Document of
The World Bank

Report No.: 36592

PROJECT PERFORMANCE ASSESSMENT REPORT

HONDURAS

THIRD SOCIAL INVESTMENT FUND PROJECT
(CREDIT 2766-HO)
AND
FOURTH SOCIAL INVESTMENT FUND PROJECT
(CREDITS 31180-HO AND 31181-HO)

June 28, 2006

Sector, Thematic and Global Evaluation Division
Independent Evaluation Group

Currency Equivalents
Currency Unit = Lempira

1995	US$1.00	9.46
1996	US$1.00	11.69
1997	US$1.00	13.00
1998	US$1.00	13.38
1999	US$1.00	14.16
2000	US$1.00	14.75
2002	US$1.00	16.67
2003	US$1.00	17.39
2004	US$1.00	17.81
2005	US$1.00	18.88

Abbreviations and Acronyms

AMHON	Asociación de Municipalidades de Honduras, Association of Honduras Municipalities
BN	Basic Needs program
CAS	Country Assistance Strategy
CBD	community-based development
CDD	community-driven development
CIDA	Canadian International Development Agency
DOCP	Decentralización de la Operación del Cyclo de Proyectis (Decentralized project cycle operation)
FHIS	Fondo Hondureño de Inversión Social (Honduran Social Investment Fund)
FIDAS	Fondo Inovativo para el Desarrollo y la Asistencia Social (Innovative Fund for Development and Social Assistance)
GDP	Gross Domestic Product
ICR	Implementation Completion Report
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IHNFA	Instituto Hondureño para Niños y Familia (Honduran Institute for Children and the Family)
JICA	Japanese International Cooperation Agency
KfW	Kreditanstalt fur Wiederaufbau (German Credit Institute for Reconstruction)
MIS	Management Information System
MTR	Mid-Term Review
NGO	Non-Governmental Organization
NR	Nuestras Raíces program (Our roots)
OED	Operations Evaluation Department
O&M	Operation and maintenance
PAD	Project Appraisal Document
PASI	Programa de Apoyo al Sector Informal (Informal Sector Asístanse Program)
PEC	Proyecto ejecutado por la Comunidad (Project excecuted by community)
PEDM	Programa Estratégica de Desarrollo Municipal (Strategic Municipal Development Plan)
PPAR	Project Performance Assessment Report
PROCATMER	Programa de Crédito y Asistencia Técnica a la Microempresa Rural (Credit and technical assistance program for rural microenterprise)
PRSP	Poverty Reduction Strategy Paper
SANAA	Servicio Autónomo Nacional de Acueductos y Alcantarillados (National Water Authority)
SAR	Staff Appraisal Report
SECPLAN	Secretaría de Planificación (Ministry of Planning)
USAID	US Agency for International Development

Fiscal Year

Government: January 1 – December 31

Director-General, Evaluation	:	Mr. Vinod Thomas
Director, Independent Evaluation Group, World Bank	:	Mr. Ajay Chhibber
Manager, Sector, Thematic, and Global Evaluation Division	:	Mr. Alain Barbu
Task Manager	:	Ms. Nalini Kumar

IED Mission: Enhancing development effectiveness through excellence and independence in evaluation.

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses about 25 percent of the Bank's lending operations. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A Project Performance Assessment Report (PPAR) is based on a review of the Implementation Completion Report (a self-evaluation by the responsible Bank department) and fieldwork conducted by OED. To prepare PPARs, IEG staff examine project files and other documents, interview operational staff, and in most cases visit the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to validate and augment the information provided in the ICR, as well as examine issues of special interest to broader IEG studies.

Each PPAR is subject to a peer review process and IEG management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System

The time-tested evaluation methods used by IEG are suited to the broad range of the World Bank's work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the IEG website: http://worldbank.org/oed/eta-mainpage.html).

Relevance of Objectives: The extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). *Possible ratings:* High, Substantial, Modest, Negligible.

Efficacy: The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance. *Possible ratings:* High, Substantial, Modest, Negligible.

Efficiency: The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. *Possible ratings:* High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

Sustainability: The resilience to risk of net benefits flows over time. *Possible ratings:* Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

Institutional Development Impact: The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. *Possible ratings:* High, Substantial, Modest, Negligible.

Outcome: The extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. *Possible ratings:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. Possible ratings: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Contents

Tables

Boxes

This report was prepared by Geske Dijkstra (Consultant), who assessed the project in October/November 2005. Helen Phillip and Romayne Pereira provided administrative support.

Principal Ratings

Honduras Third Social Investment Fund Project (Credit 2766)

	ICR	*ICR Review**	*PPAR*
Outcome	Satisfactory	Satisfactory	Moderately Satisfactory
Sustainability	Likely	Non-Evaluable	Unlikely
Institutional Development Impact	Substantial	Modest	Substantial
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

Honduras Fourth Social Investment Fund project (Credits 31180 and 31181)

	ICR	*ICR Review**	*PPAR*
Outcome	Satisfactory	Satisfactory	Moderately Satisfactory
Sustainability	Likely	Non-Evaluable	Unlikely
Institutional Development Impact	Substantial	Substantial	Substantial
Bank Performance	Highly Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible operational division of the Bank. The ICR Review is an intermediate Independent Evaluation Group (OED) product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Honduras Third Social Investment Fund Project (Credit 2766)

Project	*Task Manager/Leader*	*Division Chief/ Sector Director*	*Country Director*
Appraisal	Willem Struben	Kye Woo Lee	Edilberto L. Segura
Completion	David Warren	Xavier Coll	Donna Dowsett-Coirolo

Honduras Fourth Social Investment Fund project (Credits 31180 and 31181)

Project	*Task Manager/Leader*	*Division Chief/ Sector Director*	*Country Director*
Appraisal	David Warren/Willem Struben	Xavier Coll, acting	Donna Dowsett-Coirolo
Completion	Andrea Vermehren/ David Warren	Ana-María Arriagada	Jane Armitage

Preface

This is a Project Performance Assessment Report (PPAR) for the Third and Fourth Credits to the Social Investment Fund of Honduras (FHIS). The Third Social Investment Fund Project (Credit 2766) for SDR19.1 million (US$30 million equivalent) was approved on July 11, 1995. The credit closed on schedule on December 31, 1999 and an Implementation Completion Report was submitted on June 29, 2000. The Fourth Social Investment Fund Project (Credit 31180) for SDR 33.6 million (US$45 million equivalent) was approved in July 1998. A Supplemental Credit (Credit 31181) in the amount SDR 16.2 million (US$22.5 million equivalent) was approved in December 1999. The project closed on January 31, 2003, about a year behind schedule. An Implementation Completion Report was submitted on December 17, 2003.

