

EMERGENCY ROAD AND WATER-SUPPLY INFRASTRUCTURE PROJECT

(HO-0143)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: Republic of Honduras

EXECUTING AGENCY: Ministry of Public Works, Transport, and Housing and National Water and Sewerage Authority (SANAA)

AMOUNT AND SOURCE: IDB: (FSO) US\$18.8 million
(Reformulated): US\$ 7.0 million (see paras. 3.12, 3.13 and 3.14 of proposal)
Local counterpart contribution: US\$ 2.9 million
Total: US\$28.7 million

FINANCIAL TERMS AND CONDITIONS: Amortization period: 40 years
Disbursement period: 18 months
Interest rate: 1% first 10 years
2% subsequent 30 years
Inspection and supervision: 1%
Credit fee: 0.5%

OBJECTIVES: The project's objective is to alleviate the economic, social, and environmental impact of the damage caused by Hurricane Mitch to Honduras's road and water-supply infrastructure, and lessen the associated cost.

The specific objectives are to: (a) help repair several sections of the country's paved main and secondary road network; (b) rehabilitate or replace bridges in the city of Tegucigalpa and on the Tegucigalpa-San Pedro Sula highway; and (c) restore Tegucigalpa's drinking-water system through the supply and installation of piping and equipment.

DESCRIPTION: The roads subproject (US\$17.7 million) will include: (a) work to repair about 380 km of the paved main and secondary road system; (b) rehabilitation of 15 bridges (760 m); (c) construction of two bridges (80 m) in Tegucigalpa; and (d) institutional strengthening of the Ministry of Public Works, Transport, and Housing (SOPTRAVI) and the Ministry of Natural Resources and Environment (SERNA).

The **water-supply subproject** (US\$11 million) will fund the following: (a) supply and laying of about 36,400 m of ductile iron pipe for main conveyance lines and 14,000 m of PVC pipe for water and sewer lines; and (b) supply and installation of pumping equipment and fittings.

**THE BANK'S
STRATEGY:**

The IDB support proposed here is in line with the objectives and guidelines set out in the Bank's policy on emergencies arising from natural and unexpected disasters (OP-704), which was approved by the Board of Executive Directors in November 1998. In particular, it is consistent with the objectives of swiftly repairing damaged infrastructure, providing essential services of the requisite quality and safety standards, and restarting normal economic activity. The focus of the planned civil works is the repair and some initial rehabilitation of infrastructure to restore service; they would mark the first stage in a permanent reconstruction and rehabilitation effort.

**ENVIRONMENTAL AND
SOCIAL REVIEW:**

In the roads sector, the project will fund repairs to existing roads in areas that have already been developed and worked on; the roads subproject thus would have no adverse environmental or social impact. The likely impacts in the course of the roadwork will be localized, modest, short-lived, foreseeable, and mitigable. No community resettlements or major road realignments are envisaged.

Two experts will be hired to speed up the environmental assessment of road works, one for SOPTRAVI and the other for SERNA. For the water-supply component, in which the reconstruction effort is especially urgent, SERNA has given authorization, by way of an arrangement under the National Environmental Impact System, for work to begin, adhering to guidelines and standards to prevent and mitigate environmental impacts, with environmental permits to be arranged subsequently where necessary.

The Bank's Committee on Environment and Social Impact approved the environmental elements of this project on December 15, 1998.

BENEFITS:

The program funds would pay for emergency repairs to the paved main and secondary road system which carries the bulk of the country's traffic, connects production centers and the larger domestic markets, and links Honduras with other countries. The planned investments would therefore yield considerable

benefits by quickly restoring the service capacity of highways and roads.

The benefits sought by the water-supply component, which would restore drinking-water service to those who have no safe water source since the hurricane, would be: (a) a lower health risk to those population groups; (b) lower costs of securing water through alternative solutions; and (c) less need to resort to potentially hazardous alternative sources of water, particularly in a setting of general environmental degradation owing to incomplete coverage and the poor state of repair of sanitation and waste-treatment systems.

RISKS:

The following are the chief risks of the project: (a) possible lack of implementing capacity in the public sector (particularly SANAA) and of installed capacity available in Honduran private construction firms; (b) uncertainty as to the true magnitude of the repair costs, this being a particular concern in the bridge component, in which eventual soil settling is a major cost factor; and (c) SERNA's lack of capacity and experience to ensure that due attention is given to environmental considerations, and possible conflicts between what may be the best approach from a technical standpoint and the understandable approach that the work needs to be done quickly.

**EXCEPTIONS TO
BANK POLICY:**

It is recommended that the firm that will be conducting concurrent audits of the project be engaged by way of a restricted call for proposals (see para. 4.26).

That same procedure is recommended for the purchase of ductile iron pipe and fittings for subprogram II, at a cost of up to US\$4 million (see para. 4.19).

It is recommended that retroactive financing, drawn on the loan proceeds, be authorized to contract the Jicaro Galán-Choluteca section in the amount of US\$218,800 - in excess of the ceiling for direct contracts - for this emergency operation (see para. 4.24).

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Conditions precedent to the first disbursement: (a) entry into force of the project's Operating Regulations (see para. 4.5); (b) hiring of a firm for concurrent auditing of the project (see para. 4.26); and (c) proposal with mechanism to ensure rapid and timely access by executing units to revolving fund resources (see para. 4.28).

Conditions precedent for subproject I: (a) signature of an agreement between SOPTRAVI and SERNA for management of environmental matters under this subproject (see para. 4.11); (b) hiring by SERNA, using project funds, of an expert to assist the latter in connection with environmental matters under this subproject; and (c) hiring of consulting services to support SOPTRAVI in engineering and environmental matters (see para. 4.6).

Conditions precedent for subproject II: (a) hiring of the subproject manager (see para. 4.7); and (b) signature of an agreement between the Ministry of Finance and SANAA to pass on proceeds of the loan, setting out that executing agency's obligations for subproject II (potable water supply), including the furnishing of local counterpart funds.

Disbursement to start off the project activities: Before the special conditions precedent to the first disbursement have been satisfied the Bank may disburse up to US\$1.5 million to start off the project activities (see para. 4.29).

