefits throughout a municipality. According to demand surveys conducted in different municipalities, eligible projects at this level would include the following types: (i) development and implementation of sustainable communal-forest management plans; (ii) processing and industrialization of forest products, including nonwood products; (iii) management of protected areas, including surveillance, basic infrastructure, and management and ecotourism plans; (iv) small waterworks and sanitation works; (v) control of water pollution (e.g. pollution from pulp and glue from coffee processing plants); (vi) protection of water sources; (vii) local emergency warning and monitoring programs in landslide-prone areas; (viii) construction of flood control and bank and slope protection works; and (ix) stabilization and protection of areas that are critical to safeguard population centers, roads, bridges, and other basic infrastructure.
- 2.20 Priority will be given to investments that involve local residents and communities, community organizations, NGOs, and the private sector. As needed for eligible projects, there will be support for land tenure regularization mechanisms, particularly relating to forestry activities.

(iii) Level 3. Support for regional (subbasin) investments (US\$3.3 million)

- 2.21 Funding at this level will support projects having a regional impact that require concerted action by municipalities and communities. Among the projects eligible for financing are those involving: (i) protection, allocation, and use of water resources; (ii) sustainable management of State-owned forests in the subbasin; (iii) administration of protected areas, and (iv) flood control works and others to attenuate natural hazards. Various projects with a regional dimension have been identified in the program area as candidates for phase I, such as integrated environmental sanitation and management of the shores of Lake Yojoa; creation, management, and consolidation of four protected areas; establishment of a regional monitoring system to warn of hazards of unstable land, and strengthening of the regional hydrometeorological monitoring and emergency warning system.

3. Component 3. Program coordination, administration, and monitoring (US\$3.1 million)

- 2.22 The program will fund: (i) the Program Coordination Unit (PCU) in DINADERS (central government level); (ii) the operation of three strategically located Regional Facilitation Groups, one each in the Chamelecón, Nacaome, and Ulúa subbasins; (iii) financial management of investment funds for Component 2 (FONADERS/IDB window); and (iv) specialized advisory assistance for programming, monitoring, guiding, evaluating, and technical reviews of the different program activities.

Intermediary financial institutions would be hired to channel and manage the investment resources (see paragraph 3.36).

C. Description of program phases

- 2.23 The program's first phase, slated to last three years, will set up the organizational apparatus and lay the groundwork for validation of pilot decentralized, participatory processes and the watershed-centered approach planned for the investments. The aim of the second phase, running for five years, is to promote and expand the investment component and further strengthen institutionally, financially, economically, and environmentally sustainable mechanisms in the processes launched in the earlier stage. The phase II cost estimate is US\$48.4 million (with a US\$44 million loan). The components described above will operate throughout both phases. However, in phase I there is a heavier emphasis on Component 1 since it addresses institutional, strategic, regulatory, and management capacity needs, and the first two modules of Component 2. The same component structure will be retained in phase II but the Component 2 investment funds could account for over 80% in that phase, which would take in all 14 of the program's priority subbasins.

1. Areas targeted to launch phase I

- 2.24 Table II-1 lists the subbasins to be targeted in phase I of the program.

Table II-1. Subbasins targeted in phase I of the program			
Watershed	Subbasin/Area	Area (km²)	Population
Ulúa	Higuito	1,749	101,223
	Mejocote	1,250	46,368
	Gualcarque	1,884	128,885
	Middle Humuya <u>b/</u>	1,140	60,635
	Sulaco <u>b/</u>	1,695	63,331
	Lake Yojoa <u>b/</u>	329	38,002
Nacaome <u>a/</u>	Grande de Reitoca	585	23,500
	Verdugo	506	20,078
Chamelecón	Copán	642	59,230
	La Entrada and Quimistán	1,451	131,537
Total		11,231	672,789
<u>a/</u> Includes protected area adjoining the José Cecilio del Valle dam reservoir.			
<u>b/</u> Areas in which the El Cajón project has built up experience and processes that need to be strengthened and which the proposed program should draw on.			

- 2.25 Work will be done in all these subbasins to solidify the program's organization, promote its activities, and implement pilot investment projects. However, the evaluation of indicators that would trigger phase II will look at the Grande de Reitoca and Verdugo (Nacaome), Copán (Chamelecón), and Higuito (Ulúa) subbasins and areas of influence of the El Cajón project.
- 2.26 The middle Humuya, Sulaco, and Lake Yojoa subbasins are areas of influence of the Bank-funded El Cajón program that will be completed in 2001. Work in those subbasins is important because the sustainability processes launched in the El Cajón operation need to be solidified and the organizational framework set in place in that subbasin needs to be built on, so lessons learned there can be shared with the other program subbasins. The El Cajón program has created demands that offer a quick way of testing the investment funding arrangement for the program proposed here.

2. Phase I targets. Triggers for phase II

- 2.27 At the end of phase I, the fulfillment of **three sets of conditions** as a result of the Component 1 institution-strengthening activities and experience gained in the first three years of the project will be assessed, as **triggers** warranting the launching of phase II:
- a. **Conditions relating to strengthened central and local organization.** An organizational apparatus is in place and operational at the central government and local levels in the program subbasins, taking a participatory, subbasin-centered approach to supportive actions and investments; one feature of this organizational setup is adequate funding of central-level execution mechanisms, as evidenced by minutes of the Interagency Coordination Committee; institutional and financial performance of the PCU, coexecuting agencies, and Regional Facilitation Groups, measured by compliance with contract clauses and/or the Operating Regulations; and, *in at least three of the subbasins*: (i) a supply of technical assistance via service providers has been developed; (ii) Regional Subbasin Councils (CRSCs) have been set up and are operating as decision-making, consensus-building bodies to achieve agreements and set priorities for subbasin activities; and (iii) key local institutions in the three subbasins (community-based organizations and municipal agencies, including the respective Municipal Environment Units) have been strengthened. *Benchmarks that will signal fulfillment of these conditions in each subbasin will be as follows:*
- (i) There are enough service providers to satisfy the demand, as evidenced by the PRONADERS service-provider accreditation and evaluation roster.
 - (ii) A Regional Natural-Resources Management Plan has been worked out in each CRSC after participatory land-use planning exercises and demand surveys, and at least 60% of key local subbasin organizations are participating in Regional Council decision-making

(community organizations and municipal agencies), as evidenced by minutes of regional meetings.

- (iii) Key local agencies are actively generating projects, as evidenced by the investment plans produced at each of the three levels and eligible investment project proposals put forward at each level.
- b. **Conditions relating to regulatory strengthening.** By the end of phase I there will be an agreed, harmonized, enabling policy and strategy environment for the program's implementation in subbasins in the following spheres: (i) a proposal for user-pay schemes for environmental services (water); (ii) integrated water resources management, including master water-resources plans in at least four subbasins; (iii) management of national and communal forests, with site classification and land tenure regularization and formalization; (iv) land-use planning employing proven methodologies in each subbasin; (v) building a natural-resources agenda into the decentralization process; and (vi) reducing the physical vulnerability of rural areas to further their development. *The output signaling fulfillment of this condition will be:* a policy and strategy paper for integrated natural-resources management in the program subbasins, taking in the above-noted concepts. This document will have been produced after discussion and consultation with communities, local organizations, the private sector, and civil society generally. It will have been approved by the program's Interagency Coordination Committee and endorsed by the government agencies having jurisdiction, including a monitoring and implementation strategy.
- c. **Conditions relating to investment impacts.** At least 80% of the funded projects must show that they are very likely to achieve their design objectives, with stronger prospects for financial, economic, and environmental sustainability for the target groups, including indigenous communities, small producers, and women in the targeted subbasins, and must have achieved the agreed execution targets. To ascertain this, each funded project will be evaluated, looking at performance benchmark values at the end of phase I compared to the baseline values for the same indicators. **In each targeted area, the program (by way of its evaluation and monitoring system) and the communities themselves (by reference to their action plans) will evaluate progress using indicators relating to:** (i) household income; (ii) standard of living of the household, of women and of children; (iii) water quality; (iv) availability and abundance of water sources and abundance of forests; (v) yield/harvest of each main crop/product; (vi) extent of farm chemical use; (vii) percentage of planted land and of forest relative to the total holding; (viii) protection of water sources; (ix) risk and vulnerability to natural hazards, and (x) soil loss.

D. Special issues

1. Land tenure

- 2.28 About 50% of the land in the program's targeted watersheds is forest and protected area; 42% belongs to private farm operators, and the other 8% is State-owned farmland, leased land, and land of undefined ownership status. Accordingly, during phase I of the program, titling activities will be eligible for funding only in module 3 of Component 2, subject to a case-by-case demonstration that lack of title (of a producer or a producing community) will be an impediment to achieving the project objectives. During phase II, depending on local demand and using the models launched in the World Bank-funded land administration program and the El Cajón program, among others, the program described here will map out a strategy and proven mechanisms to address land tenure problems on a larger scale if necessary.

2. Payment for environmental services, and the program's economic incentives framework

- 2.29 The notion of paying for environmental services is gaining currency in Honduras. Though the principle is sound as far as sustainability is concerned, putting it into practice efficiently requires information mechanisms, biophysical and economic models, laws and policies, and avenues for consensus-building and dispute settlement, as well as regulations on managing and allocating fund flows.
- 2.30 Two conditions for developing a user-pay system for environmental services are a review of incentive schemes in current water, forestry, and energy legislation and a thorough understanding of cause-and-effect relationships in watersheds. At present Honduras does not have this information or analytical capacity; the plan is to develop such capabilities during phase I of the program, to have a sound incentive strategy in place by the start of the second investment phase. In at least two of the subbasins, arrangements worked out for charging for environmental services would be tested, either through intermunicipal agreements, as in the case of the Tulian River subbasin, or through pricing schemes that water and electricity companies could adopt.
- 2.31 Special attention will be given in the proposed program to economic evaluations of processes and specific projects, by developing baselines of physical, environmental, and socioeconomic indicators in each subbasin. To that end, in its technical assistance and actions to strengthen the coexecuting agencies the program will build an economic evaluation module into its evaluation and monitoring system to measure, among other parameters: (i) economic benefits of projects funded with the investment resources, distinguishing between benefits accruing to farms and/or producers and the externalities created, and (ii) distribution and apportionment of benefits. Supporting this process will be baseline studies to assess and devise user-pay mechanisms for environmental services as a way of making long-term financing of watershed protection sustainable.