This report was prepared by the Independent Evaluation Group (IEG) based on the Implementation Completion Reports, Staff Appraisal Reports, Development Credit Agreements, as well as a review of Bank files. An IEG mission was in Honduras in October-November 2005 and held interviews with a number of stakeholders including ministers and former ministers of FHIS, former FHIS staff, former ministers and staff of other ministries, representatives of donor agencies and civil society organizations in Honduras, and subproject staff and beneficiaries. The cooperation and assistance of all stakeholders and government officials is gratefully acknowledged.

Following standard IEG procedures, a copy of the draft PPAR was sent to government officials and agencies for their review and comments. Borrower comments are included in Annex B.

Summary

The Honduran Social Investment Fund (FHIS) was established in 1990 to mitigate the social effects of the stabilization and adjustment program. It was meant to be a temporary mechanism to transfer resources to the poor who were most affected by structural adjustment. However FHIS has come to stay and has been playing an important role in the financing of small social infrastructure throughout the country. This PPAR assesses the Third and Fourth credits to FHIS. The Third Credit for US$30 million was approved in June 1995, and the Fourth Credit for US$45 million in June 1998. The Fourth Credit also had a supplement of US$22.5 million approved in December 1999 to help finance the reconstruction activities after hurricane Mitch hit the country in October 1998.

The objectives of the Third Credit were to assist the government in strengthening its poverty alleviation efforts and in maintaining social cohesion, while it attempted to regain fiscal balance and the line ministries strengthened their institutional capacities. The project was to also support the government's decentralization strategy, development of the local contracting industry, the sustainability of subprojects, and the targeting of scarce resources to the poorer areas. The main objective of the Fourth Credit was to increase access among the poor to small-scale social and economic infrastructure, in accordance with local development priorities and based on a proven approach from previous phases.

The IEG assessment rates the outcome **moderately satisfactory** for both projects. The central objective of FHIS of supporting the government's poverty alleviation strategy was relevant and in line with the Poverty Reduction Strategy Paper (PRSP) and the Country Assistance Strategy (CAS). FHIS has expanded access to basic education and health facilities, but has achieved much less success in increasing access to water supply and sanitation. While the non-poor also benefited from FHIS activities, there was an increase of access for the poor to basic infrastructure. In terms of poverty targeting it is performing better than most state agencies. This is by no means a small achievement. Almost three-quarters of households proved to have been consulted on a FHIS project, but in a majority of cases households would have preferred another project than the selected one – including sometimes projects beyond the FHIS menu. While FHIS achieved high operating speed, quantity has often been at the cost of quality, and costs have not been low. There is evidence that FHIS is more expensive than NGOs and other agencies in building water and sanitation subprojects. FHIS also proved to be more expensive in constructing schools when compared to standards set by the Honduran Chamber of Construction. Low internal coordination in FHIS (especially during the Fourth Credit) and the fact that construction firms and supervisors usually travel from Tegucigalpa to the areas of project execution are said to be the main reasons for the higher costs.

The assessment rates overall sustainability as **unlikely** for both credits. Although most FHIS projects are reported (in project evaluations) to be in use, the same evaluations also note that they are often not used in full and there were many problems with the quality of subprojects and with their maintenance. On average, utilization, quality and maintenance seem to have improved *in the non-emergency subprojects* of the Fourth Credit as compared to subprojects of the Third Credit. Among other reasons, this was due to better provision of staffing and other resources by the ministry of Health, and to a greater effort by FHIS to train user committees. But most Fourth Credit subprojects are in fact emergency subprojects in which less attention was paid to issues like securing community demand, design, quality and sustainability. Agreements between FHIS and line ministries in Health and Education were not completely effective. In particular, ministries did not comply with their commitment to maintain facilities due to their general lack of resources for maintenance. This lack of compliance by line agencies did not change over time.

Overall, institutional development impact is rated as **substantial**. This is the balance of three assessments: a neutral assessment of having a separate institution for implementing small infrastructure projects: it worked positively, on balance, for health and education projects but not for water and sanitation projects; a qualified positive judgment of the role FHIS played during the emergency, and a positive assessment of the effect that FHIS had on the decentralization process in the country.

Overall Bank performance was **satisfactory** with caveats. Bank staff were overoptimistic about the possibilities of securing maintenance, first by expecting too much from line ministries and later by relying too heavily on user committees. The Bank was flexible in the emergency period allowing FHIS to respond quickly to the reconstruction needs, which was good, but this flexibility appears to have been maintained for too long and it might have been better to postpone approval of the Fifth Credit until a return to normal procedures had been guaranteed. Borrower performance was also **satisfactory** with caveats. In general, FHIS received the necessary government resources and attention, but constructed facilities were sometimes underutilized due to country-wide deficiencies in supplying textbooks and medicines. The lack of resources for maintenance of small basic infrastructure is also a critical issue that needs to be addressed.

The experience of the two projects offers three lessons:

- While social funds are attractive for donors and can initially be successful in providing remote communities access to basic health and educational facilities, the experience of the Honduras social fund shows that they are not a long-term sustainable solution for providing basic infrastructure. The maintenance issue, especially of health and education facilities, goes beyond social funds and needs to be seriously addressed as a part of the overall policy dialogue of the World Bank with the country. Social funds may contribute by training of user committees, but that in itself can never be sufficient for securing maintenance.