Contractual covenants: (a) For subproject I: the Bank may approve up to US\$1 million in retroactive financing and up to US\$500,000 in expenditures incurred on or after October 30, 1998, for recognition against the local counterpart (see para. 4.24); (b) before any subproject I roadwork can begin, consultants must have been engaged to supervise that work; (c) a revolving fund for each subproject, in the amount of up to the equivalent of 20% of the subproject financing amount, will be established (see para. 4.28); and (d) for purposes of the Bank's General Conditions, the semiannual reports on the project will be those submitted by the firm engaged for concurrent auditing of the project (see para. 4.22).

**POVERTY IMPACT AND
SOCIAL-SECTOR
CLASSIFICATION:**

This project qualifies as poverty-targeted under the terms of the Eighth Replenishment document (AB-1704), from a geographical standpoint: about 75% of residents of the service areas of the targeted roads live below the poverty line (see para. 5.7).

PROCUREMENT:

Until October 30, 1999 – that date marking the 12-month anniversary of the declaration of the state of emergency – goods, construction work, and consulting services would be obtained following the procurement procedures for emergency projects recently approved by the Board of Executive Directors (set out in document GP-92-15). Those procedures

will be presented in an annex to the loan contract which will govern all elements of the procurement process, without the need for subsidiary recourse to Honduran law. As from October 31, 1999, the Bank's standard procurement and contracting procedures will apply. Thresholds for international competitive bidding will be US\$3 million for works, US\$350,000 for goods, and US\$200,000 for consulting services.

I. FRAME OF REFERENCE

A. Introduction

- 1.1 Hurricane Mitch and its aftermath have been catastrophic for Honduras's infrastructure. The disaster took a toll on every sector of the economy, but the country's roads and highways were the hardest hit. Water and sanitary-sewer systems in both urban and rural areas also sustained severe damage. The hurricane's effects on production, employment, tourism, exports, and economic activity generally have been devastating.
- 1.2 The aggregate toll to date is 7,000 dead, 9,000 missing, and 2 million left homeless or otherwise afflicted; about 400,000 of the latter victims are being housed in shelters where inadequate sanitation is posing a health hazard. Included in their number are 85,000 children under 5 who need special care. Accordingly to early estimates, about 16 of the country's 27 hospitals have been damaged. Epidemics are a very real possibility, particularly cholera, dengue fever, malaria, and leptospirosis, along with a rise in non-epidemic diseases.
- 1.3 The Honduran Social Investment Fund estimates that one third of the country's schools have been destroyed or damaged. School furniture and teaching supplies have been ruined; many schools have been evacuated and are operating out of temporary shelters.
- 1.4 Agriculture and infrastructure have borne the brunt of the hurricane's impact. Plantations of most of Honduras's cash crops (bananas, citrus fruit, African palm) have been wiped out or severely damaged, though its most valuable export commodity - coffee - escaped the worst of the disaster. Prospects also seem good for short-term recovery of the in-bond assembly industry, tourism, and mining. However, the combination of plummeting exports and mounting imports of food and building materials and other products needed for reconstruction will shatter the trade balance. Shortages of inputs, consumer staples, and housing could push up inflation unless the expansion expected on the fiscal and monetary fronts is offset by heavy inflows of foreign exchange by way of loans and grants from the international community.
- 1.5 Quick repairs to damaged roads and water-supply systems will be crucial for Honduras to mitigate the hurricane's economic and social toll, keeping the associated costs to a minimum.

B. Sectors addressed by the proposed loan

1. Roads sector

- 1.6 About 100 bridges are gone or impassable, nine of them in the city of Tegucigalpa. An estimated 70% of the country's road network,

including some 1,900 km of paved main roads, has been destroyed or damaged. With assistance from Honduran and foreign contractors, the Ministry of Public Works, Transport, and Housing (SOPTRAVI) has already completed temporary repairs of some critical segments of roads and highways.

- 1.7 Before the hurricane hit, the Bank had been preparing an operation to support a *road system rehabilitation and sustainability program* for Honduras, which has one of the region's most developed road networks. The policy elements of that program had to do mainly with institution-strengthening, creation of a Road Maintenance Fund, and the factoring of environmental considerations into road projects and adequate management of such environmental factors. The needs and priorities of this sector now have shifted radically. The emphasis in the near term will be to quickly restore the system's use capacity, and subsequently to rebuild and rehabilitate the roads that sustained damage.

2. Water-supply and sanitation sector

- 1.8 In the wake of landslides, soil erosion, and wiped-out bridges the country's drinking-water and sewer systems have collapsed or sustained massive damage, with service interruptions in both urban and rural areas. Most Tegucigalpa residents are having to obtain drinking water from tank trucks.
- 1.9 Emergency work to restore some measure of service is being carried through with support under bilateral arrangements, from the Pan American Health Organization and from nongovernmental organizations. In rebuilding these systems the government's top priority is rehabilitation of Tegucigalpa's water and sanitary-sewer system.

C. The country's strategy

- 1.10 As it tackles this emergency situation, the government has adopted a series of measures to coordinate and speed up the reconstruction work. Along with other moves, it set up a Special Reconstruction Bureau, passed the Administrative Facilitation Law which allows for shifts in public spending, and streamlined procurement processes to attend to emergency needs.
- 1.11 The hurricane and its aftermath have pointed up weaknesses in both Honduras's natural-disaster preparedness and in preventative measures in place. After the hurricane hit, the government appointed a National Emergency Commission (CONEH) and set up a Damage Reporting and Assessment Center to support the Commission's work. This is the institutional apparatus being used to contend with the emergency and coordinate international aid.

D. The Bank's strategy

- 1.12 The proposed Bank support is concordant with the objectives and guidelines in its policy on emergencies arising from natural and unexpected disasters (OP-704), which was approved by the Board of Executive Directors in November 1998. In particular, it would pursue the objectives of swiftly repairing damaged infrastructure, providing essential services of the requisite quality and safety standards, and returning economic activity to normal. The focus of the planned civil works is infrastructure repair and some initial rehabilitation; they would mark the first stage in a permanent reconstruction and rehabilitation effort.
- 1.13 Another operation that would pursue the Bank's strategy in support of road system reconstruction is a rehabilitation and reconstruction project now in preparation (HO-0116), which is to be based upon an investment plan for 2000-2003. It would build in measures to prevent and mitigate damage from such natural disasters in future and ease their toll on the economy and the Honduran people.
- 1.14 In the water-supply sector, the Honduran government is finalizing the preparation of a water-supply and sanitation investment program to rehabilitate water and sewer systems in mid-sized cities (HO-0072). Within the framework of the sector-policy dialogue between the Bank and the government, the strategy calls for modernizing the system by bringing the private sector into service delivery and capital-investment finance. Adoption of an enabling legal framework for water and sewer system modernization is a key facet of the dialogue on Bank support for Honduras in this sector.