E. Program costs

- 2.32 The estimated total program cost is US\$76.2 million. The first phase will cost the equivalent of US\$27.8 million and the second phase US\$48.4 million.

TABLE II-2. COST SUMMARY– PHASE I					
(US\$000)					
		IDB	Local	Total	%
1.	COMPONENT 1. STRATEGIC AND MANAGEMENT CAPACITY BUILDING				
1.1	Module 1. Sustainable rural development	1,200	200	1,400	
1.2	Module 2. Water resources, environment, and land-use planning	2,200	100	2,300	
1.3	Module 3. Management of forests and protected areas	2,200	100	2,300	
1.4	Module 4. Risk and vulnerability management	1,200	100	1,300	
1.5	Module 5. Support for decentralized management	1,100	100	1,200	
	SUBTOTAL	7,900	600	8,500	31
2.	COMPONENT 2. ACTIONS IN PRIORITY SUBBASINS				
2.1	Module 1. Promotion and organization	1,000	300	1,300	
2.2	Module 2. Strengthening local capacity	1,000	300	1,300	
2.3	Module 3. Investments				
	2.3.1 Level 1. Community and producer initiatives	5,000	300	5,300	
	2.3.2 Level 2. Municipal initiatives	3,000	300	3,300	
	2.3.3 Level 3. Regional initiatives	3,000	300	3,300	
	SUBTOTAL	13,000	1,500	14,500	52
3.	COMPONENT 3. PROGRAM COORDINATION, ADMINISTRATION, AND MONITORING				
3.1	Coordination Unit	700	50	750	
3.2	Regional Facilitation Centers/Groups	1,200	400	1,600	
3.3	Administration of investment funds	600	150	750	
	SUBTOTAL	2,500	600	3,100	11
4.	OTHER COSTS				
4.1	Evaluation and concurrent auditing	200		200	
4.2	Specialized advisory support on monitoring	350		350	
	SUBTOTAL	550		550	2
	SUBTOTAL DIRECT COSTS	23,950	2,700	26,650	
5.	FINANCIAL CHARGES				
5.1	Interest	500		500	
5.2	Credit fee		100	100	
5.3	Inspection and supervision	250		250	
	SUBTOTAL	750	100	850	3
6.	CONTINGENCY				
		300		300	1
	TOTAL COST	25,000	2,800	27,800	100
	PERCENTAGE OF TOTAL COST	90%	10%	100%	

Table II-3. Direct costs by item of expenditure (US\$000)			
Expenditure item	US\$000		
	IDB	Local	Total
Services (a)	3,850	625	4,475
Training, education, promotion	1,500	400	1,900
Tech. assistance for local participatory processes (b)	2,000	600	2,600
Tracking and monitoring equipment	800	100	900
Tech. assistance, studies, plans, diag. assessments (c)	4,800	100	4,900
Local productive investments	5,000	300	5,300
Municipal investments	3,000	300	3,300
Regional investments	3,000	275	3,275
Total	23,950	2,700	26,650
(a) Institution-strengthening, coexecuting agency liaison officers, coordination and administration. (b) Modules 1 and 2 of Component 2. (c) Component 1.			

F. Financing plan

2.33 The Bank will fund 90% of the program's cost, furnishing US\$25 million for the first phase. The Government of Honduras will supply the local counterpart funds.

2.34 The following will be the terms and conditions of the loan:

Source of funds	Fund for Special Operations
Amount	US\$25 million, first phase
Amortization period	40 years
Grace period	10 years
Disbursement period	3 years first phase, 5 years second phase
Interest rate	1% first 10 years, 2% following 30 years
Inspection and supervision	1%
Credit fee	0.5%

G. Parallel financing

2.35 Honduras is seeking funding from UNDP/Capacity 21 and other agencies to pay for some of the program's local activities. These contributions to the government, and any received from municipalities or other organizations, may be recognized as local counterpart contributions provided they are auditable and quantifiable in accordance with procedures acceptable to the Bank. Parallel funding sources may be explored over the course of the program to help achieve its objectives.

III. INSTITUTIONAL FRAMEWORK AND PROGRAM IMPLEMENTATION

A. Institutional framework of the program

- 3.1 Five coexecuting agencies will implement the program: the Agriculture Ministry/National Sustainable Rural Development Program (SAG/PRONADERS), the Ministry of Natural Resources and the Environment (SERNA), The Honduran Forestry Development Corporation (COHDEFOR), the Standing Committee on Emergency Management (COPECO), and the Association of Honduran Municipalities (AMHON), these being the core government agencies having a legal mandate for natural-resources management. The SAG will coordinate the program, using PRONADERS as an institutional platform. The participation of these coexecuting agencies is strategic, their spheres of action being essential for the program's objectives to be achieved.
- 3.2 SAG/PRONADERS affords a strategic framework for sustainable rural development that takes a comprehensive approach to that objective that goes beyond a purely agricultural focus. PRONADERS' importance lies in the fact that central to its view of development and poverty reduction are cross-sectoral partnerships and the coordination of work and synergy creation between projects and programs that have hitherto been scattered and uncoordinated and thus have had scant and unsustainable sectoral impacts.
- 3.3 SERNA will play an essential regulatory role in the program. This ministry's work in the rural areas and subbasins the program will be targeting has an impact on water resources management, land-use planning and environmental quality of subbasin investments.
- 3.4 COHDEFOR is in charge of managing the country's forests and protected areas. Forest resources are important in the program area because most of its land is best suited to forestry. A modern, efficient institutional framework in this sector thus is critical for the proposed program.
- 3.5 To leave the program area less vulnerable to flooding and landslides it will not be enough to deal with downstream effects in the largest population centers; the causes of these areas' vulnerability need to be addressed as well. In the proposed program COPECO will help devise a strategy framework for disaster prevention and mitigation in upper rural watersheds.
- 3.6 Coordination and interface between the central government and local governments is still weak and municipalities have yet to build natural-resources management concerns firmly into their agendas. As the national federation of municipalities, AHMON provides an indispensable platform for action on that front.

- 3.7 Since none of these agencies, on its own, has the capacity to remedy natural-resources problems specifically and rural development problems generally, an effective coordination framework is essential. The coordinating apparatus for the proposed program would be SAG/PRONADERS and the Interagency Coordination Committee (CCI) to be formed by the coexecuting agencies, as will be explained later in this chapter. Each of the institutions mentioned in the previous paragraphs will sign an interagency agreement with the SAG setting out the coexecuting agency's responsibilities under the program and how proceeds of the financing will be transferred to the agency. The SAG/AFE-COHDEFOR agreement also will contain the provisions mentioned in paragraphs 3.42 and 3.43. As a condition precedent to disbursement of funds to each coexecuting agency, the agency must have signed the interagency agreement and the agreement must have entered into effect.
- 3.8 Though the central-level institutional framework built around the CCI will consist of the five strategic agencies, it also will be open to allied agencies and institutions like the national water and sewer utility SANAA and the national electric utility ENEE. Those organizations have a presence in rural Honduras in each of the program subbasins and are currently taking part in various community and municipal natural-resources management projects. Apart from participating in the CCI and the program's different local deliberative bodies, these agencies can be valuable partners in supporting specific investments and implementing pay-for-environmental-services mechanisms. Figure III-1 shows the interface of components and coexecuting agencies.
- 3.9 The five strategic agencies will be strengthened in Component 1 and will develop capacities they can transmit down to local governments, communities, and civil society, bolstering and receiving feedback from actions and demands created in the geographical area that Component 2 will target.

B. Decentralized implementation strategy

- 3.10 A decentralized implementation strategy has been designed for the program because prospective local and rural beneficiaries are the main stakeholders with the most to gain from protecting natural resources, and thus are the program's prime target. If they receive the right kind of support they can assume ultimate responsibility for executing the program activities. Producers, producers' associations, and communities therefore will be the chief implementers of these activities. Though the organizational apparatus and legislation governing civil society participation at the community level are still in their infancy in the program area, such involvement is firmly recognized in central and municipal government policies as being legitimate and necessary.
- 3.11 Since municipal governments are the level of officialdom closest to the program beneficiaries, government actions in the program will be decentralized to that level. Capacities and institutional configurations differ from one program-area municipality to another, so they will have to be stratified and handled differently

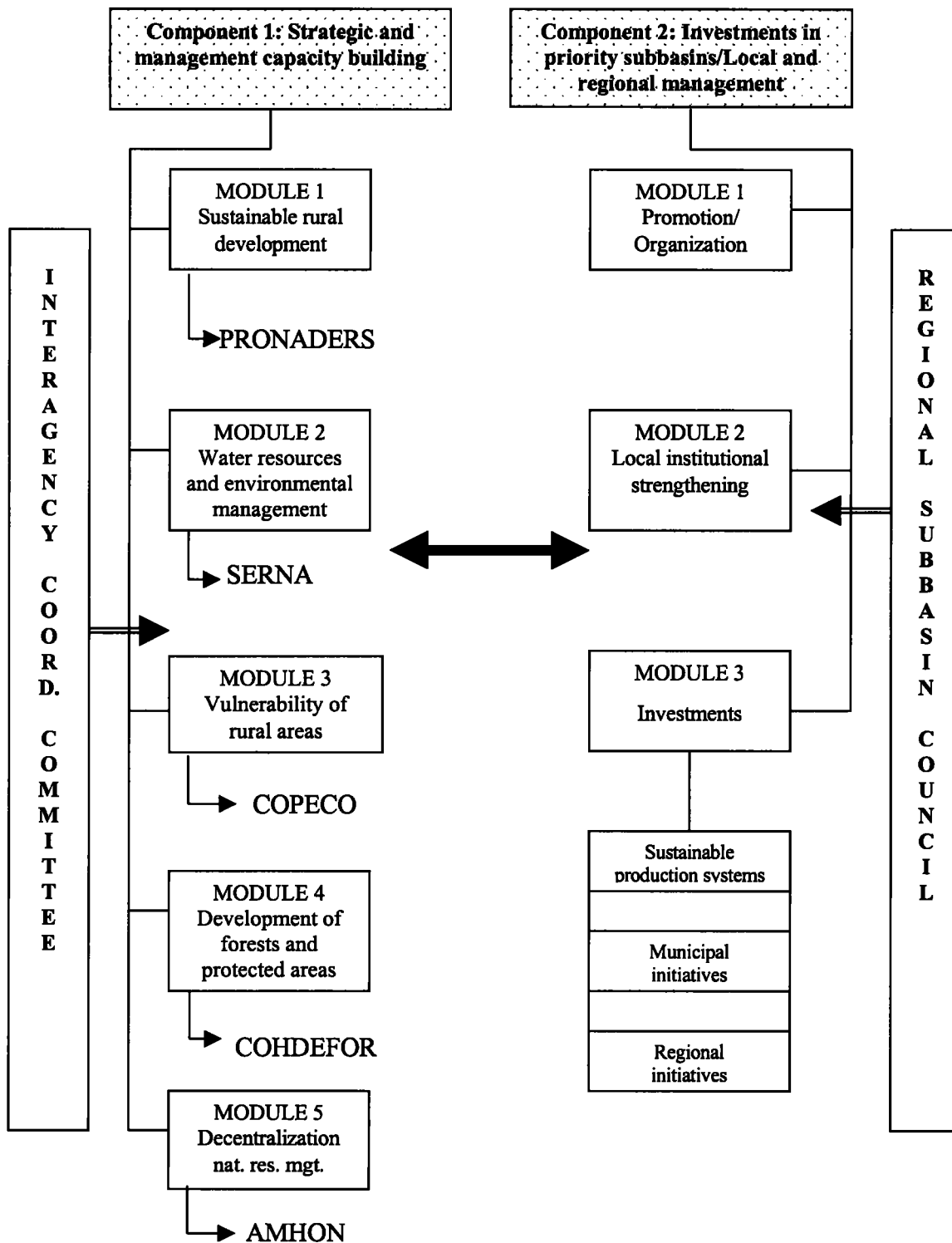
depending on their respective capabilities. The Municipalities Act that prescribes the institutional makeup of municipal governments is a solid legal foundation for this level of government to participate actively in the program.