- Because of the apparent success in its core activity of financing basic infrastructure projects, FHIS has been and continues to be attractive for donors for programs that do not belong to the core activity (example, the Basic Needs Program that involved funding for priority social programs in nutrition, childcare, training of midwives, care for elderly and disabled, etc. and the Nuestras Raíces Program which involved social assistance for indigenous communities). However, it took much longer for the Basic Needs Program and the Nuestras Raíces Program to achieve some efficacy. Currently FHIS has become a patchwork of donor-financed programs. Donors should be cautious in channeling money to social funds for carrying out non-core activities.

- FHIS had a positive institutional development impact in promoting decentralization by helping to strengthen local government capacities in project planning and implementation. However, once these capacities are strengthened, it can be questioned whether donors should still fund small infrastructure projects through FHIS instead of searching for more direct channels to finance local governments.

Ajay Chhibber
Acting Director-General
Evaluation

1. Introduction

COUNTRY BACKGROUND

1.1 Honduras is one of the poorest countries in Latin America with a per capital income of US$ 926 (World Development Indicators CD-Rom, 2005). According to the most recent poverty assessment, 50.7 percent of the population is poor, and poverty is especially widespread in rural areas: 72.2 percent of rural population is poor as against 27.6 percent of the urban population.[1] Relative poverty has come down from 52.6 percent in 1998/99 to 50.7 percent in 2004. Given the high population growth rates, however, absolute poverty has increased.

1.2 Since 1990, Honduras has carried out stabilization and adjustment programs recommended by the IMF and the World Bank. Price subsidies have been cut, import tariffs have come down, the financial sector has been liberalized, and banks and public utility companies have been privatized. But stabilization is still delicate since fiscal discipline is usually lost during election years,[2] and donor-financed programs for institutional reforms like the public sector modernization program, civil service reforms, and anti-corruption measures have had limited success. Honduras is one of the more corrupt countries in the region: it was ranked 20 out of 28 on the regional (North and South America) corruption perception index of Transparency International.[3] Interest groups are strong and able to capture state institutions; the strongest is probably the teachers union, which holds the Ministry of Education in a firm grip.

1.3 Despite large amounts of aid, especially since the early 1990s with another upswing after hurricane Mitch, economic growth has been low – growth per capita over the years being more or less at the level of population growth (Figure 1). Growth has been mainly fuelled by investment (Cuesta and del Cid 2003) which in turn has been driven by the expansion of assembly industries in export processing free zones, public investment (due to aid), and remittances (leading to residential investment). The main "cause" for the relative decrease in poverty between 1999 and 2004[4] is said to be rural-urban migration (Demombynes 2005). Poverty is still highest in rural areas, and there has not been much improvement in rural incomes. Another factor behind the registered decrease in poverty is probably the large and rapidly increasing volume of remittances, from US$ 328 million in 1999 to US$ 867 million in 2003 (World Development Indicators 2005).

1.4 By comparing Honduras with other Latin American countries, there appear to be two reasons for the country's low economic growth per capita in the last three decades: low labor and capital productivity (Juan-Ramon 1999). With respect to the first, secondary school enrolment is very low in Honduras and during the 1990s the percentage of persons with partial or finished primary school education decreased. With respect to the second, investments increasingly are in

[1] These figures are from the first National Living Standards Survey carried out in the second half of 2004. The poverty line is defined as the extreme poverty line only including the cost of food to provide 2200 calories per day plus an allowance for non-food consumption that is computed on the basis of the average non-food share of consumption for households close to the extreme poverty line. Per person and per month the poverty line was at 996 Lempiras, see Demombynes (2005: 4-5).

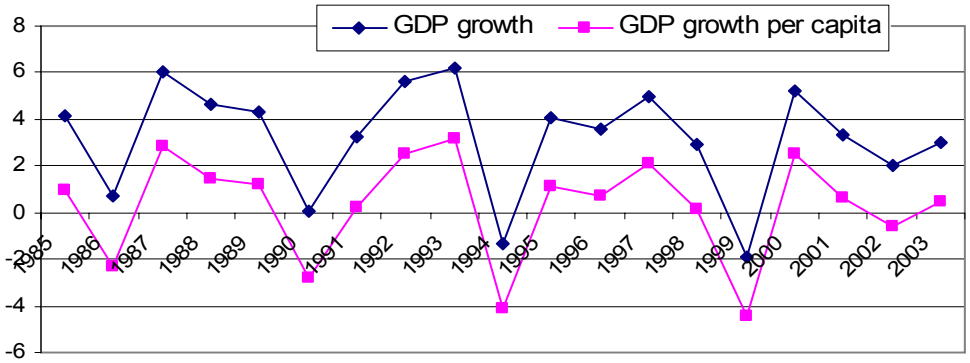
[2] National and municipal elections are held every four years and lead to a major disruption in governance: first due to the campaigning period which takes more than a year, and then due to the change in government which implies a complete overhaul of a majority of personnel at all levels.

[3] See www.transparency.org/news_room/in_focus/2005/cpi_2005

[4] The 1998/1999 National Survey of Income and Expenditure has produced household consumption data that are comparable with the 2004 Survey referred to above, see Demombynes (2005: 9).

the form of construction as against machinery and equipment, and within construction increasingly in residential construction. Both developments (decrease in level of human capital and increased residential construction) can probably be explained by the emigration of Hondurans, mainly to the United States. The better educated leave the country, and the remittances sent back to their families are used for survival and for construction of houses.

Figure 1. Economic growth 1985-2003 and growth per capita



Source: World Bank, World Development Indicators CD-rom, 2005.

OVERVIEW OF FHIS 1990-1995

1.5 The Honduran Social Investment Fund (FHIS) was established in 1990 to mitigate the social effects of the stabilization and adjustment program. It was meant to be a temporary mechanism to transfer resources to the poor who were most affected by structural adjustment. However, FHIS has come to stay, and has been playing an important role in the financing of small social infrastructure subprojects throughout the country.