E. Other Bank support for the emergency

- 1.15 To help Honduras through the immediate aftermath of the hurricane, the Bank has already approved a US\$50,000 nonreimbursable technical-cooperation operation to address the most pressing needs, another for US\$150,000 to defray part of the damage-assessment costs, and a third for US\$1 million to devise a National Reconstruction Plan, including studies and designs that would go into the plan.
- 1.16 In addition to the technical-assistance support described above, the Bank approved two loans recently, for municipal development in Tegucigalpa (HO-0135) and San Pedro Sula (HO-0115). This financing includes US\$12 million for emergency works in Tegucigalpa and US\$9 million for San Pedro Sula. Funds allocated under these projects complement those of the emergency program contemplated herein. Emergency funds under these projects will be used for housing, debris removal and cleaning. In the specific case of San Pedro Sula, loan HO-0115 provides resources for the municipal water and sanitation system. Moreover, statement of Bank non-objection to eligibility of the works planned is required to implement the emergency component of these projects.

F. Support from other international agencies

- 1.17 The emergency program has broad bilateral support from the international community. The World Bank is preparing a US\$20 million operation for roadwork. The International Monetary Fund has deferred consideration of an ESAF program, originally scheduled for November 1998, and on December 7 approved US\$66 million in funding to help Honduras deal with the emergency.

II. THE GOVERNMENT'S EMERGENCY PROGRAM

A. Context of Government program

- 2.1 The Government of Honduras has put together a US\$107 million emergency program for roads and water and sewer systems, to carry through works projects that are the top national priorities in those two sectors. From a strategic standpoint, this program has been devised to identify and define the scope of the works, and also to produce a comprehensive picture of the technical and financial support needs that have been submitted to the international community for purposes of the collaborative aid effort.

Table I
Emergency needs and program financing requested
(millions of U.S. dollars)

Investment category	IDB	World Bank	Other financ.	Local contrib.	TOTAL	%
1. Roadwork	34.1	20.0	38.1	3.8	96.0	89.7
2. Water supply	10.0	0.0	0.0	1.0	11.0	10.3
TOTAL	44.1	20.0	38.1	4.8	107.0	100.0
Percentage	41.2	18.7	35.6	4.4	100.0	

- 2.2 Total resources required to finance the program are US\$107 million (see Annex III-1), including US\$96 million for roadwork and US\$11 million for water and sanitation. Among the sources of funding envisaged are a World Bank US\$20 million IDA operation as an adjunct to its transportation sector rehabilitation loan (IV-2458-HO), as well as the proposed Bank financing of US\$25.8 million (see para. 3.2). Funds from bilateral sources of US\$38.1 million, requested by Honduras, remain to be confirmed.
- 2.3 As the foregoing demonstrates, there is a deficit of approximately US\$12 million in the Bank's share, and the availability of funds from bilateral sources having extended offers need to be confirmed. Accordingly, the program has been designed and its implementation arrangements developed with due regard to the ongoing dialogue with international funders.
- 2.4 To be able to accommodate the decisions ultimately taken by the governments contributing to the international aid effort, the program has the flexibility to reallocate available funds; it is proposed that this same flexibility apply for the proceeds of the Bank's loan.

- 2.5 The flexibility built into the program is made possible by the multiple works projects included, meaning that the number of such works and their scope could be adjusted in light of actual resource availabilities without compromising the consistency and orderly execution of the overall program. In any event, to assure that funds are allocated efficiently, due regard will be given to the priority of specific works and to the importance of structuring financing on the most favorable terms for the country.

B. Program objectives set by the Government

- 2.6 The program's aim in the roads sector is to repair sections of roads and bridges in order to reopen communication between the main cities in the corridor extending from Choluteca in the south to San Pedro Sula, La Ceiba, and Puerto Castilla in the north, the eastern corridors to Juticalpa and Danli, and the west corridor to Nueva Ocotepeque.
- 2.7 Activities in the roads subprogram are: (a) repairs to 2,620 km of main and secondary roads and 985 km of local roads; (b) building or rehabilitating of 2,700 m of bridges throughout the country and 860 m of bridges in the city of Tegucigalpa; (c) hiring of consultants to supervise the works; (d) institution-strengthening; (e) preinvestment studies and final designs; (f) operational and environmental audits; and (g) procurement of equipment and vehicles for the Ministry of Public Works, Transport, and Housing.
- 2.8 The program's objective for the water-supply sector is to repair conveyance lines, distribution mains, and service lines in metropolitan Tegucigalpa. Other financial support for water and sanitary-sewer systems in Tegucigalpa and elsewhere will come from the World Bank, other bilateral sources, the U.S. Agency for International Development, and various NGOs. Financing of up to US\$1.5 million is included under the San Pedro Sula municipal development program (HO-0115) to repair damage to that system. A rapid-rehabilitation component of the water and sanitation investment program now in preparation (HO-0072) will assist mid-sized cities; the Honduran Social Investment Fund will be providing support for small towns and villages and rural areas.
- 2.9 Activities to be funded under the water-supply subprogram are: (a) repair and rehabilitation of conveyance lines; (b) repair and rehabilitation of distribution mains; and (c) rehabilitation of service lines, to restore normal water service to Tegucigalpa residents.

III. THE PROJECT

A. The proposed IDB project and the emergency program

- 3.1 As part of the international aid effort, the Government of Honduras requested US\$44.1 million in funding from the Bank for the emergency program to repair and rehabilitate roads (US\$34.1 million) and water-supply and sanitation systems (US\$10 million).
- 3.2 Because of the shortage of Fund for Special Operations (FSO) resources, the Bank would contribute only US\$25.8 million – US\$18.3 million less than requested by the country – with the roads subproject absorbing the deficit.
- 3.3 In the context of talks aimed at securing full financing for the program, it is proposed that, subject to the actual availability of FSO resources, the Bank's participation could increase beyond current funding availabilities in the coming months.
- 3.4 Considering that the emergency program objectives and execution arrangements are fully consistent with those of the Bank project, the Bank's Management will submit a request for approval of additional financing to the Board of Executive Directors based on an assessment of resource availability.