- 3.12 In brief, the institutional setting for the proposed operation, as described in the assessment that is part of the supporting documentation for the program, offers solid prospects for decentralized institutional underpinnings to be in place by the end of phase I so investments can be expanded as planned in phase II. The decentralized implementation strategy is workable and desirable, as discussed in the section on institutional feasibility in chapter IV of this proposal.
- 3.13 Since this program would be funded under the Bank's new multiphase lending modality, the emphasis during the first, preparatory phase will be on building a decentralized institutional and organizational apparatus so investments can be carried out on a larger scale in phase II in which most decisions will be taken locally.

C. Interdependence of Components 1 and 2

- 3.14 Component 2 of the first phase of the program takes an innovative approach (decentralized implementation) with which the executing agencies have little experience. As experience is gained in the course of this component and the agencies incorporate lessons learned they will become mature central and local institutions.
- 3.15 The institutional adjustments required will depend in large measure on what kind of obstacles are encountered in the course of Component 2 and on the lessons learned in the process. These experiences and lessons will be inputs for the Component 1 institution-strengthening activities. Also on the basis of this initial experience the program's financial execution mechanisms can be fine-tuned to provide a stronger operational base for phase II. The two program components thus are interdependent on two levels—a macro-institutional level as far as the coexecuting agencies' capacity is concerned, and a micro-operational level for investments, where the program's Operating Regulations will be tested.

Figure III-1
Interface of components, coexecuting agencies, and investment levels



D. Central and regional implementation structure

1. SAG/PRONADERS as the coordinating apparatus

- 3.16 PRONADERS is a program platform that takes a multisectoral approach to sustainable rural development and a long-range view in which human development and sustainable natural-resources management are integrated. PRONADERS seeks to coordinate and intermediate between the various fragmented government institutions that have rural development and natural-resources management mandates. Since its primary function is to coordinate different projects in support of rural development, PRONADERS is well situated to operate from the start as the proposed program's central coordinating body.
- 3.17 PRONADER's organizational structure matches the program's configuration. At the ministerial level, all the coexecuting agencies except COPECO are represented on the PRONADERS Advisory Board.¹
- 3.18 On the executive side, PRONADERS has a strategic and policy-making executive arm (DINADERS) and a general management agency (FONADERS) that is PRONADER's financial arm for supporting programs and projects. For local operations PRONADER has support from Regional Facilitation Centers (CEFARs). It is PRONADER policy that project executing agencies be legally established local public or private organizations. The agency's strategy aims and principles are as follows:
- a. Broadbased community participation and human development through agents of rural society (municipal governments, organizations, unions).
 - b. Natural-resources planning and management, focusing on watershed management, environmental protection, and disaster prevention and mitigation.
 - c. Decentralization as a way of supporting good local governance and empowering the citizenry.
 - d. Capitalization of rural areas by integrating rural dwellers into productive farm and off-farm activities, creating jobs, and raising rural incomes.

2. Interagency Coordination Committee

- 3.19 An Interagency Coordination Committee (CCI) will be created with one senior representative from each coexecuting agency, to facilitate coordination between those agencies and guide the program from a multisectoral perspective. The program's Operating Regulations describe how the CCI will function. Its core terms of reference are to: (i) coordinate and guide the program's overall direction;

¹ The government is currently discussing the matter of COPECO representation on the Board.

(ii) approve the program's annual work plans and verify and ensure that its Operating Regulations are adhered to; (iii) state its views as to the achievement of each module's strategy objectives and the eligibility of investment plans produced in each subbasin; and (iv) monitor key program activities. For periodic technical monitoring the CCI will be assisted by a technical subcommittee. **A condition precedent to the first disbursement will be submittal of the official record of the CCI's establishment.**

3. Local and regional deliberative and approval bodies

- 3.20 As avenues for input from producers and small communities Honduras has a number of Community Development Councils (CODECOMs) and Local Development Councils (CODELs) created on the communities' own initiative. Though these bodies have no legal standing they will be strengthened institutionally during phase I of the program since they can serve as a focal point for execution of investments at the community level. Under the Municipalities Act the municipal-level deliberative and approval body is the Municipal Development Council (CODEM). Those councils will be strengthened or, if none yet exists in a municipality, one will be set up there.
- 3.21 At the regional (subbasin) level the program's focal point for discussion and approvals will be Regional Subbasin Councils (CRSCs) to be created in each subbasin as part of the processes launched in module 1 of Component 2. A CRSC may be made up of a representative of the coexecuting agencies at the regional level and of the water boards, CODELs, CODEMs, CODECOMs, producers, the private sector, civic organizations, NGOs, and other representative stakeholders in the respective subbasin. Special care will be taken to have indigenous communities represented on these councils. In regions in which comparable groups are already operating, such as environmental or regional councils, leagues of municipalities or regional municipal associations, CRSCs will be set up on the basis of the existence of such bodies. The understanding is that these councils are loosely structured deliberative, representative bodies and that the CRSC concept may evolve and be fine-tuned as the program proceeds. It is not a water board, nor does it replace the functions of the water boards that would be council members.

E. Structure for the program's operation

1. Program Coordination Unit

- 3.22 A Program Coordination Unit (PCU) will be set up to implement the program. Attached to the DINADERS executive directorate, it will work full-time on the program, operating independently to carry through the approved plans. It will be staffed by a coordinator assisted by two professionals and an administrative assistant selected through competitions. All the staff will be qualified and have demonstrated professional experience. Among other functions, the PCU will: (i) expedite the program's operation; (ii) forward the draft annual work plan and budget to the CCI for approval; (iii) through the Finance Ministry, arrange with the IDB for

disbursements in accordance with work plans; (iv) devise and arrange the signing of agreements with participating agencies and monitor the agreements; (v) make certain that funds are transferred expeditiously; (vi) coordinate the production of, and present, the reports envisaged in the program; (vii) commission the required audits and studies; (viii) consolidate the annual budget and arrange delivery of local counterpart funds; (ix) coordinate the monitoring and evaluation of all activities, helping to resolve problems that arise in the course of the program; (x) maintain a program monitoring database; and (xi) arrange the procurement of goods and services needed for program activities.

3.23 Additional PCU administrative functions will be to: (i) develop and implement accounting, finance, and internal control systems to handle program funds; (ii) organize a uniform system of accounts that can identify sources and uses of program funds in the PCU, the coexecuting agencies, and the program's Regional Facilitation Groups; and (iii) produce periodic financial reports and submit the program's annual consolidated financial statements examined and accompanied by the opinion of external auditors.

3.24 In administering Component 1 funds the PCU will be assisted by the coexecuting agencies, each of which will have a program-funded liaison officer. To administer funds for module 3 of Component 2 (investment funding demands from levels, 1, 2, and 3) the PCU will have support from the IDB/FONADERS program funding window.

2. Regional Facilitation Centers

3.25 PRONADERS plans to create three Regional Facilitation Centers (CEFARs) in the program areas to promote, coordinate, and expedite PRONADERS activities. The CEFARs would have a Regional Facilitator with broad terms of reference to coordinate and expedite all the PRONADERS regional activities. During the initial phase, to help implement Component 2, the PCU will set up three Regional Facilitation Groups (RFGs) attached to the CEFARs and reporting to the PCU for technical purposes, to give the project a physical presence close to the target population.

3.26 The RFGs will have a Project Executive to direct and manage all the program activities, and three professionals. All will be chosen through competitions and will be qualified to perform technical, operational, and financial functions. The CEFARs, with support from the RFGs, will identify, select, and contract service providers to execute specific program activities.