1.6 FHIS's main activity has been to fund small subprojects in social and economic infrastructure that would satisfy the basic needs of the poor, while at the same time creating employment and income. FHIS has been effective in quickly disbursing money for these small infrastructure subprojects, based on proposals by NGOs, municipalities or sometimes directly by communities. After appraisal and approval by FHIS, a construction company was contracted and oversaw the subproject. FHIS was granted some exemptions from applicable country rules to enhance its efficiency and efficacy.[5] These included the possibility of paying higher salaries to its staff than other state agencies, exemptions from national rules on contracting and on the required hiring of professional engineers for its subprojects. The higher salaries, especially during the 1990s, allowed FHIS to attract professional staff of relatively good quality, often with work experience in the private sector or with donor agencies. [6]

1.7 FHIS has also been successful in attracting donor money. The first Bank credit of $20 million to FHIS was approved in 1990. Total financing for FHIS for 1990-1993 was then expected to be $68 million, including an $8 million government contribution and a $7 million contribution from project beneficiaries. In reality, total FHIS turnover in this period amounted to $98.4 million (OED 1994). A second Bank credit, of $10.2 million, was approved in 1992, and

[5] The Region in its comments notes that national rules were often arcane and unfair, and Bank rules always applied.

[6] By November 2005, FHIS was no longer allowed to pay higher salaries to its staff as compared to other ministries.

some $50 million was raised by other donors, of which the Inter-American Development Bank and the German KfW were the largest.

1.8 During this early period, FHIS was successful in building infrastructure and also in creating employment. However, other components of the program were less successful. The First Credit was also to finance a pilot targeted nutrition assistance program, provide technical assistance to improve efficiency and equity of the Ministries of Health and Education, and establish a monitoring and evaluation system. Very little attention was paid by FHIS to the technical assistance and monitoring and evaluation components (OED 1994). By the end of the period, it also became clear that there were problems with maintenance of completed subprojects (the core activity), and sometimes also with their operation.

1.9 After September 1993 and until well into 1994, FHIS experienced a slow-down in operations due to the elections and uncertainty about its future. The new government in 1994 first extended FHIS for four years, and then made it more permanent by giving it a 12 year extension until 2007. In June 1995 the Bank approved its Third Credit of US$30 million to FHIS. The government calls the period of the Third IDA Credit "FHIS 2", to distinguish it from "FHIS 1" of the former (1990-1994) administration. In June 1998, the Bank approved a fourth credit of US$45 million to FHIS, well before the Third Credit was closed. Just before the Fourth Credit became effective, Honduras was hit by hurricane Mitch in October/November 1998. A Supplemental Credit of US$22.5 million was approved by IDA in December 1999 to provide additional financing for reconstruction needs. A Fifth Social Investment Fund Credit of US$60 million was approved in November 2000. The Fourth and Fifth credits together financed what the government calls "FHIS 3".

Box 1: Correspondence Between Bank Projects and FHIS Phases

FHIS 1 (1990-1994) Bank Credit I and II
FHIS 2 (1995-1998) Bank Credit III
FHIS 3 (1998-2002) Bank Credit IV and V

2. Project Objectives, Design and Implementation

PROJECT OBJECTIVES AND DESIGN

2.1 The objectives of the Third Credit were "to assist government in strengthening its poverty alleviation efforts and in maintaining social cohesion, while the government attempts to regain fiscal balance and the line ministries strengthen their institutional capacities. It would also support the government decentralization strategy, development of the local contracting industry, the sustainability of subprojects, and the targeting of scarce resources to the poorer areas" (World Bank 1995).

2.2 The objectives of the Fourth Credit were to "continue IDA's support for the successful FHIS program, aiming to increase access among the poor to small-scale social and economic infrastructure in accordance with local development priorities, to develop social assistance programs for disadvantaged groups, and to contribute to the prospects for sustainability of such programs." (World Bank, 1998). The Supplementary Credit of December 3, 1999 had the same objectives as the Fourth Credit. It was estimated that post-Mitch reconstruction needs required an additional US$75 million. The Supplementary Credit of US$22.5 million was to finance 30 percent of that with the highest priority. The remainder would be left to the Fifth Credit or to other external sources.

2.3 The Third Credit had six components (see Table 1 for planned and actual costs):

- Financing of subprojects in social and economic infrastructure.
- Basic needs program: funding for priority social programs in nutrition, childcare, training of midwives and other health workers, care for elderly and disabled, school and health center furniture and teaching materials.
- Institutional strengthening of FHIS through technical assistance aimed at improving its internal functioning (monitoring and information system, auditing, management of subproject cycle) and in improving specific tasks, such as water and sanitation projects, and the basic needs program.
- Social data collection and analysis, with SECPLAN (Secretaría de Planificación, the Ministry of Planning), to improve the poverty map used by FHIS.
- Environmental assistance to municipalities.
- Project management.

Table 1. Actual and planned use of resources by FHIS, 1995-1999[1] (Third Credit)

	In millions of US$		*In percent*	
	Planned	*Actual*	*Planned*	*Actual*
Infrastructure	96.0	89.5	84.6	75.9
Basic Needs programs	5.0	8.2	4.4	7.0
Subtotal projects	101.0	97.7	89.0	82.8
Institutional strengthening FHIS	0.8	2.0	0.7	1.7
Project management	10.7	18.1	9.4	15.3
Administration	9.5	16.3	8.4	13.8
Vehicles and equipment	0.9	1.6	0.8	1.4
External auditor	0.3	1.8	0.3	1.5
Assistance SECPLAN	0.1	0.1	0.1	0.1
Environmental assistance to municipalities[2]	0.9	0.0	0.8	0.0
Total	113.535	117.964	100.0	100.0

[1]Bank credit amounted to US $ 30 million.
[2]Actually carried out environmental projects are included in the infrastructure component.
Source: Elaborated on the basis of figures in the Implementation Completion Report Third Credit (World Bank 2000), p. 27.