B. Objectives

- 3.5 The project's objective is to alleviate the economic, social, and environmental impact of Hurricane Mitch on Honduras's road and water-supply infrastructure and lessen the associated costs.
- 3.6 The specific objectives are to: (a) help repair several sections of the country's paved main and secondary road network; (b) rehabilitate or replace bridges in the city of Tegucigalpa and on the Tegucigalpa-San Pedro Sula highway; and (c) restore drinking-water service in Tegucigalpa by procuring and installing pipe and equipment.

C. Project description and components

- 3.7 Subproject I: Roads. This component will fund: (a) repairs to about 380 km of the paved main and secondary road system; (b) rehabilitation of 15 bridges (760 m); (c) construction of two bridges (80 m) in Tegucigalpa; and (d) institutional strengthening of the Ministry of Public Works, Transport, and Housing (SOPTRAVI) and the Ministry of Natural Resources and Environment (SERNA).
- 3.8 Subproject II: Water supply. This subproject will fund: (a) the supply and laying of about 36,400 m of ductile iron pipe for main

conveyance structures and 14,000 m of PVC pipe for water lines; and (b) supply and installation of pumping equipment and fittings.

D. Sizing of the project

- 3.9 Based on the US\$28.7 million in available resources, the Bank project contributes financing of US\$17.7 million for roads and US\$11 million for water supply and sanitation. In addition to the US\$22.2 million used to defray direct costs and US\$2.9 million for supervision and administration, US\$2.2 million is included to finance associated expenses.

Table II
Project cost and financing
(millions of U.S. dollars)

Cost item	IDB		Local counter-part	Total	%
	New	Repro-grammed			
1. Supervision and administration	1.6	0.0	1.4	3.0	10.1
2. Direct costs	<u>14.3</u>	<u>7.0</u>	<u>0.8</u>	<u>22.1</u>	77.3
2.1 Highways	2.5	4.5	0.5	7.5	
2.2 Bridges	1.9	2.5	0.3	4.7	
2.3 Pipes and fittings	9.5	--	--	9.5	
2.4 Equipment installation	0.4	--	--	0.4	
3. Associated costs	<u>2.2</u>	<u>0.0</u>	<u>0.0</u>	<u>2.2</u>	7.7
3.1 Institutional strengthening	0.5			0.5	
3.2 Preinvestment	0.4			0.4	
3.3 Concurrent audits	1.0			1.0	
3.4 Equipment and vehicles	0.3			0.3	
4. Unallocated	0.5	--	--	0.5	1.7
5. Financial charges	<u>0.2</u>	--	<u>0.7</u>	<u>0.9</u>	3.6
5.1 Interest	--	--	0.4	0.4	
5.2 Credit fee	--	--	0.3	0.3	
5.3 Inspection and supervision	0.2	--	--	0.2	
TOTAL	18.8	7.0	2.9	28.7	
Percentage (%)	65.5	24.4	10.1		100

- 3.10 Associated costs reflect institutional strengthening (see paras. 4.6 and 4.7), preinvestment studies, and contracts for associated program audits (see para. 4.26). Interest and inspection and

supervision costs will be defrayed with the counterpart contribution.

E. Financing

- 3.11 The Bank's contribution is US\$25.8 million, consisting of US\$18.8 million in FSO funds and US\$7 million in unexpended proceeds of loans in the Bank's portfolio. The local counterpart contribution is US\$2.9 million, US\$1.9 million allocated by SOPTRAVI and US\$1 million by SANAA.

F. Reallocation of funds

- 3.12 To provide funding for the emergency, the government has submitted a request to the Bank to reallocate US\$7 million from the current loan portfolio. The funds, to be used for the roads subproject, would come from two operations: (1) US\$3 million from the program to modernize agricultural technology services (981/SF-HO); and (2) US\$4 million from the multisector preinvestment program (906/SF-HO).
- 3.13 Loan 981/SF-HO, in the amount of US\$15 million, entered into effect on January 1, 1997, and only US\$2 million (13%) has been disbursed to date. The government has requested reallocation of US\$3 million, scaling back targets under the training and technology generation and transfer components. The reallocation is justified by the nature of the emergency and will not have a significant impact on the objectives of that project.
- 3.14 Loan 906/SF-HO, in the amount of US\$8 million, entered into effect on March 18, 1994, and only US\$1.1 million (14%) has been disbursed. The government has requested reallocation of US\$4 million, leaving a balance of US\$2.5 million to prepare preinvestment studies for the only two projects identified to date that would require funds for specific studies: the water supply and sanitation investment program (HO-0072) and the roads rehabilitation and rebuilding project (HO-0116). The program objectives would thus be left unchanged.

IV. PROJECT IMPLEMENTATION

A. The borrower and executing agencies

- 4.1 The borrower will be the Republic of Honduras, which will supply the counterpart funds and be responsible for servicing the loan.
- 4.2 Subproject I will be executed under the direction of the Ministry of Public Works, Transport, and Housing (SOPTRAVI), by way of the IDB Project Executing Unit set up in 1972, which to date has managed a total of 12 Bank-funded projects. Subproject II will be the responsibility of the National Water and Sewerage Authority (SANAA), working through the executing unit of the Tegucigalpa water-supply system rehabilitation, improvement, and expansion program (799/SF-HO).