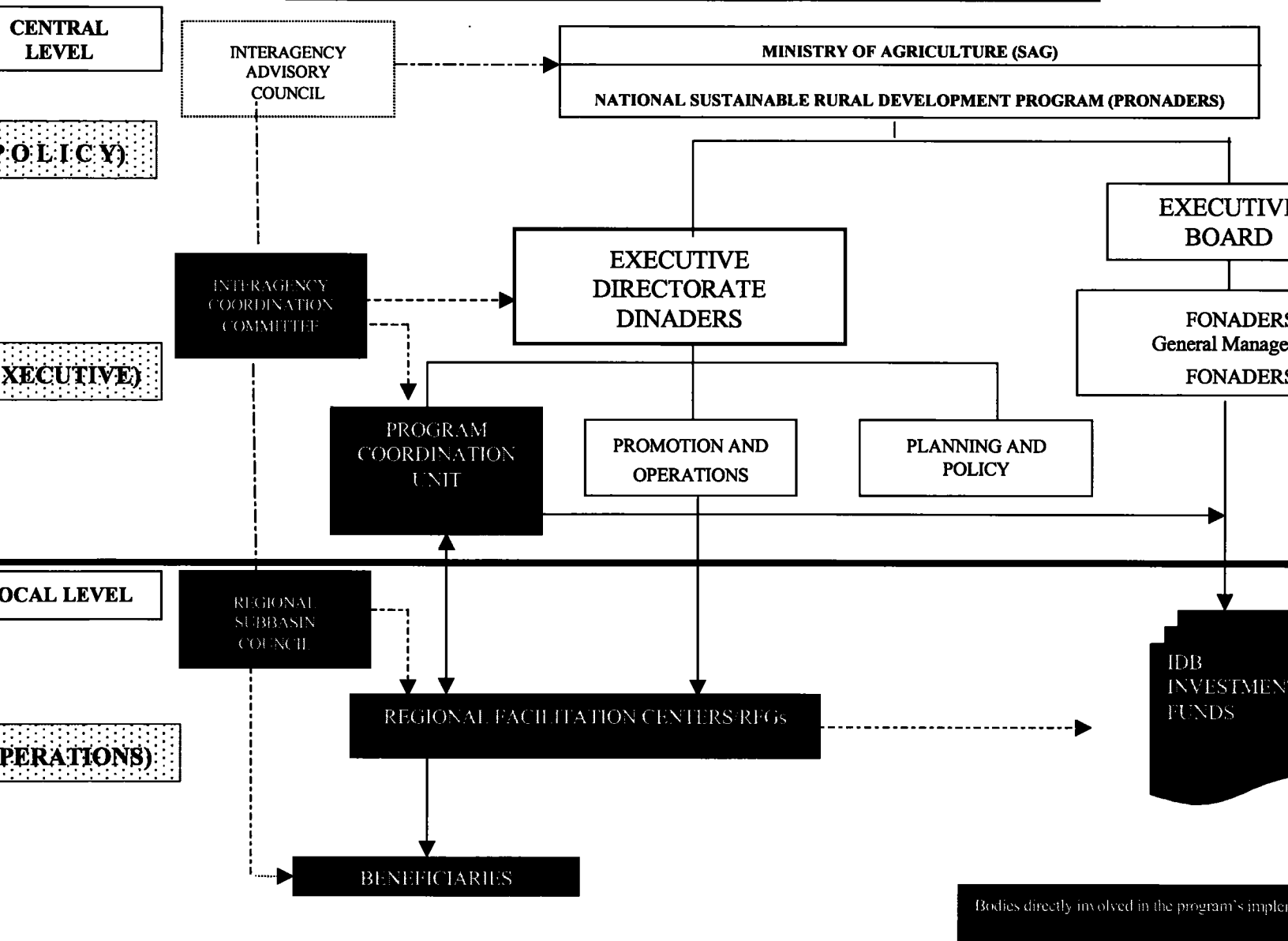
F. Component 1 implementation arrangements

3.27 Component 1 is designed in modules so each coexecuting agency can work transparently and independently. Each agency will prepare an annual work plan (AWP) for its module, which will go into the overall program AWP. That general AWP will be discussed and agreed on in the Interagency Coordination Committee,

where targets will be set. Each coexecuting agency will be responsible for the direct execution of its module. To expedite coordination, the program will pay for a liaison officer in each coexecuting agency, who will be a professional assigned full-time to help the agency execute its module. This officer will work closely with the PCU and keep the institution's authorities apprised of all the program activities.

- 3.28 As well as technical and operational support the liaison officer will have administrative support to: (i) operate separate bank accounts for the loan proceeds and the local counterpart funds; (ii) forward information periodically to the PCU for consolidation into reports on the program as a whole; and (iii) set up and maintain an effective accounting system and files of supporting documents for eligible program expenses and investments. These documents are to be made available on request for examination by the Bank and the program's external auditors.
- 3.29 The PCU will be the direct contact with the Bank to request disbursements for Component 1. After funds are deposited in the PCU special account the PCU will transfer them, in accordance with the AWP's and budgets presented by each coexecuting agency and approved by the CCI, to special bank accounts that each agency will have opened in a system bank to manage the program funds. Such PCU transfers will be handled as a revolving fund, using the same Bank mechanism for the PCU to effect the respective reimbursements. The PCU also will set up revolving funds not to exceed 10% of each coexecuting agency's estimated phase I requirement, and will make reimbursements against requests from each agency accompanied by supporting documents. This approach is warranted to make sure that funds needed for Component 2 investments will be available

FIGURE III-2



G. Component 2 implementation arrangements

- 3.30 The objective of this component is to work on bottom-up processes with implementation approaches that are decentralized but receive support from the central level. Figure III-2 illustrates the component's overall structure. The following sections describe how each of the three modules will be executed.

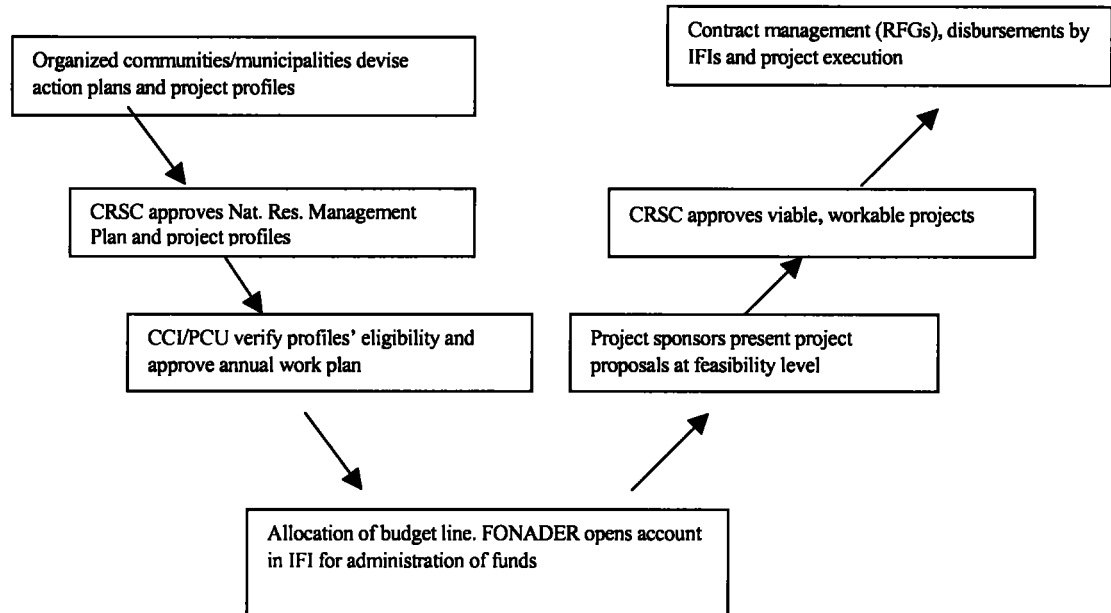
1. Execution of Modules 1 and 2 of Component 2. Promotion, organization, and local capacity building

- 3.31 To launch Component 2, the PCU will produce an annual work plan (AWP) specifically for this activity, as part of the overall program AWP. Using revolving-fund resources it will set up Regional Facilitation Groups (RFGs) attached to the PRONADERS Regional Facilitation Centers (CEFARs) (see paragraphs 3.25 and 3.26). The RFGs, through the CEFARs and FONADERS, will approve local goods and services contracting, with ongoing technical support and guidance from the PCU, as provided in the Operating Regulations.
- 3.32 The RFGs will start off the promotion stage with support from service providers engaged for that purpose. This will include participatory processes involving all local stakeholders at each of the three investment levels, so they can set up representative institutional frameworks at the community, microwatershed, municipal, and subbasin levels. At the latter level a Regional Subbasin Council (CRSC) will be created. The RFGs also will help with management, administrative, and operational strengthening of the project beneficiaries/executing agencies, particularly in the areas of contract management and monitoring of administrative and financial controls over the investment funds.
- 3.33 The PCU will be the direct contact with the Bank to request disbursements for modules 1 and 2 of Component 2, out of its revolving fund. After the funds have been deposited to its special account the PCU will disburse them out of its revolving fund to defray expenses in accordance with the annual work plan and budget it drew up, approved by the CCI, and following the procedure agreed on with the Bank.

2. Cycle of activities to trigger the investment module (module 3)

- 3.34 Implementation of modules 1 and 2 will trigger a series of processes culminating in the development of investment project proposals by communities, associations, municipalities, and various groups in the subbasins. Since this is not a rigid, linear process, it is possible that some subbasins will be better organized than others, as will be explained later in a reference to the El Cajón project subbasins. Figure III-3 shows the general steps that lead up an investment project's implementation, highlighting the decentralized decision-making.

Figure III-3. Project cycle: design, approval, implementation



- 3.35 The CEFARs/RFGs will support all these processes through PRONADERS-certified service providers. The result will be profiles for projects and activities at each of the three levels. The project proposals (profiles) will be reviewed by the CRSC for approval and incorporation into the subbasin's Natural-Resources Management Plan and an investment plan that embodies local wishes and priorities to address the most serious regional concerns. The CRSC will approve the project profiles and the Natural-Resources Management Plan and forward them to the CCI with the program's general annual work plan (AWP).
- 3.36 The CCI will verify that the projects and activities described in the profiles are of a kind and entail an activity that qualifies for financing and will approve the overall program AWP. It then will arrange with FONADERS for a budget line and the opening of a specific account. FONADERS will engage an intermediary financial institution (banks and legally established financial institutions with a regional presence) selected by competition and adhering to the IFI selection criteria in the program's Operating Regulations.
- 3.37 The IDB/FONADERS window will have a specialist and a finance officer to monitor all financial elements. They will be in charge of: (i) financial planning of the Component 2 investment module; (ii) supervising the investment-fund mechanism; (iii) managing the tendering, negotiating, and contract award process to hire IFIs to administer funds, (iv) selecting certified financial intermediaries; (v) consolidating financial information to satisfy the program's finance

requirements (this window also will work directly with the PCU); and (vi) contracting for construction work, services, and goods for projects in this module, in accordance with the ceilings in the program's Operating Regulations.