2.4 The Fourth Credit had four components (see Table 2 for planned and actual costs):

- The largest component was the financing of subprojects in small social and economic infrastructure and special programs for social assistance to disadvantaged groups. Within the latter, there was a program of social assistance in general, and one for indigenous communities: “Nuestras raíces.”
- A pilot program for local institutional strengthening, including participatory local planning, preventive maintenance, and transfer of some functions and responsibilities for subproject processing to municipalities.
- A pilot to strengthen community and rural water systems.
- Project management.

2.5 The share of the main infrastructure component in total actual expenditure was lower than planned at appraisal in the Third Credit (Table 1). Project management and institutional strengthening took a much larger share than planned. However, these figures include the full year 1999 which means that the higher management costs (in particular administration and vehicles & equipment) may be partly due to the response to hurricane Mitch. As Table 2 shows, during the period of the Fourth Credit the share of actual spending on infrastructure was much higher than

envisaged at appraisal stage. This additional financing was achieved at the cost of the pilots and also partially at the cost of the implementation of the special programs. The Fourth Credit was planned to be of about the same magnitude as the Third Credit, but after hurricane Mitch the total amount became larger mainly as a result of the Supplementary Credit from the Bank, which also implied larger local government contributions.

2.6 The objectives of targeting the poor (Third Credit) and improved access of the poor (Fourth Credit) were expected to be met within the main component of FHIS by the use of a poverty map that determined allocation ceilings for departments and municipalities. In addition, the FHIS project menu (Third and Fourth credits) and the low salaries paid in the subprojects to the construction workers (only mentioned in the appraisal report for the Third Credit) were meant to lead to a kind of self-targeting. In the design of the Third Credit, FHIS was expected to undertake special efforts to increase project proposals from the poorest communities, while the Fourth Credit mentions the promotion of and assistance to participatory local planning as an instrument for better targeting of investments.

Table 2. Planned (Fourth Credit), revised planned (after supplement to Fourth Credit) and actual use of resources by FHIS, by component[1]

	In millions of US$			*In percent*		
	Planned	*Revised planned*	*Actual*	*Planned*	*Revised*	*Actual*
Infrastructure	96.6	125.2	129.1	70.9	76.7	79.8
Special programs	15.5	15.5	8.6	11.4	9.5	5.3
Pilot for local institutional strengthening	1.3	0.3	0	1.0	0.2	0.0
Pilot for community and rural water systems	3.5	0.1	0	2.6	0.1	0.0
Project management	19.3	22.1	24	14.2	13.5	14.8
FHIS operating costs	15.4	18.2	17.8	11.3	11.2	11.0
Institutional strengthening	1.6	1.6	2	1.2	1.0	1.2
Vehicles and equipment	1.7	1.7	2.5	1.2	1.0	1.5
External auditing	0.3	0.3	0.4	0.2	0.2	0.2
Monitoring and evaluation	0.3	0.3	1.3	0.2	0.2	0.8
Total	136.2	163.2	161.7	100.0	100.0	100.0
Total except government counterpart	118	140.5	135.5			

[1]Bank Fourth Credit was $45 million, and supplement was $22.5 million

Source: Elaboration of figures in the ICR of the Fourth Credit, World Bank 2003, p. 40.

2.7 The objective of supporting the government's decentralization strategy does not seem to be reflected in the design of the components of the Third Credit, other than promoting requests for subprojects from communities and municipalities. Although support to decentralization was not a formal objective of the Fourth Credit, much more attention was given to it in the design of the project which recognized the importance of strengthening capacities of municipalities for operation and maintenance (O&M) of subprojects and for local participatory planning, and included a pilot program for local institutional strengthening.

2.8 To improve prospects for sustainability of subprojects (an objective in both the Third and Fourth credits), the Third Credit included three types of actions: improved coordination between line ministries and municipalities;[7] expanding the involvement of beneficiaries in subproject

[7] The ministers of Health and Education were to be included in FHIS' Board of Directors, and new inter-institutional agreements with these agencies were to be concluded. There were also to be agreements between FHIS and the 293 municipalities, in which responsibilities for maintenance of education and health facilities were to be defined.

O&M through more extensive training; technical assistance for improved training. However, the design of the Fourth Credit included more concrete actions to be taken for this objective. The design emphasized the need for clearly defined responsibilities for central and local governments, NGOs, and FHIS, along with maintaining coordination with line agencies; more systematic participation of beneficiaries as well as their systematic training and improved local government capacities to ensure O&M of investments.

IMPLEMENTATION

Before Mitch

2.9 When compared with the first and second credits, temporary employment creation was no longer an objective in the Third Credit. However, the wording of the objectives still reflected a short term perspective of FHIS, since FHIS was considered necessary as long as government was struggling "to regain fiscal balance" and as long as "line ministries are (were) strengthening capacities". During implementation of the project, it was recognized that the existence of FHIS had little to do with fiscal balance or strengthened capacities of line ministries. FHIS was collaborating already much more with municipal authorities, promoting decision making on public sector investment at the municipal level (World Bank 1997). The Implementation Completion Report stated (p. 2): "A few years after appraisal (it was) … no longer (considered) appropriate that FHIS would only exercise its roles as long as governments regain fiscal balance and line ministries strengthen their institutional capacity." FHIS "had taken over the project-implementing functions of line ministries and had begun to look at a new focal point of institutional strengthening and development partnership: municipalities and community organizations" (World Bank 2000).

2.10 During 1995-1998, FHIS operated at top speed, disbursing US$96.3 million in small-scale infrastructure subprojects and another US$11.7 million in other small activities. The same liberal party won the national elections in November 1997, and as the continuation of FHIS was already secure (para 1.9), operations were hardly interrupted with the change in government. In June 1998, the Fourth Credit to FHIS was approved but just before it became effective, Honduras was hit by hurricane Mitch in October/November 1998. By December 1999, 95 percent of the Fourth Credit had been disbursed. However needs remained large and the Bank approved the Supplement Credit.