B. Special issues in preparing the operation and for its implementation

- 4.3 Given the nature of the damage sustained and the work included in the program, and considering that the process of identifying and committing resources to finance it is not yet complete, sufficient flexibility has been built into the program design and execution arrangements to: (1) replace specific works; (2) incorporate other sources of financing; (3) address contingencies, including reformulation of works to deal with environmental, social, engineering, and other issues. The execution mechanism ensuring such flexibility is outlined in the Operating Regulations (see para. 4.5).
- 4.4 The project will seek to employ permanent solutions to repair damage, provided that the magnitude and complexity of the works is consistent with the procedures and standards agreed for this project and with the execution times established. In cases where a permanent solution calls for more detailed analysis, evaluations and studies, temporary solutions will be found while more complete engineering and environmental studies are done. Under this arrangement, in the roads sector, the temporary solution and possibly the preparation of studies would be part of this project but the permanent civil works would be part of the reconstruction and rehabilitation program (HO-0116) (see para. 1.7).
- 4.5 To manage this flexibility in an orderly fashion, Operating Regulations will be drawn up specifying: (a) eligibility criteria for works to ensure that they are consistent with disbursement and commencement schedules; (b) terms and mechanisms for replacing works, reallocating resources, and modifying priorities; (c) criteria and procedures to address contingencies, in particular to address the need to reformulate the scope and magnitude of works, including the development of temporary solutions,

preparation of more detailed designs, and preparation of more complete environmental and social studies; (d) the Environmental Management Plan; (e) monitoring and reporting mechanisms; and (f) criteria for incorporating recommendations arising from concurrent project audits into execution arrangements.

- 4.6 The executing units will be strengthened to better equip them to oversee the consultants' work and construction contracts. For subproject I, two engineers will be hired to assist SOPTRAVI's Roads Directorate, and an environmental expert will be engaged to support the Environmental Management Unit (UGA). The hiring of these consultants would be a condition precedent to disbursement of funds for this subproject.
- 4.7 For subproject II, a project manager will be hired; that official would have responsibility for achieving the proposed objectives and targets, and would be given the autonomy and authority to do so. A project manager was employed satisfactorily to conclude the project to rehabilitate, upgrade, and expand the Tegucigalpa water-supply system (799/SF-HO). The project manager will be in charge of contracting and of coordinating all aspects of the subproject in accordance with established procedure. Hiring of the project manager will be a condition precedent to disbursement of funds for this subproject.
- 4.8 The UGA in SOPTRAVI and the SANAA Watershed Unit will be responsible for producing technical proposals relating to the environmental elements of each subprogram, adhering to national laws and standards and the criteria agreed upon with the Bank (see section C).
- 4.9 Repair and construction work will be performed by private contractors; field supervision of that work will be done by consulting firms or individual consultants engaged for the purpose. Honduran and foreign consultants and consulting firms may bid on all such work.

C. Environmental considerations

- 4.10 In the roads sector, since the project will fund the repair or rehabilitation of existing roads in areas that have already been developed and worked on, it would have no adverse environmental or social impact. The likely impacts during construction will be localized, modest, short-lived, foreseeable, and mitigable. No community resettlements or major road realignments are envisaged.
- 4.11 The project's contributions on the institutional front will be an environmental specialist to assist the UGA (see para. 4.6) and funding to hire an environmental expert to help with environmental-permit assessment in the Ministry of Natural Resources and Environment (SERNA). SOPTRAVI and SERNA will sign an agreement setting forth the terms of reference for this expert and

stipulating that this individual is to work exclusively on the roads subproject. The firms hired to supervise the field work will likewise have support from an environmental expert.

- 4.12 Environmental considerations will be taken into account in executing the works. For works that will have no substantial impact on the environment, SERNA will award an environmental permit immediately, including a construction start authorization, adhering to environmental technical standards. For more complex works projects, SERNA will ask for an environmental assessment study with recommendations for preventing and alleviating adverse impacts. Where warranted, SERNA may request a full-scale environmental and social impact assessment, and construction contracts must include the environmental technical standards proposed in the Environmental Management Plan.
- 4.13 Environmental considerations play a central role in flexible execution arrangements for the project. In particular, declaring construction work eligible for this project requires its scope to be compatible with agreed environmental procedures. If, during the design or execution stages, reasons to extend the scope of work beyond those standards are found, environmental considerations would constitute additional grounds for adopting the kind of temporary solution mentioned (see paras. 4.3, 4.4 and 4.5).
- 4.14 In the water-supply component, the planned activities to restore water service to Tegucigalpa residents will yield social and environmental benefits; they have been designed to reverse the effects of the natural disaster and restart service by repairing plant that was in place before the hurricane hit. Given the urgent need to launch the reconstruction effort, SERNA has given authorization, by way of an arrangement under the National Environmental Impact System, for work to begin following guidelines and standards designed to prevent and mitigate environmental impacts, with environmental permits to be arranged subsequently where indicated. At the end, SERNA will conduct an audit, on the basis of which additional measures may be taken as necessary.
- 4.15 An environmental audit will be part of the concurrent-audit activities, to review the effectiveness of environmental management and add any measures that were not duly factored in during the process.

D. Procurement

- 4.16 The Bank's procurement requirements will apply in this project, and will be set out in the eventual loan contract. However, the simplified procedures approved by the Bank for emergency operations following natural disasters will apply for one year from the date on which the emergency was declared, i.e., until October 30, 1999. All the contracts needed for the project are expected to be arranged within that interval.

- 4.17 As part of the above-mentioned requirements, a General Procurement Notice has been sent to the United Nations for publication in the December 31, 1998, issue of *Development Business*. The Notice advises that Specific Procurement Notices for the project will be published in Honduran national newspapers, not in *Development Business*. Notices in the national press will state that there will be no restrictions on international participation in calls for tenders. (See Annex IV-1.)
- 4.18 It is recommended that the following procedures be followed:
- a. **Competitive bidding** for procurement of goods worth US\$350,000 and over, construction contracts and related services worth US\$3 million and over, and consulting services costing US\$200,000 or over. There would be no prequalification requirement; the Bank's supervision would be ex ante.
 - b. **Restricted tendering** for goods costing from US\$25,000 to US\$349,999, construction work and related services valued at US\$50,000 to US\$2,999,999, and consulting contracts between US\$25,000 and US\$199,999. Items below those thresholds could be contracted for directly.
- 4.19 It is recommended that restricted tendering be allowed also for the procurement of up to US\$4 million in ductile iron pipe and fittings for subprogram II. This approach is warranted because there are very few manufacturers of this product in the world and the pipe needs to be obtained urgently to ensure its timely installation.
- 4.20 Some procedural provisions in Honduran law governing administrative procurement and contracting, which would be applicable subsidiarily to the Bank's rules, are consistent with Bank policy in this area but would unduly lengthen the processes in question and dilute accountability of government officials. To address this problem, there will be provisions in the loan contract to simplify the procedural requirements provided for in Honduran legislation.