- 3.38 From this point forward, all activities will be decentralized to the local, municipal, and subbasin level, according to the Operating Regulations. The respective organizations at the three investment levels will develop and design feasible projects with support from service providers. The RFGs will arrange and expedite the service contracts. Proposals of feasible projects will then be forwarded to the CRSC which will check their viability and approve them for financing. Through the CEFARs, the RFGs will arrange for and expedite project implementation contracts and arrange disbursements of the IFI-administered funds, in accordance with expenditure budgets in the financing plan for each approved project. They also will handle requests to replenish investment funds expended, on the basis of supporting documents for such expenditures and in accordance with the Operating Regulations ceilings. Payments will be made to service providers against certificates of satisfactory completion of works. The CEFARs/RFGs will supervise execution and keep the PCU apprised; the PCU will then inform the CCI of the status of activities. CEFARs/RFGs also may contract for goods and services for investment projects if the direct beneficiaries do not have legal capacity to do so. The form of contract to be signed with beneficiaries is part of the Operating Regulations.
- 3.39 To expedite this process and make sure there are no interruptions in project flows, the CRSC will meet periodically to approve projects, as prescribed in the Operating Regulations. The chairperson of FONADERS' Regional Project Selection Committee will take part in CRSC meetings at which project briefs, regional plans, and investment proposals are approved, to ensure ongoing communication and interface between the central and local levels.
- 3.40 As members of the CRSC, the program's coexecuting agencies (SERNA, COHDEFOR, AMHON, COPECO, SAG) will be fully involved in Component 2. Likewise, depending on the nature of the projects requested, they will assist project executing agencies in their respective spheres of responsibility. When selecting projects, efforts will be made to build partnerships with other projects or institutions like the Honduran Social Investment Fund, to create the kind of synergies sought with the program.
- 3.41 The program's Operating Regulations set out project eligibility criteria, including the requirement that projects be part of a CRSC-approved Regional Management Plan for the respective subbasin. The CRSC must have been set up as prescribed in the Operating Regulations.

3. Special case: subbasins in the El Cajón project area of influence

- 3.42 The Bank-funded El Cajón project has built up experience that can serve as a foundation for devising many actions in the proposed program and solidify initiatives already under way in Ulúa River subbasins by bolstering their institutional and financial base. It thus will be important to build on the local organizational apparatus the El Cajón operation has put into place. To that end, as part of the agreement mentioned in paragraph 3.7, AFE-COHDEFOR and SAG/PRONADERS will decide how to consolidate and continue actions with a transition arrangement to take El Cajón functions and activities toward the new tenets of the program in those Ulúa watersheds.
- 3.43 During phase I of the program, under the agreement between COHDEFOR and SAG/PRONADERS, the El Cajón Executing Unit, with a small staff selected by competition, will take on the RFG facilitation functions in the El Cajón project's area of influence. This unit will operate transitionally in COHDEFOR but for technical matters will work with the PCU and CCI, as provided in the program's Operating Regulations.

H. Key provisions in the program's Operating Regulations

1. Functions and responsibilities

- 3.44 The Operating Regulations agreed on with the Honduran government set out the functions and responsibilities of the CCI, the coexecuting agencies and their liaison officers, the BID/FONADERS window, the PCU, and the CEFARs/RFGs, as explained above. They also contain Operating Regulations for implementation of Component 2. The following paragraphs outline some key features and conditions.

2. Beneficiaries and coverage

- 3.45 The investment funds have been scaled to satisfy investment demands coming out of the 14 priority subbasins identified. The target beneficiaries are small producers, their communities, municipalities, and regional associations with a presence in the subbasins.

3. Types of projects

- 3.46 The list of kinds of projects that would qualify for the program, which have come out of the demand surveys and, from an environmental standpoint, contains the kind of operations the program is pursuing, includes:
- a. For the first investment level: (i) agroforestry and soil conservation projects; (ii) protection and sustainable use and development of forests; (iii) environmentally sustainable coffee production; (iv) dual-purpose livestock

modules; (v) small irrigation systems for diversified production; and (vi) seed production.

- b. For investment levels 2 and 3: (i) development and implementation of sustainable communal-forest management plans; (ii) processing and industrialization of forest products, including nonwood products; (iii) management of protected areas, including surveillance, basic infrastructure, management plans and ecotourism; (iv) small waterworks and sanitation works; (v) control of water pollution (e.g. pollution from pulp and glue from coffee processing plants); (vi) protection of water sources; (vii) local emergency warning and monitoring programs in landslide-prone areas; (viii) construction of flood control and bank and slope protection works; (ix) stabilization and protection of areas that are critical to safeguard population centers, roads, bridges, and other basic infrastructure; and (x) protection, allotment, and use of water resources.

4. Eligibility criteria

- 3.47 Eligibility of projects at the three levels will be determined by reference to criteria such as the following, looking at the baseline established for each: (i) contribution to specific environmental improvements in the subbasin; (ii) income-generation impact to empower communities economically; (iii) community participation; (iv) attention to ethnic-community and gender needs; (v) contribution to reducing vulnerability factors; (vi) commitments of local and counterpart contributions, and (vii) funding minimums and ceilings. To qualify for program funding, a project would have to be part of a Regional Plan approved by the respective subbasin (paragraph 3.41). In addition, the Operating Regulations state that to be eligible for funding a project must satisfy the appraisal criteria referred to in the following paragraph, depending on the type of project.

5. Appraisal criteria

- 3.48 To be eligible for funding, a project must satisfy the following technical, environmental, institutional, economic, and financial sustainability criteria. The project's social and economic impact will be monitored against defined baselines.
- a. The project must be technically grounded in validated experiences, preferably known, accepted, and disseminated in Honduras and/or the region. It must take into account the most important experiences and lessons learned in Honduras in similar projects. Any construction work must involve simple technologies that, preferably, are known and handled by the service providers and local communities.
 - b. The net environmental impact must be positive. The project cannot have significant and/or irreversible adverse effects on the water balance—including

erosion and sedimentation processes, the hydrologic cycle, water quality, or environmental quality generally. It cannot have an adverse impact on endangered species, biological corridors, tropical rain forests, wetlands, or other fragile ecosystems. Its mechanisms for controlling, monitoring, and mitigating adverse environmental impacts cannot be complex or expensive, must be user-friendly for communities and must reduce or, at a minimum, not increase the risk of natural hazards. On the social impact side, projects must include activities to foster rural social development and help reduce poverty. They must provide for participatory processes, with a heavy community and local organization dimension. They must address the situation of ethnic communities, involving them in projects, and adopt a gender approach seeking gender equity in all project activities.

- c. The project's institutional management requirements must take due account of local needs and conditions, requiring no new institutions and no change in current functions of the existing institutional framework. The project must be modular and geographically delimited (subbasins) to be able to provide an integrated response to community needs in a decentralized manner and with community participation. Projects must fit within the PRONADERS strategy framework of support for sustainable rural development initiatives.
- d. The investments must be economically viable, demonstrating an economic internal rate of return of at least 12%, in accordance with Bank policies.
- e. Farm and community projects must be financially sustainable. Municipal projects must seek to increase municipal revenues. Subbasin projects will preferably include user-pay mechanisms for environmental services.

6. Activities not eligible for funding

- 3.49 The program's investment funds cannot be used to finance activities or inputs that, by their nature, could cause significant adverse environmental or social impacts or entail purchases of land, current expenditures, or any other use not permitted by Bank policies.

7. Cost recovery and subsidy mechanism

- 3.50 Investment resources will be transferred on a matching-funds basis, according to the type of project at each level. The subsidy implicit in this arrangement will be handled simply and transparently. At investment level 1 (targeting small producers) the program will cover technical assistance but, for investment outlays that will yield revenues for producers, the matching formula will be 65/35. All the investment projects funded will be initiatives of associations and communities pursuing social and environmental benefits defined in participatory action plans. Since level 2 and level 3 investments must yield public benefits, the matching

formula (program/local executing agencies) will be 90/10. This arrangement will be reviewed during the program evaluations and adjusted if necessary to move on to phase II.

- 3.51 There are no cost-recovery plans for the program itself but it will test mechanisms whereby repayment would be made to rural community savings banks or representative community associations so they can strengthen their capital base and fund different kinds of initiatives requested by their members. Municipal bylaws will be adopted to use revenues generated from the management and use of national forests to fund public services and environmental conservation. The program will test mechanisms for paying for environmental services and assist in the process of regulating these spheres to make protection actions sustainable.

I. Monitoring and evaluation of the program

- 3.52 Apart from the monitoring and evaluation work PRONADERS will do as part of its own system, the PCU will monitor the program in accordance with IDB project reporting requirements. It will draw up an evaluation timetable including a midterm review 18 months after the contract is signed and an assessment at the 30-month mark to evaluate the attainment of performance benchmarks that would be triggers for the Bank to consider approval of phase II, as described in paragraph 2.27. Based on the evaluation findings the program's implementation arrangements and operational execution will be reexamined to make any necessary adjustments for phase II, if that stage is approved. A workshop will be organized to launch the program, at which all the stakeholders can review program targets, objectives, and benchmarks.

J. Audits

- 3.53 The PCU will engage an independent audit firm acceptable to the Bank. External auditing will be concurrent, in accordance with Bank-approved terms of reference. The audit firm will submit semiannual reports based on the following: (i) an evaluation of the program's internal control structure; (ii) an evaluation of the executing and coexecuting agencies' compliance with the loan contract terms and conditions; (iii) review of a sample of procurement documentation for construction work, goods, and services paid for by the program; (iv) inspection visits to a sample of program-funded projects; (v) review of a sample of supporting documents supplied with disbursement requests sent to the Bank; and (vi) use of the revolving fund. External audit costs will be defrayed out of the Bank's loan proceeds. The PCU also will send annual reports to the Bank on the program's consolidated financial statements, including a breakdown of expenses and disbursements by coexecuting agency. The semiannual reports are to be submitted within 60 days after the end of each six-month period, starting with the first half-year of program implementation. The annual consolidated financial statements must be submitted within 120 days after the end of each fiscal period.

- 3.54 For the aforementioned purposes each coexecuting agency and FONADERS will keep accounting records for their respective modules, using charts of account built into their accounting systems. The PCU will maintain a chart of accounts for the program that takes in the two components with their various modules and expenditure categories. It will keep copies of all receipts and invoices received from coexecuting agencies and FONADERS, for expenditures funded by the Bank and the local counterpart.

