

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.