E. Project monitoring

- 4.21 The executing units are to forward an initial report to the Bank containing a detailed action plan of program activities, including a timetable, resource requirements, responsibilities, and targets. The report will be submitted as part of the initial report required in the General Conditions of Bank loan contracts.
- 4.22 The firm engaged for concurrent auditing of the project (see para. 4.26) will submit semiannual, detailed status reports on project activities to show progress made on the action plan referred to in the preceding paragraph. The firm will report, *inter alia*, on repair and construction work and equipment financed, beneficiaries, procedures followed in expending the loan proceeds, and number of

projects approved during the six-month period under review. The progress report covering the final six months of implementation will be the final report on the project.

- 4.23 Within one month after submittal of the respective semiannual reports, a program monitoring meeting will be held to review issues pertaining to tendering, environmental elements of the work done, disbursements, problems during execution and remedial action, and other salient issues in the project's implementation. Details of the action plan for the following six months also will be worked out during these meetings (see Annex IV-2).

F. Recognition of expenditures and retroactive financing

- 4.24 Since certain urgent measures taken at the outset to deal with the emergency entailed heavy government outlays, chiefly for road repairs and rehabilitation, it is recommended that government expenditures for works that are included in the project works list be recognized for financing, provided they were carried through in accordance with Bank procedures for this emergency project. It is recommended that expenses of up to US\$1.5 million be recognized for financing under the loan, and up to US\$0.5 million under the counterpart funding. The borrower has given the Bank a list of works already contracted totalling US\$575,300. In one instance, involving the amount of US\$218,800, a direct contract was issued, for which the Board is asked to authorize an exception.

G. Time for startup of construction; disbursement period

- 4.25 Project works are to begin within 12 months after the effective date of the loan contract. The time limit for disbursement of funds will be 18 months, calculated from that same date. Funds not disbursed by the deadline would automatically be cancelled by the Bank.

H. Concurrent audits

- 4.26 To help ensure that the project is carried through quickly and give it the requisite flexibility without compromising its transparency or quality, a specialized firm of external auditors acceptable to the Bank would be hired, using project funds and in accordance with Bank procedures, for concurrent auditing of project activities. The audits will look at financial, environmental, and procurement matters, as well as verify project performance. On the basis of the resulting observations and recommendations, changes to the implementation arrangements may be considered. The auditing firm will be hired by SOPTRAVI using subproject I resources, and will be a condition precedent to the disbursement of project funds.

I. Financial audits

- 4.27 The executing agencies will be required to provide the Bank with financial statements of the project, duly audited by the firm charged with the concurrent auditing. These project audit reports are to be presented within 120 days after the respective fiscal year-end.

J. Revolving fund

- 4.28 The Ministry of Finance will set up a revolving fund for each subproject, to be administered directly by executing units. Given the short timeline for implementation of this project, and pursuant to the emergency policy recently approved by the Bank's Board of Executive Directors, the amount of each revolving fund is not to exceed the equivalent of 20% of financing for the subproject concerned. The Ministry of Finance, SOPTRAVI and SANAA will submit a proposal to the Bank for a mechanism to ensure that payments under the revolving funds are made within 15 days.

K. Special project startup disbursement

- 4.29 So that the concurrent-audit firm, the engineering advisor for SOPTRAVI, the subproject II manager, and the environmental experts can be engaged quickly, before the conditions precedent to disbursement of the loan have been satisfied, the Bank could disburse up to US\$1.5 million to start off the project activities.

V. PROGRAM VIABILITY, BENEFITS, AND RISKS

A. Institutional viability

- 5.1 According to an examination of the implementing capacity of the Ministry of Public Works, Transport, and Housing (SOPTRAVI) for purposes of overseeing and managing the various program components, the ministry has a sound enough institutional structure to assure that the program can be carried through in the proposed timeframe. That organization has proved to be efficient and agile despite constraints stemming from tight budgets and the country's procurement legislation. To address these problems SOPTRAVI has cut staff and outsourced much of its work to private firms. Nevertheless, given the huge volume of work to be completed within a very short interval, SOPTRAVI will be strengthened in specific areas with support from engineers and environmental experts (see para. 4.6).
- 5.2 In the past four years (1994-1997) the government spent US\$68 million annually, on average, in the roads sector, this being 82% of the original appropriations. This high percentage attests to SOPTRAVI's satisfactory performance in expending its budgetary allotments.
- 5.3 In the water-supply and sanitation sector, however, the present institutional apparatus is ill-equipped to attend to service-delivery and expansion requirements. The public sector has neither the implementing nor funding capacity to keep pace with capital-investment needs, nor can it assure efficient and reliable systems operation. Accordingly, for the project described here, it is proposed that a manager be hired and given specific responsibility for execution of the planned works (see para. 4.7).

B. Environmental viability

- 5.4 Provisions proposed in the Environmental Management Plan and in the National Environmental Impact System arrangement will assure that repair and construction work adheres to the country's and the Bank's environmental requirements (see chapter IV, section C).

C. Economic and social benefits of the program

1. Roads sector subproject

- 5.5 Though no economic appraisal of benefits or rates of return on program investments was done, orders of magnitude of the anticipated economic returns can be indicated.
- 5.6 The funds being sought will be used to pay for emergency repairs to the paved main and secondary road system which carries the bulk of

the country's traffic, connects production centers and the largest domestic markets, and links Honduras to other countries. The investments would therefore yield considerable benefits by quickly restoring the service capacity of highways and roads.

- 5.7 The proposed investment would yield benefits for residents of the service areas of the targeted roads, since approximately 75% of them live below the poverty line. These groups are also heavy users of mass transit and operate many of the small freight vehicles travelling on the nation's roads.

2. Water-supply sector subproject

- 5.8 The benefits that would ensue from the component to restore drinking-water service to those who have had no safe water source since the hurricane would be: (a) a lower health risk to those population groups; (b) lower costs of securing water through alternative solutions; and (c) less need to resort to potentially hazardous alternative sources of water, particularly in a setting of general environmental degradation owing to incomplete coverage and the poor state of repair of sanitation and waste-treatment systems.