2.11 Technical assistance was mainly provided during 1996 and 1997. Fourteen consultancies were planned, of which eight had already been finished by April 1997.[8] FHIS staff members also went on study trips and conferences abroad to learn from the experiences of other Social Funds. Results included the creation of a pre-investment unit and a contracting department, as well as a Management Information System with 48 performance indicators that monitored performance on a weekly basis. An important contributing factor in this strengthening was the fact that the three main financing agencies, the IDB, the Bank and KfW, allowed FHIS to work with the same subproject cycle. During the Third Credit, FHIS could apply direct contracting for amounts up to US$35,000, and private bidding (three quotes) for amounts up to US$50,000. Public bidding was required for amounts above US$50,000. FHIS used a detailed price system to control costs for the direct contracting.

2.12 Due to a restructuring of the Ministry of the Environment, the implementation of the "environmental assistance program" was delayed. In 1997 a new arrangement was signed so that

[8] Ayuda temario Mision del IDB/BM 17-19 april 1996.

FHIS could begin carrying out the small subprojects and the assistance to municipalities (World Bank 2000). In practice, FHIS provided technical assistance to a few municipalities and some 50 innovative environmental subprojects were implemented. In addition, the "environmental improvement program" which was a program within FHIS itself, led to the carrying out of eleven small-scale projects and to an improved environmental assessment mechanism within FHIS.

2.13 The component on social data collection and analysis was carried out together with SECPLAN, the Ministry of Planning. This component included support for combining an inventory of existing social infrastructure at below municipal level with population data, so that line ministries and FHIS are better able to make their investment plans (World Bank 1995). It led to a sophisticated social data mapping system (World Bank 2000). However, according to the completion report, the future of that system is uncertain since SECPLAN disappeared a few years later in the context of the IDA-supported 1996 Public Sector Modernization Project (World Bank 2000).[9]

2.14 The Basic Needs Program was meant to provide support to vulnerable groups such as orphans, small children in precarious positions, pregnant and nursing mothers, ethnic minorities, disabled, and elderly. Before 1995, 1432 subprojects had been financed and all of them were executed by NGOs. However, in financial terms the most important component of the program had been the supply of school desks. With the approval of the Third Credit, it was agreed between government and donors that (among other things) the program would focus on high priority needs of a national nature, that there would be more attention for needs of indigenous groups, and that the supply of school and health center furniture would be transferred to the infrastructure component of FHIS. Technical assistance was provided for that purpose (World Bank 1995).

After Mitch

2.15 When hurricane Mitch hit the country in October-November 1998, FHIS began to carry out cleaning and reconstruction activities. FHIS quickly set up nine temporary regional offices with executive authority to implement projects. This was done in close cooperation with municipalities. Within a year, FHIS had financed 3,400 emergency subprojects (World Bank 2000). With Bank approval, the components directed to pilot decentralization and to strengthen rural water systems were put on hold. In agreement with its main financing agencies, FHIS also simplified its subproject cycle (eight steps instead of fifty) and was allowed to apply direct contracting for all emergency subprojects (World Bank 2003). Also in agreement with the Bank, environmental assessments were no longer applied (World Bank 2003). The flexibility with which all these changes were made enabled a quick response to the crisis situation.[10]

2.16 However, during the emergency period, internal management and control weakened. The regional offices sent their information to headquarters but it was no longer standardized and not always complete. Headquarters had to process the information manually and could not keep up. As a result, the sophisticated management information system (MIS) with its 48 indicators that had been developed during 1995-1998, broke down.

2.17 While the simplification of procedures and weakened internal control mechanisms could be justified during the emergency phase, the delay in return to normal procedures was a serious

[9] According to the Region, the unit that developed this system has moved to another agency.

[10] The ability of social funds to dynamically adjust to prevailing conditions in the short run has been highlighted by IEG's recent Natural Disaster Study "……. following Hurricane Mitch, social funds were an important part of the Bank's early response, transforming themselves overnight from centralized social investment funds into nimble rehabilitation and reconstruction agencies." Natural Disaster Study 2006.

issue. In 2000 and 2001, FHIS was still operating with the short subproject cycle although the emergency phase was over (World Bank 2003). MIS quality has not achieved its previous level.[11]

2.18 Supervision missions by financing agencies do not appear to have had much influence. In July 1999, the World Bank, IDB and KfW requested a return to normal procedures. For IDB and KfW, the local participation in the planning of subprojects and the return to a formal selection mechanism of municipalities was a condition for new financing. The World Bank, on the other hand, was still willing to finance emergency subprojects with special procedures, but wished to isolate them from regular procedures.

2.19 A concern on "dragging of emergency procedures" was repeated during the supervision mission in March 2000. The mission also found that FHIS was still operating on a first-come first-served basis, thus jeopardizing transparency (Box 2). There had also been two changes in ministers of FHIS within eight months, and the accompanying high turnover in key staff brought about "… reduced operational efficiency, loss of staff morale, and complaints from various sectors regarding a growing lack of transparency." These changes almost wiped out the institutional memory of FHIS. Hardly anybody knew about FHIS operational procedures of before the emergency period. A conclusion of the mission was that FHIS urgently had to "re-establish orderly procedures, make a new Operations manual and restore the MIS." It was also recommended that the approval of the Fifth Credit be postponed pending these improvements. In practice, a new Operations Manual was put as a condition of effectiveness and this led to a short delay. But the Fifth Credit was approved in November 2000, while the MIS had not been restored. It is questionable whether this early approval was appropriate.[12]

2.20 A November 2001 supervision mission still found serious deficiencies in operational procedures of FHIS. From the interviews held, the same picture emerges. Although a new subproject cycle was established, it was not as good as before the emergency. The FHIS minister 2000-2002 confirms that his primary goal was to raise the quantity of financed subprojects. When he started in March 2000, mayors all over the country were complaining about the slow response of FHIS to their needs, and his primary goal was to satisfy this demand. The ICR of the Fourth Credit reads (p. 27) that after the emergency phase, FHIS struggled with problems such as a "large pipeline of unfinished projects". It also concludes that "subproject quality was uneven and FHIS's institutional capacity continued to be weak."