K. Transfers of program funds

- 3.55 Program funds will be transferred to the PCU through a revolving fund. Requests for disbursement will be handled through the Ministry of Finance, which will process them with the Bank. Proceeds of the disbursement will be transferred to the special Central Bank account to be opened for the program, for subsequent transfer to system banks. The revolving fund to the PCU will consist of 10% of the cost of phase I of the program, this being warranted in order to cover the planned investment outlays as well as technical assistance needs and organizational support to launch the program. However, during year 1 of the investment component it will be decided whether the 10% revolving fund is adequate; if necessary, it could be adjusted in the course of the program following Bank procedures.

L. Supervision by the Bank

- 3.56 The Bank's Honduras Country Office will supervise and administer this operation with support as needed from the Environment and Natural Resources Management Division (RE2/EN2). The technical team will evaluate the program each year to verify the attainment of benchmarks required to trigger phase II. The PCU will furnish semiannual status reports on each program component, on the basis of reports sent to it by the coexecuting agencies. Another avenue for supervision and administration will be inspection visits by Country Office specialists as required. PRONADERS and the other coexecuting agencies will cooperate fully with Bank officials for such inspection visits.

M. Procurement

- 3.57 Procedures agreed on with the Bank, on terms set out in the loan contract, will be followed in every case in awarding contracts for program-funded construction work, goods and related services, and consulting services.
- 3.58 International competitive bidding will be required for contracts for goods and related services costing US\$250,000 or more and construction contracts worth US\$1,500,000 or more. International calls for proposals will be held for consulting contracts of US\$200,000 and up. Procurement methods for contracts below those thresholds will be as follows: (a) **unrestricted local competitive bidding or proposal calls:** (i) construction work between US\$500,000 and US\$1,499,999;

(ii) goods and associated services contracts from US\$50,000 to US\$249,999; and (iii) consulting contracts from US\$100,000 to US\$199,999; (b) **restricted call for proposals or restricted local bidding**: (i) construction contracts from US\$20,000 to US\$499,999; (ii) goods and associated services from US\$10,000 to US\$49,999; and (iii) consulting contracts from US\$10,000 to US\$99,999; (c) **no-bid (direct) contracting**: (i) construction work under US\$20,000; (ii) goods and associated services under US\$10,000; and (iii) consulting contracts under US\$10,000.

N. Disbursement timetable

3.59 The following table presents the program's disbursement timetable by source of funds.

Disbursement timetable (US\$000)													
	Year 1			Year 2			Year 3			Total			% of total
	IDB/ FSO	Local	Total	IDB/ FSO	Local	Total	IDB/ FSO	Local	Total	IDB/ FSO	Local	Total	
Component 1	1,800	300	2,100	2,800	200	3,000	3,300	100	3,400	7,900	600	8,500	31
Component 2	1,700	200	1,900	4,100	500	4,600	7,200	800	8,000	13,000	1,500	14,500	52
Component 3	750	200	950	750	200	950	1,000	200	1,200	2,500	600	3,100	11
Other costs	250		250	200		200	100		100	550		550	2
Contingency	100		100	100		100	100		100	300		300	1
Financial costs	300	100	400	200		200	250		250	750	100	850	3
TOTAL	4,900	700	5,600	8,150	900	9,050	11,950	1,100	13,050	25,000	2,800	27,800	100
% for year			20			33			47			100	

IV. VIABILITY AND RISKS

A. Technical viability

- 4.1 The program is technically viable for the following reasons. Special care was taken in designing it to make sure that the proposed projects and activities are grounded in validated research and experiences, that is, they preferably will already be known, accepted and, ideally, disseminated in Honduras and/or the region. With that in mind, some elements taken into account were program beneficiaries' and users' expectations and requirements, ascertained through a participatory demand survey conducted as part of the program's design, and the systematization of lessons learned and experiences in Honduras, both positive and negative, that have been put into practice by public agencies, NGOs, and private parties. The project typology that would be eligible has been applied in the country and the coexecuting agencies have experience in applying it.
- 4.2 Honduras has a number of service providers (NGOs and local consulting firms) that have a track record in delivering technical assistance and training services in a wide array of natural-resources management fields such as participatory rural diagnostic assessments, soil conservation, agroforestry practices, and protection and management of protected areas. Various of the proposed activities have been put into practice and validated in the area the program will target, including the El Cajón project experience.
- 4.3 For the most part the program will pursue institutional management processes geared to local needs and conditions, with no technical constraints for the program's viability. No sophisticated technology will be required for the regional-scale (subbasin) and municipal infrastructure works envisaged to reduce the risk of erosion, bank overflows, flooding, and landslides.

B. Institutional viability

- 4.4 The plan for the institutional framework for the program's implementation is to develop institutional and regulatory structures, put effective management instruments into practice at the central and local levels, build local and community management capacity, expand technical assistance and training services, and effect investments. All the coexecuting agencies that would be involved in the program already exist and are performing their prescribed functions—in other words, no new institutions would be created and no current functions would change. The program's challenge is on the interagency coordination front, which would be addressed by fostering deliberative and consensus-seeking bodies like the Interagency Coordination Committee and Regional Subbasin Councils. Given the proposed mechanisms to strengthen the program institutions and coordinate their

work, the apparatus already in place at the central and local levels will be viable in the long term.

- 4.5 The program is designed to be executed within the PRONADERS coordination and facilitation framework, using a modular approach and targeting a delimited geographic area (subbasins) in order to provide an integrated response to community needs, in a decentralized manner and with community participation. The proposed implementation setup is institutionally viable since PRONADERS is already operating and offers a strategic framework for furthering sustainable rural development initiatives. Since some of the program components are to be executed mainly through contracts, the investment plan's success will hinge on contract administration capacity. The program contains measures to build capacity in that area.
- 4.6 PRONADERS' operating arms DINADERS and FONADERS were created by an executive order in March 2000 as part of the SAG organization, attached to the Office of the Deputy Agriculture Secretary. The SAG, by way of DINADERS and with support from the PCU, is equipped to execute and supervise the program. Module 1 of Component 1 will build capacity in DINADERS to coordinate with the coexecuting agencies and implement the proposed program.
- 4.7 FONADERS will operate as a funding window in module 3 (investments) of Component 2, to meet investment needs articulated through participatory processes in each of the selected subbasins. The program's Operating Regulations set out procedures for expending, accounting for, and reporting on program funds. The program also has mechanisms to ensure transparency in its implementation, by way of a monitoring and evaluation system with a baseline methodology to be used in each subcomponent.
- 4.8 The program's institutional framework and decentralized implementation strategy are functional and viable. They use Regional Subbasin Councils as focal points for aggregating the demands for level 1 and 2 investments forwarded by the respective community and municipal development councils (CODECOMs and CODEMs). The decentralized arrangement involving a Regional Facilitation Group that reports for technical matters to the PCU will assure operational continuity, working closely with the coexecuting agencies represented on the Regional Subbasin Council.
- 4.9 PRONADERS proposes to set up three Regional Facilitation Centers (CEFARs). The Regional Facilitation Groups working out of the CEFARs will hire service providers to assist the level 1, 2, and 3 executing agencies, thereby assuring they have the core operational capacity for decentralized implementation of activities.
- 4.10 Because of the program's innovative implementation approach and decentralized operation, the phase I experiences as well as experience being gained in the El Cajón project will show what adjustments are needed on the institutional side,

throughout the program, to solidify the institutional and implementation framework for phase II when the bulk of the subbasin investment projects will be carried out.

C. Socioeconomic viability

- 4.11 For an economic analysis of the planned program investments, a set of projects was examined by reference to the anticipated demand in each subbasin during the program's two phases. Table IV-1 shows the analysis findings as to returns and overall potential investment by standard-type project.

Table IV-1. Findings of economic appraisal of standard-type projects		
Project	EIRR ¹	Potential investment (US\$000)
Environmental management for coffee production	24%	4,000
Soil conservation for basic grain production	12%	4,350
Production diversification with small irrigation systems	41%	300
Implementation of management plans in private woodlands	32%	3,120
Intensive and dual-purpose livestock management	26%	1,040
Technical assistance for agroforestry commercialization	n.a. ²	2,095
Management of municipal woodlands	32%	3,250
Small water supply systems optimization	18%	2,625
Santa Bárbara National Park	n.a. ²	900
Small flood-control works	n.a. ²	1,300
Environmental management Lake Yojoa	n.a. ²	1,092
Total		24,072
¹ Average for the various subbasins ("Economic analysis of proposed farm models for the target area of the Program for Natural-resources Management in Honduran Priority Watersheds"). ² For these projects, no benefits will be quantified but their viability was analyzed by reference to cost-effectiveness and least-cost technical criteria.		

- 4.12 No calculation was done of the social or environmental benefits that would ensue from these kinds of projects. Likewise, communities have demanded and prioritized an array of projects and local initiatives involving education, fire prevention and control, early warning systems, and community development, the benefits of which have not been quantified ex ante.
- 4.13 Since the kinds of projects slated for funding in each subbasin are similar to the ones being executed in the El Cajón program, a specific study was commissioned during the design of the proposed program to assess the impact of that operation. This analysis is valuable because it is based on actual, observed data. A baseline that had not existed originally was recreated and a survey done of a sample of

producers in the program area, some of whom had received assistance through the project and some of whom had not, to compare the two groups.