D. Risks

- 5.9 The following are the chief risks of the project: (a) possible lack of implementing capacity in the public sector (particularly SANAA) and of installed capacity available in Honduran private construction firms, given the massive scale of the overall reconstruction effort; (b) uncertainty as to the true magnitude of the repair costs, this being a particular concern for the bridge component, in which eventual soil settling is a major cost factor; and (c) SERNA's lack of capacity and experience to ensure that due attention is given to environmental factors, and possible conflicts between what may be the best approach from a technical standpoint and the understandable approach that the work needs to be done quickly.
- 5.10 The risk associated with SANAA's lack of capacity would be countered by hiring a project manager (see para. 4.7) and, once the emergency has passed, through sector-policy dialogue to foster modernization of the sector, including privatization of services and adoption of a new regulatory and institutional framework for the sector.
- 5.11 As for the risk having to do with magnitude and ultimate cost of the works, the program is flexible enough to allow the scope of the work to be modified once complete information is at hand about soil, engineering, environmental elements, etc. In particular, if the magnitude of the work exceeds the scope of a program of this nature, the adoption of temporary, low-cost solutions should be

allowed, postponing the definitive work to accommodate more detailed engineering, environmental, social and other studies.

- 5.12 On the environmental side, to alleviate the risk associated with SERNA's institutional shortcomings, an environmental expert would be hired to help review environmental-permit applications and supervise the environmental facets of the program activities.

HO-0143
EMERGENCY ROAD AND WATER-SUPPLY INFRASTRUCTURE PROGRAM

Cost and financing breakdown
(equivalent in millions of U.S. dollars)

	IDB	WB	Other financing	Local contr. Hond.govt.	Grand total
1.0 Supervision and administration	2.68	1.30	3.73	0.52	8.23
1.1 Supervision of system repairs	2.48	1.30	3.73	0.35	7.86
1.2 Administration	0.20			0.17	0.37
2.0 Direct costs	35.99	11.84	32.37	3.76	86.96
2.1 Repairs to main/secondary roads	18.47	4.64	19.63	2.53	45.27
Tela - La Ceiba		1.16		0.13	1.29
Pito Solo - Santa Bárbara - Ilima		1.80		0.20	2.00
Tegucigalpa - Juticalpa - Catacamas		0.44		0.05	0.49
Libramiento - Choluteca			0.70		0.70
Tegucigalpa - La Venta del Sur	3.15			0.35	3.50
Júcaro Galán - Choluteca	1.21			0.13	1.34
Choluteca - Guasaule	0.15			0.02	0.17
Choluteca - El Espino	2.06			0.23	2.29
Tegucigalpa - Valle de Angeles	1.40			0.15	1.55
Ceiba - Sabá	2.71			0.30	3.01
Sabá - Olanchito	1.08			0.09	1.17
Sabá - Tocoa - Corocito - Bonito Oriental	0.31			0.03	0.34
Corocito - Puerto Castilla - Trujillo bypass	1.84			0.20	2.04
San Pedro Sula - La Lima - El Progreso	1.13			0.13	1.26
La Barca - El Progreso	0.90			0.10	1.00
El Progreso - Tela	0.03				0.03
Tegucigalpa - San Pedro Sula	2.50			0.28	2.78
Santa Rita - Yoro			10.92		10.92
La Paz - Tutule - Marcala			3.64		3.64
Júcaro - Galán - El Amatillo		0.26		0.03	0.29
Chamelecón - Nueva Ocotepeque			4.37		4.37
La Entrada - Copán Ruinas		0.98		0.11	1.09
2.2 Repair of unpaved secondary/local roads		2.70	4.35	0.78	7.83
2.3 Bridge construction and rehabilitation	7.82	4.50	8.39	0.45	21.16
Bridges damaged, nationwide	2.29	4.50	6.74	0.45	13.98
Bridges damaged, Central District	4.13				4.13
Construction Nacaome Bridge			1.50		1.50
Bridges damaged, Northern highway	1.40		0.15		1.55
2.4 Rehabilitation Tegucigalpa water system	9.70				9.70
Concepción subsystem	2.18				2.18
Los Laureles subsystem	6.18				6.18
El Picacho subsystem	0.57				0.57
Lindero subsystem	0.04				0.04
Distribution networks	0.37				0.37
Pumping equipment	0.36				0.36

	IDB	WB	Other financing	Local contr. Hond.govt.	Grand total
3.0 Studies	1.22	4.50			5.72
3.1 Preinvestment	0.40	4.00			4.40
3.2 Institution-strengthening	0.50	0.30			0.80
3.3 Purchase of equipment and vehicles	0.32	0.20			0.52
4.0 Contingency	3.19	2.36	2.00	0.49	8.04
5.0 Financial costs	1.02			0.03	1.05
5.1 Interest	0.68				0.68
5.2 Credit fee				0.03	0.03
5.3 Inspection and supervision	0.39				0.34
TOTAL	44.1	20.00	38.1	4.80	107.00
Percentage (%)	41.2	18.7	35.6	4.5	100

**HONDURAS
EMERGENCY ROAD AND WATER-SUPPLY INFRASTRUCTURE PROJECT
(HO-0143)**

Procurement plan 1/

No.	Main program procurement items	Total cost (US\$000)	Financing (%)		Method	Pre-qualification- (Yes/No)	Estimated GPN publication (quarter/year)
			IDB	LOCAL			
A.	CIVIL WORKS						
1.	Repairs on four roads/highways (380 km)	7,798	90	10	LCB	NO	IV/98
2.	Replacement/rehabilitation of 840 m of bridges	4,690	96	4	LCB	NO	IV/98
3.	Laying of 50.4 km of ductile iron pipe (DIP) and PVC pipe	6,730	100	0	LCB	NO	IV/98
B.	EQUIPMENT						
1.	Computer hardware	100	100	0	LCB	NO	IV/98
2.	Communications equipment	50	100	0	LCB	NO	IV/98
3.	Six vehicles	150	100	0	LCB	NO	IV/98
4.	Pumping equipment	360	80	20	LCB	NO	IV/98
5.	Metal pipe and fittings (36.4 km, DIP)	4,000	100	0	RT	NO	IV/98
C.	CONSULTING SERVICES						
1.	Firms to supervise repairs to four roads/highways	640	95	5	RT	NO	IV/98
2.	Firms to supervise bridge replacement	340	95	5	RT	NO	IV/98
3.	Firm to supervise water-supply system rehabilitation	700	0	100	ICB	YES	IV/98
4.	Firm for concurrent and environmental auditing	1,000	100	0	ICB	YES	IV/98
5.	Project manager	300	20	80	RT	NO	IV/98

GPN = General Procurement Notice
ICB = international competitive bidding
LCB = local competitive bidding
RT = restricted tendering

1/ Until October 30, 1999, the procurement of goods, works and consulting services would be carried out in accordance with the Procurement Procedures for Projects in Emergency Situations (GP-92-15). The GPN was published in the December 31, 1998, issue of *Development Business*.