[11] The Region commented that "while we agree that the MIS is no longer the state-of-the-art model it was prior to Hurricane Mitch, it is still one of the more sophisticated systems in the country."

[12] The Region commented that a further delay might have had an impact on the post-Mitch reconstruction effort.

Box 2: Ad-hoc decision making during the Fourth Credit

The mission's visit to a 2001 school project (of the Fourth Credit) confirmed that decision making was not always according to formal procedures. Two teachers told the mission that they met the minister of FHIS during the inauguration of another school in their city, in August 2000. They convinced him to visit them and to have a look at the garage and the other small building (donation of German embassy) in which they were then teaching a total of 60 pupils from fast growing urban and rural neighborhoods. Three months later construction began and another three months later, February 2001, they could inaugurate three new classrooms. In August 2001, they were again visited by FHIS engineers who told them that they came to prepare a project for three classrooms. When the engineers saw that the classrooms had been built already, they wanted to leave. But the teachers told them not to go away, since they badly needed three more classrooms for their growing school. So it happened. The school now has six classrooms for almost 200 pupils. It doesn't use the garage anymore, and the "German embassy building" is used as a school kitchen and storage facility. However, teaching only takes place in the morning from 7.30 to 12.30 hrs. In the afternoon, the buildings are only partially used: some children stay at school in the afternoon to do their homework, since there are not enough textbooks.

Source: Field Visit

2.21 The lack of orderly procedures in contracting, supervision and control also contributed to difficulties in the closure of the Fourth Credit. When it came to accounting for the use of the disbursed money, some subprojects were found to have been abandoned, in other cases subprojects were there but the documentation was missing, and sometimes there were legal disputes about the subprojects. The November 2001 elections brought a change in government. In early 2002, a new FHIS minister was again appointed and this led to new staff, which increased the difficulty of closing old subprojects. According to the new minister, the new staff found 5000 unfinished subprojects and these had to be solved before new financing could be attracted. The original closing date of the Fourth Credit was 28 February 2002, which was advanced in the Supplementary Credit to 31 December 2001.[13] But then there were three extensions: first to 30 June, then to 30 September 2002, and finally to 31 January 2003. Similar problems were experienced by IDB and KfW in the closure of their credits.

2.22 In this period there were also some problems with the annual external audit reports requested by the World Bank. In 1999, the auditors qualified their opinion on the financial statements of FHIS due to several missing figures and statements, and due to inconsistencies between project management reports and accounting records.[14] The Bank financial management specialists considered the auditing report over 1999 to be "unacceptable" as evidenced by an internal Office Memorandum of 16 June 2000.[15] According to Bank staff, a satisfactory solution was eventually found.

2.23 In a public sector auditing program financed by several donors that aimed to improve efficiency and transparency of government agencies,[16] FHIS proved to be the state agency with

[13] No reason is mentioned in project documents for this advance. Probably it was induced by the fact that disbursement was much higher than originally foreseen.

[14] This occurred both in a report on statements up to 31 July, and in a report over the full year 1999. In the latter, the auditors also report on other weaknesses in FHIS, such as lack of documentation and insufficient supervision and inspection on some of the works.

[15] After the first auditing report on statements up to 31 July 1999, the Bank auditors had made specific recommendations and requested additional information, but they note in June 2000 that very little had been done with their findings and recommendations in the next report of the same auditing firm.

[16] It is part of the Public sector modernization program and implemented from the Vice-President's Office. There is a steering group consisting of government, donors and civil society. The auditing itself is

the largest number of "findings", i.e., irregularities. These range from incomplete documentation on a subproject, for example a missing address of a contractor, to the lack of proof that the work had actually been delivered. The most serious irregularities were found on older subprojects, i.e. those before 2002 (in the Fourth and Fifth credits).[17] Bilateral donors and civil society representatives who participate in the Steering Group expressed concern about the lack of attention from state agencies in general and FHIS in particular to this program. FHIS representatives note that in carrying out about 3000 subprojects a year (much more than other state agencies) it is not unusual that some irregularities are found, especially since FHIS deals with so many different programs from different financing agencies with their specific contracting and reporting requirements. Yet, FHIS is working on the implementation of the recommendations of the study.

3. Analysis

RELEVANCE

3.1 Overall, relevance is rated **substantial** for both the projects. The central objective of FHIS of supporting the government's poverty alleviation strategy is highly relevant given the high poverty incidence in the country and is also in line with the country assistance strategy (CAS). The components of FHIS are in line with the core program areas of the Honduran Poverty Reduction Strategy Paper (PRSP), notably, reducing both urban and rural poverty, investing in human capital and social protection. The most recent CAS (2003) is based on this PRSP.

3.2 The objective of supporting the government's decentralization strategy is relevant if assessed against the decentralization efforts of the Maduro administration (2002-2006), but much less so during the time of earlier governments. In those periods, decentralization was largely donor-driven and was a policy on paper. In the design of the Third Credit, support for decentralization was primarily through stimulating requests for subprojects from municipalities and communities. In the design of the Fourth Credit, much more attention is given to strengthening municipal capacities for subproject selection, implementation and O&M.

3.3 The objective of promoting sustainability (both Third and Fourth credits) clearly reflects the problems with O&M that had emerged during the earlier phases of FHIS, and is therefore highly relevant. However, measures to enhance the sustainability of subprojects were defined more concretely in the design of the Fourth Credit than in the Third Credit.

3.4 Finally, it is unclear from the objective of promoting the "local contracting industry" in the Third Credit whether "local" is meant to be Honduran or municipal. No references are made to it in either the project design or in the implementation completion report.