- 4.14 The evaluation done after re-running an integrated economic analysis of the El Cajón program yields an economic internal rate of return of 20% looking only at quantifiable benefits, i.e., those relating to increases in incomes as a result of projects to instill agroforestry, soil conservation, and forestry practices. Not factored in were other benefits the project has yielded that are not directly quantifiable, such as environmental education actions, training, organization, and institution-strengthening. The quantified benefits reflect income projections that assume that producers will solidify the adopted practices in future.
- 4.15 The analysis found significant differences between producers who had been assisted by the El Cajón program and those who had not. Overall, those receiving assistance had US\$5,000 to US\$7,000 a year in earnings, compared to around US\$1,500 a year brought home by non-assisted producers. There are clear differences in agronomic practices between the two groups: those assisted by the program have adopted, on a far wider scale than those who received no assistance, practices such as stubble management, non-burn options, contour planting, home gardens, living barriers, improved pasture, and so on, that put land to better use. These conservation moves are expected to endure because the producers themselves paid for them, the El Cajón program having furnished only technical assistance.
- 4.16 The benefits of the proposed program could surpass the El Cajón gains because, unlike that operation, the new program would aggressively promote marketing, market prospecting, and demand processes that should increase producers' incomes and be sustainable in the long term. The planned scale of the investments is warranted given the local organizational and implementing capacity in evidence in at least four of the fourteen subbasins considered in the program. This means a distribution of about US\$3 million in investment funds in four subbasins during phase I—well below the true demand. The object is to produce results that can have a demonstration effect, to move into phase II of the program with proven mechanisms.
- 4.17 In the past two years the El Cajón project has executed about US\$6 million in investments annually. Accordingly, execution of investments of around US\$1 million a year in each of the four program subbasins should be feasible.
- 4.18 **Distributional impact and poverty considerations:** The program proposed here qualifies as a poverty-targeted investment by virtue of its geographic targeting. The selected subbasins are home to about 1.2 million people, 70% of them rural dwellers. These subbasins have the highest poverty indicators in the country, with strong rural/agricultural population pressures. In the most recent Human Development Report, Honduras comes in with a Human Development Index of 0.653, placing it at a medium development level. Breaking this rating down into the

rural and urban sectors, the rural HDI is 0.596 and the urban figure is 0.701. The average HDI for municipalities in the targeted area is 0.396, well below the country average. The municipality of San Manuel del Colohete (department of Lempira) has the lowest index (0.164); the highest (0.571) is in Las Lajas, department of Comayagua. The highest index in the program area is below the national average. Overall, the program area municipalities have an index under 0.575, indicating a medium-low, low, and very low level of development. According to official figures, 75% of rural Hondurans live below the poverty line. The entire rural population of the targeted area is expected to benefit directly or indirectly from the program. Approximately 330,000 people (55,000 families) stand to benefit directly.

D. Financial viability

- 4.19 The government has given assurances that it can honor its counterpart-funding commitments so the coexecuting agencies will have the requisite institutional and financial capacity. The program itself will be fostering financial sustainability at the different levels at which it operates: (i) at the farm and community level, support will be contingent on financially sustainable practices; (ii) one feature at the municipal level will be institution-strengthening and boosting of municipal revenues; and (iii) at the region and subbasin level, viable arrangements to charge for environmental services will be sought.

E. Environmental and social viability

- 4.20 **Environmental viability:** Since the program is designed to remedy natural-resources management problems, its overall environmental impact is expected to be positive.
- 4.21 Component 2 will create considerable positive impacts, but implementing some specific projects could have adverse effects on the environment. To attenuate these, the Operating Regulations include requirements and mechanisms for environmental and social impact assessments, and environmental monitoring, supervision, and audits as investment projects are designed and executed.
- 4.22 **Social viability:** To address the program's possible social impacts, one feature of its methodology is activities to further rural social development and help reduce poverty. Participatory processes are central to the program, which will have a strong community and local organization dimension. The program activities have an ethnic/indigenous dimension, to involve those communities in the projects, and a gender dimension in pursuit of gender equity. The integrated watershed management approach that underpins the program looks at social factors, families, and communities and their organizations, and interaction with every level and stakeholder in the watersheds.

- 4.23 In conclusion: such adverse environmental or social impacts as may ensue from the project will be minimal compared to the positive environmental benefits in the short and medium terms for individual holdings and for the microwatershed or subbasin. The potential adverse impacts are mitigatable and controllable, measures to that end being set out in an environmental action plan. The program thus is viable from an environmental and social impact standpoint.

F. Risks

- 4.24 DINADERS and FONADERS are recently created deconcentrated agencies that are currently being organized. They are still building capacity and have little experience in processes like the one designed for this program. However, their legal mandate is clear and they have an operational apparatus set up and functioning. Module 1 of component 1 is designed to strengthen their strategic and operating capacity in areas addressed in the program. Furthermore, both agencies would be strengthened by various programs, among them the rural economic revitalization program (1063/SF-HO).
- 4.25 Given the nature of the proposed program, its subbasin focus, and the heavy stakeholder input envisaged centrally, regionally, and locally, strong interagency coordination is a must. This is especially important as the organizational apparatus is put together, notably at the local and regional level, before investment projects are funded. To that end, one feature of the proposed program is the formal establishment of an Interagency Coordination Committee (CCI) that has in fact been operating during the preparatory studies. PRONADERS also has an Interagency Advisory Council, a high-level consultation body with broadbased membership, to pool the institutional expertise needed to ensure the success of natural-resources and sustainable rural development programs and projects.
- 4.26 For a program of this type to achieve its objectives there must be close coordination and interface between activities to strengthen the executing and coexecuting agencies and the participatory processes designed to instill a sense of ownership of projects. The SAG, AFE-COHDEFOR, and SERNA are organized and operate by regions, covering the program areas. Component 1 of the program will bolster that structure and help establish it in such agencies as COPECO and AMHON, in the program areas, so it will be operating smoothly when it comes time to launch local and subbasin-level participatory processes. There will be provisions to this end in the agreements signed by the SAG with the program's coexecuting agencies.
- 4.27 Some final program risks that should be mentioned are: (i) weaknesses in local institutions; (ii) the possibility that communities may not adopt or maintain all the recommended practices; (iii) problems and confusion regarding land tenure, which could discourage producers; (iv) difficulties in making local and small-producer activities financially sustainable; and (v) too few service providers in areas or subbasins that have not been addressed by projects like the El Cajón operation. The

challenge of building deliberative capacity for local decision-making also poses a risk. However, with its phased structure and the activities planned in every component and module, the program is designed precisely to counter such weaknesses.

**MULTIPHASE PROGRAM FOR NATURAL-RESOURCES MANAGEMENT IN PRIORITY WATERSHEDS
(HO-0179)**

Logical Framework

Goal and Purpose (for the life of the program)

Objectives	Indicators	Means of verification	Assumptions
Goal			
<p>raise the standard of living of rural dwellers in the following subbasins: (i) Jaitique, (ii) Mejocote, (iii) Carque, Grande de la Cabaña, (iv) Jaitique, (v) Humuya, (vi) Jaitique, (vii) Playas and Lake Chapala (Ulúa River basin); (viii) de Reitoca and (ix) Nacaome River (x) Copán and La Unión; (xi) da and Quimistán (xii) Melecón River (xiii).</p>	<p>Indexes denote improved quality of life of households, women, and children in the target population, compared to baseline values for the following elements at the start of the program: (i) household income; (ii) yield/harvest of main crops/products; (iii) cropland and woodland as a percentage of the total holding; (iv) soil loss; (v) use of farm chemicals; (vi) protection of water sources; (vii) availability and abundance of water sources; (viii) abundance of forest; (ix) water quality; (x) level of risk and vulnerability to natural hazards.</p>	<ul style="list-style-type: none"> • Program baseline. • Household surveys. • Data from the program's evaluation and monitoring system. 	<ul style="list-style-type: none"> • National Sustainable Rural Development Program (PRONADERS) objectives continue to be a priority focus of the government. • The operation of PRONADER and DINADERS y FONADERS is institutionalized and these agencies remain free of partisan political influence. • The government's fiscal and monetary policy aim continues to be micro- and macroeconomic stabilization. • At the end of phase I of the program the conditions that are triggers for phase II are favorable. • The government continues to be interested in proceeding with phase II of the program and accords it priority.

Objectives	Indicators	Means of verification	Assumptions
Purpose			
<p>reduce poverty and economic, and environmental sustainability of program residents and their environment by improving processes and creating sustainable rural development benchmarks using the following:</p> <p>Building strategic and decentralized natural-resources management capacity in key national agencies (SAG/PRONADERS, SERNA, COHDEFOR, COPECO and AMHON).</p> <p>Fostering and organizing participatory processes and building local institutional and organizational capacity for sustainable natural-resources management.</p>	<p>Processes:</p> <ul style="list-style-type: none"> • A decentralized mechanism for participatory processes is in place and operational in the target agencies. A stock of private technical-assistance providers has been developed. Mechanisms have been devised and are in operation to systematize and disseminate experiences and best practices. Benchmarks have been established to measure progress on these processes and the results of same are satisfactory. A formal and nonformal environmental education program, including rational natural-resources use and management, has been developed and is operating. • A water allocation mechanism has been established and is operational at the national level and takes in the program subbasins. The following has been accomplished via participatory processes in the program subbasins: land-use and master water-resources plans have been implemented; a regulatory framework for water resources management has been developed and put into practice; a hydrometeorological monitoring system is in place and is operational; and mechanisms have been devised for pricing and paying for environmental services. 	<ul style="list-style-type: none"> • Monitoring of activities. • The program baseline. • Updated deforestation maps. • Multitemporal analysis using aerial photography or satellite imaging. • Technical audits. • Management plans executed. • Reforestation mapping. • Analysis of changes in land use. • Studies of soil retention on farms. • Hydrometeorological measurements and records. • Sampling of water quality and silting • Management plans. • Surveys of community organizations. • Permit approval statistics. • Strategic natural-resources management plans for subbasins, produced by CRSCs. • Reports from coexecuting agencies. • Number of projects and funding amounts at the three investment levels. • Monitoring databases and reports. • Concurrent audit reports. • Phase I indicators reviewed, updated, and extended to the entire program (see next section). 	<ul style="list-style-type: none"> • The regulatory framework for forestry, water resources, the environment and protected areas, and land-use planning is modernized. • The project budget is expended on schedule. • No economic policies or measures encourage unsound use of land, surface water, or groundwater. • No severe natural disasters occur. • No heavy industrial pollution sources appear. • The Honduran people and other political and economic agents become aware of the economic, social, and environmental value of water and protected areas. • The decentralization policy and local government structure remain in place. • There continues to be political commitment in central government institutions. • Laws, municipal bylaws, and regulations are applied and enforced by civil society.