**HONDURAS: EMERGENCY ROAD AND WATER-SUPPLY INFRASTRUCTURE PROJECT
(HO-0143)**

Logical Framework

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Overall objective of the project			
social, economic, and impact of damage caused by Hurricane Mitch to Honduras's road and water infrastructure, and lower reconstruction costs.	Changes before and after Hurricane Mitch in National Population and Housing Census social indicators.	National census, year 2000	
Specific objectives			
<p>Work on four roads of the secondary road system. Repair bridges in the city of Tegucigalpa along the Tegucigalpa-Comayagua highway.</p> <p>Improve water supply system in Comayagua.</p>	<p>Traffic interruption on the roads reduced to 0 days/year.</p> <p>75% of economic benefits from road repair and bridge replacement accrue to low-income groups.</p> <p>Travel time between Tegucigalpa and Comayagua shortened by 50%.</p> <p>Potable water service has been restored to 90% of households that had running water before the hurricane hit.</p> <p>Potable-water quality in serviced areas is up to Ministry of Health standards.</p> <p>Contract for concurrent auditing signed in first quarter of 1999.</p> <p>Project Operating Regulations in force in first quarter of 1999.</p> <p>Agreement with SANAA for subproject II (potable water) signed in first quarter of 1999.</p> <p>Environmental and road experts and manager for subproject II hired in first quarter of 1999.</p> <p>Before physical work begins for subproject I (roads), consulting firm is hired to supervise same.</p>	<p>Semiannual reports on the project presented by concurrent-audit firm.</p> <p>SOPTRAVI budget outturn.</p> <p>Annual SOPTRAVI reports.</p> <p>Annual SANAA reports.</p> <p>Reports on semiannual monitoring meetings.</p> <p>Inspection reports.</p>	<p>Macroeconomic policy climate is stable with the country's reconstruction program.</p> <p>Technical and financial support is forthcoming from other international funders.</p> <p>Government will follow an orderly reconstruction plan to address the emergency needs.</p>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
at 80 km of paved main and repaired. (m) rehabilitated, two built in Tegucigalpa. SERN A strengthened ing performed.	Work completed within following timeframe: Road repairs Volume Completion by: 40% 2nd quarter 1999 85% 4th quarter 1999 100% 1st quarter 2000 Bridge replacement 50% 2nd quarter 1999 95% 4th quarter 1999 100% 1st quarter 2000 Computer hardware, communications equipment, and six vehicles in use by SOPTRAVI in first quarter of 1999. SOPTRAVI staff trained during the project (training most intensive in first six months).	Monthly reports from supervisory firms. Concurrent-audit reports. Semiannual monitoring mission reports. Inspection reports. Annual SOPTRAVI reports.	Macroeconomic and business env are consistent with project objecti road infrastructure works comple the project are carried through. roads can carry year-round traffic bridges rehabilitated. Governmen political and international support emergency works and to prepare the reconstruction effort. Staff tr remain at SOPTRAVI.
project tile iron pipe for main and about 14,000 m of er water lines supplied ent and fittings installed.	Work completed in following timeframe: Concepción, Los Laureles, El Picacho and Lindero subsystems rehabilitated, up to SANAA standards Volume Completion by: 100% 4th quarter 1999	Monthly reports from supervisory firms. Concurrent-audit reports. Semiannual monitoring mission reports. Inspection reports. Annual SANAA reports.	Macroeconomic and business clin consistent with project objectives. sanitation infrastructure works complementing the project are im Distribution system is rehabilitated including cross-river structures, m conveyance pipes, distribution line pumping equipment.
for financing investments, thening, and audits.	Budget expended.		Private construction and supervise have capacity to absorb the repair construction work. SOPTRAVI a SANAA are equipped to prepare supervise the project. Counterpar available. Work adheres to specifi

PROPOSED RESOLUTION

HONDURAS. LOAN ____/SF-HO TO THE REPUBLICA DE HONDURAS
Road and Potable Water Infrastructure Emergency Project

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 Road and Potable Water Infrastructure Emergency Project. Such financing will be for the amount of up to eighteen million eight hundred thousand dollars of the United States of America (US\$18,800,000), 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 "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.

PROPOSED RESOLUTION

HONDURAS. APPROVAL FOR THE REFORMULATION OF LOAN CONTRACT
NO. 906/SF-HO

(Road and Potable Water Infrastructure Emergency Project)

The Board of Executive Directors

RESOLVES:

1. Approve the reformulation of Loan Contract No. 906/SF-HO, authorized by Resolution DE-133/93, for the amount of up to US\$4,000,000 or its equivalent in other currencies, except that of Honduras, which are part of the resources of the Bank's Fund for Special Operations, for the execution of a Road and Potable Water Infrastructure Emergency Project, in accordance with the terms and conditions set forth in Document PR-_____.
2. 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 modifying Loan Contract No. 906/OC-HO in accordance with this resolution.

PROPOSED RESOLUTION

HONDURAS. APPROVAL FOR THE REFORMULATION OF LOAN CONTRACT
NO. 981/SF-HO
(Road and Potable Water Infrastructure Emergency Project)

The Board of Executive Directors

RESOLVES:

1. Approve the reformulation of Loan Contract No. 981/SF-HO, authorized by Resolution DE-118/96, for the amount of up to US\$3,000,000 or its equivalent in other currencies, except that of Honduras, which are part of the resources of the Bank's Fund for Special Operations, for the execution of a Road and Potable Water Infrastructure Emergency Project, in accordance with the terms and conditions set forth in Document PR-_____.
2. 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 modifying Loan Contract No. 981/SF-HO in accordance with this resolution.