Objectives	Indicators	Means of verification	Assumptions
Investments in support of local production systems, municipal initiatives and regional (subbasin-level) initiatives.	<ul style="list-style-type: none"> • The following have been established, via participatory processes, in the program subbasins: a regulatory framework for management of forests and protected areas and plans to that end; strategies and policies on forestry incentives and commercialization, marketing, and income generation. • The following has been accomplished, via participatory processes, in the program subbasins: hazard/ vulnerability considerations have been built into sustainable rural development efforts; hazard maps have been produced; a monitoring/ hazard warning system has been implemented; institutional disaster prevention and management capacity has been developed at all levels. • Via participatory processes, the following has been accomplished in the program subbasins: strategies for environmental and natural-resources management and disaster prevention and management have been built into municipal agendas; Municipal Environment Units have been set up and are operational; interfaces have been established and are operational between community, municipal, regional, and national agencies by way of the CCI, CEFARs, CODEMs, CODECOMs, CODELs and CRSCs. 		

Objectives	Indicators	Means of verification	Assumptions
	<p>Benchmarks (subject to review at the end of phase I):</p> <p>The following has been achieved in the program target areas, by reference to the baseline:</p> <ul style="list-style-type: none"> • 10%-30% drop in deforestation rates. • 15,000-20,000 hectares of forestable land recovered. • 10%-30% drop in erosion rates. • water quality indexes improved for the beneficiary communities. • five water sources protected. • five protected areas managed. • land-use planning, environmental standards for natural-resources management and natural-disaster prevention added to the bylaws of at least 20% of the municipalities. • at least 10 environmental and natural hazard management committees formally instituted, with women participating. • at least two regional natural-hazard monitoring units operating. • regional water allocation system operational, to apportion water among competing uses. 		

PHASE I OBJECTIVES

Objectives	Indicators	Means of verification	Assumptions
Component 1			
and national ions strengthened uipped with the ary instruments, fficient ralized ement of -resources use in get subbasins.	<p>Module 1</p> <p>A program monitoring and evaluation system has been set up within DINADERS and is operating efficiently and effectively, with process benchmarks established. The system is accessible to the national coexecuting agencies and local, municipal, and regional institutions.</p> <p>The interagency coordination, consultation, and consensus-building system is working efficiently and effectively to help improve the supply of services to small producers in rural communities in the targeted watersheds.</p> <p>A system to systematize and disseminate experiences and best practices has been set up in DINADERS and is operational in the program area. It is accessible to the national coexecuting agencies and local, municipal, and regional institutions.</p> <p>Module 2</p> <p>An environmental management system has been created and is monitoring quantity and quality of the water resource.</p> <p>A hydrometeorological network is operating in the program area with a database, to prevent disasters and monitor water quantity and quality.</p> <p>A unit working on initial support for creation of a water authority, provided for in the corresponding draft legislation, has been set up in SERNA and is operating.</p> <p>An environmental valuation methodology has been designed and the system has been established in the targeted subbasins.</p>	<ul style="list-style-type: none"> • Monitoring of activities. • Technical audits. • Periodic measuring and recording in selected microwatersheds. • Work plans. • Reports on the work of local and national institutions. • The program's monitoring and evaluation system. 	<ul style="list-style-type: none"> • The government's fiscal and monetary policy aim is micro-macroeconomic stability. • The project budget is expended on schedule. • The Municipalities Act is applied and enforced. • The structure of local government remains in place. • Policies on participation and decentralization remain in place. • Its awareness having been raised, the population is more disposed to maintain monitoring networks.

Objectives	Indicators	Means of verification	Assumptions
	<p>The regulatory framework for water resources has been devised, supporting integrated water-resources management in the program area; water-resources master plans developed for at least two subbasins. Land-use plans have been developed via participatory processes and built into regional natural-resources management plans in the 14 program subbasins.</p> <p>Module 3</p> <p>A pilot forest certification system has been developed and implemented in the targeted subbasins, that can be applied in the expansion areas. A forest site classification system and associated technical standards have been developed to supplement the current systems. An education, dissemination and training program on forestry topics is operating efficiently and effectively in the program subbasins. A forestry information and statistics system has been established within the framework of the program's information, monitoring and evaluation system and is operating well.</p> <p>Module 4</p> <p>A policy and strategy framework and standards have been devised to address risk and vulnerability dimensions in rural development work, have been approved by the advisory committees, and are in effect in the program subbasins. A georeferenced information system to identify and systematize hazards is being operated by local organizations to alert residents of the program's areas of influence. COPECO has been strengthened and is coordinating with the pertinent agencies and organizations in the program area.</p>		

Objectives	Indicators	Means of verification	Assumptions
	<p>Module 5</p> <p>A natural-resources management and coordination strategy has been fostered and added to municipal agendas in the program subbasins.</p> <p>Agencies in charge of management and of coordinating work of local organizations, NGOs, government agencies, and municipalities have been strengthened, and practical experiences with decentralized management in the program area municipalities have been systematized.</p> <p>At least 60% of the municipalities that received training are submitting and executing investment projects in the program area, with resources from the Fund.</p>		

Component 2

<p>and national tions strengthened quipped with the ary instruments, fficient tralized ement of l-resources use and ement in the target sins.</p>	<p>At the central level:</p> <ul style="list-style-type: none"> • Execution mechanisms operating well. • Institutional and financial performance of the executing and coexecuting agencies is satisfactory and positive. <p>In at least three of the subbasins:</p> <ul style="list-style-type: none"> • Regional and/or subbasin advisory councils operating on the basis of consultation, consensus, agreements, and priorities in the subbasins. • Regional natural-resources management plans based on participatory processes, land-use planning, demand surveys, and water resources developed and agreed on in the advisory councils. 	<ul style="list-style-type: none"> • CCI minutes. • Compliance with contractual clauses and the Operating Regulations. • Policy and strategy paper for integrated natural-resources management in the program subbasins approved by the CCI and endorsed by the government. • The program's monitoring and evaluation system. • Action plans and baselines. • Monitoring of activities. • Technical audits • Periodic measuring and recording in selected microwatersheds. 	<ul style="list-style-type: none"> • The government's fiscal and monetary policy aim is micro-macroeconomic stability. • The project budget is expended on schedule. • The Municipalities Act is applied and enforced. • The structure of local government remains in place. • Policies on participation and decentralization remain in place. • Its awareness having been raised, the population is more disposed to maintain monitoring networks.
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Objectives	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> Investment plans for each of the three levels devised in accordance with the regional plan, and eligible projects developed and presented by local, municipal, and regional agencies with support from service providers. 60% of the Municipal Environment Units and key agencies strengthened and operating effectively and efficiently. Vulnerability reduction strategies devised and implemented in the municipalities. Decentralized decision-making processes executed and routinely operating in the targeted subbasins. CEFARs and their Regional Facilitation Groups established and operating efficiently and effectively. 	<ul style="list-style-type: none"> Work plans. Reports on work of local and national institutions. Records and minutes of meetings of community-based organizations, municipal agencies and Regional Councils. Investment Fund records. 	
<p>ment initiatives for -resources</p> <p>ement, taking a shed management k and vulnerability ion approach,</p> <p>with investment ces at the unity, municipal, gional levels,</p> <p>ing small ers, ethnic groups, omen's groups.</p>	<p>At least 50 service providers have been organized and strengthened and are offering technical assistance services to producers in the targeted subbasins.</p> <ul style="list-style-type: none"> FONADERS has the financing windows needed to transfer funds to requesting communities expeditiously, transparently, in a decentralized manner and following the rules. 90% of funds allocated for investment at the three levels have been disbursed and committed. 80% of the funded projects show a very high probability of achieving their objectives. The evaluation of benchmarks relative to the baseline for projects funded at the three investment levels shows a positive trend in indicators of income, environmental quality, standard of living, and reduction of vulnerability of the target population. Projects financed out of the investment fund have benefited the target groups (ethnic groups, women, small producers) and they are demonstrably sound financially, economically, and environmentally in the program subbasins. 	<ul style="list-style-type: none"> Monitoring and evaluation system; baseline by project. Surveys. Investment reports. Activity reports. Number of projects funded; percentage of project applications approved for funding, fulfilling Operating Regulations requirements; total and breakdown by ethnic group, women, and each of the three investment levels. 	

PROCUREMENT OF GOODS AND SERVICES (US\$000)

Item	Total value	Procurement method (*)	Year 1 amounts	Year 2 amounts	Year 3 amounts
1. Consulting and other services					
Studies, plans, diagn. assessments	4,040	Internat. and local	2,300	1,240	500
Institutional support	4,100	Internat. and local	1,850	1,150	1,100
Technical assistance	2,000	Local	1,000	500	500
Monitoring	310	Internat. and local	80	90	140
Concurrent auditing	300	International	300	--	--
Training and advisory support	1,500	Internat. and local	300	700	500
	12,250		5,830	3,680	2,740
2. Goods					
Equipment	490	International	220	140	130
Vehicles (PCU, Regional Facilitation Groups, liaison officers)	210	International	210	--	--
	700		430	140	130
3. Construction					
Local initiatives	5,000	Local	300	2,100	2,600
Municipal initiatives	3,000	Internat. and local	300	1,100	1,600
Regional initiatives	3,000	Internat. and local	300	1,000	1,700
	11,000		900	4,200	5,900
Total	23,950		7,360	8,280	8,860

*** Notes:**

- a) Procedures agreed on with the Bank, as set out in the loan contract, must be followed for procurement and contracting of all program-funded construction work, goods and associated services, and consulting services.
- b) Thresholds for international competitive bidding are US\$250,000 for goods and associated services and US\$1,500,000 for construction work. International calls for proposals will be held for consulting services costing US\$200,000 or more. The following will be the rules for procurement of items and services falling below those thresholds, which will be called "smaller amounts":
 - (1) Unrestricted local bidding or proposal calls: (i) construction: between US\$500,000 and US\$1,499,999; (ii) goods and associated services: between US\$50,000 and US\$249,999; (iii) consulting services: between US\$100,000 and US\$199,999.
 - (2) Restricted local bidding or proposal calls: (i) construction: between US\$20,000 and US\$499,999; (ii) goods and associated services: between US\$10,000 and US\$49,999; (iii) consulting services: between US\$10,000 and US\$99,999.
 - (3) No-bid (direct) contracting: (i) construction: under US\$20,000; (ii) goods and associated services: under US\$10,000.

PROPOSED RESOLUTION

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

**(Multi-Phase Program for Natural Resources Management
in Priority Watersheds, Phase I)**

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 Multi-Phase Program for Natural Resources Management in Priority Watersheds, Phase I. Such financing will be for the amount of up to US\$25,000,000, or its equivalent in other currencies, except that of Honduras, which are part of the resources of the Bank's Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.