EFFICACY

3.5 On balance efficacy is rated **substantial** for the Third and Fourth credits.[18] This section primarily focuses on the primary objectives of improving access of the poor to small scale social

---

commissioned to a private firm, Price Waterhouse Coopers. Another agency, SWIPCO, orders the findings and advises the state agencies examined on how to improve their procedures so as to avoid future problems.

[17] For example, a contract was given to an NGO that did not exist, or a private bidding included three firms (as required) but they all proved to be from the same family.

[18] The objectives of decentralization and sustainability are left to the sections on institutional development and sustainability.

infrastructure, targeting and poverty alleviation. The contribution of both the projects to promoting decentralization and sustainability are largely covered in the sections on Institutional Development Impact and Sustainability respectively.

Access

3.6 FHIS has expanded access to basic education and health facilities, but has achieved much less in water and sanitation. It has been slightly progressive in its allocation. Although this means that non-poor also benefited from FHIS, increase of access for the poor to infrastructure is by no means a small achievement. The Basic Needs program continued to lack focus and direction during the Third and Fourth credits, but the *Nuestras Raíces* program achieved its objective of improving incomes of the poor and improving social cohesion by strengthening ethnic organizations.[19]

3.7 The assessment relies heavily on two impact evaluations that were carried out by ESA Consultores.[20] In addition, reference is made to visits by the assessment mission to randomly selected subprojects of the Third and Fourth credits. FHIS made a large contribution to the increase in primary schools and in number of class rooms in Honduras between 1995 and 1998: 58 percent and 61 percent, respectively (Walker et al. 1999), and these figures probably underestimate the real contribution.[21] Between 1998 and 2002, the number of class rooms increased again which was remarkable since many class rooms had been destroyed by hurricane Mitch. FHIS 3 (Fourth and Fifth credits) built 40 percent of the new schools and 29 percent of the new class rooms, and its contribution to the number of improved or repaired schools was 24 percent (ESA Consultores 2005). Access of households to primary education improved slightly between 1993 and 1997, from 93 percent to 94 percent. The number of pupils per class room decreased from 45 in 1995 to 37 in 1998, to 33 in 2002. This is expected to have increased the quality of primary education. Under both credits, most FHIS resources have been used for the building of schools (Table 3).

3.8 In health, between 1995 and 1998, FHIS built 72 percent of the new rural health centers and 56 percent of the new urban health centers. Between 1998 and 2002, the relative contribution of FHIS was even greater with FHIS building 81 percent of the new rural centers and 97 percent of the new urban centers.

[19] See 3.24, 3.25 and Box 3 for further analysis of these programs.

[20] Both evaluations were commissioned by the Bank. The first was carried out in 1998, is referred to here as Walker et al. 1999 and covered the period of the Third Credit, 1995-1998. The second evaluation was carried out in 2002, covered the period 1998-2002 (FHIS 3), and included projects financed with the Fourth and Fifth Credits. In this last evaluation, a separate assessment was made of emergency projects, which will be dealt with separately in this report. This second evaluation is referred to here as ESA Consultores 2005. The results of FHIS 2 will generally be compared with those of FHIS 3. It must be born in mind, however, that FHIS 3 includes the Fifth Credit and therefore gives perhaps a too positive picture of the outcomes of the Fourth Credit. In fact, virtually all subprojects financed with the Fourth Credit and its supplement were either emergency projects, or projects financed under the (shorter and faster) emergency project cycle. It was only with the Fifth Credit that a longer and more appropriate project cycle was in place.

[21] The figures on the capital stock in primary education are not very reliable. Actual contribution of FHIS in primary education is probably higher given that the school construction division of the Ministry of Education was closed in 1996.

Table 3. Sectoral distribution of investment resources of FHIS, in percent

	Third Credit	*Fourth Credit*
Education	56	42
Municipal	12	35
Water and sanitation	15	9
Social assistance	3	6
Health	13	5
Environment	1	2
Total	100	100
Total in millions of US$	97.7	137.7

Source: ICRs of Third and Fourth Credits. (World Bank 2000; 2003)

3.9 Access to water improved considerably between 1993 and 1997, from 73 percent to 92 percent, but the contribution of FHIS to improved coverage was modest: only 1.7 percent. In part, this was due to the fact that FHIS often just repaired existing water systems. Mitch destroyed a large number of water systems, and coverage decreased to 80 percent between 1998 and 2002. FHIS made a large contribution to a SANAA-USAID program to restore water access, especially in urban areas. The share of FHIS in construction of new water systems was 40 percent in this later period.[22]

3.10 Coverage in sanitation did not improve between 1993 and 1997, but new systems were built to maintain coverage, and FHIS built 17 percent of them (Walker et al. 1999). During 1998-2002, coverage in sanitation even decreased, from 83 percent to 81 percent of the population, due to the effects of Mitch. It is estimated that FHIS built 74 percent of new sewerage systems in urban areas, and 10 percent of new latrines (ESA Consultores 2005).

3.11 The FHIS emergency subprojects carried out after hurricane Mitch helped the people affected by the disaster in two ways: by repairing physical infrastructure and by providing temporary employment. Most persons interviewed agree that FHIS was able to respond quickly to the needs in municipalities.

Targeting

3.12 In order to reduce political or other distortions in the allocation of resources, FHIS uses a poverty map. Ceilings per department and per municipality are defined on the basis of size of population and the extent of poverty. At the beginning of the Third Credit (1995), the poverty index was composed of access to clean water supply (50 percent), malnutrition (30 percent), and access to sanitation (20 percent). In the Fourth Credit, the weight for the water and malnutrition indices was reduced to 40 and 20 percent respectively, and that for illiteracy rates became 20 percent. In addition, the relative weight of the poverty index increased relative to the weight for population in the establishment of the resource ceiling.

3.13 For an assessment of actual targeting, data are used from the two impact studies (Walker et al. 1999; ESA Consultores 2005). The allocation of resources during the Third Credit (FHIS 2) was marginally progressive at the municipal level. This was an improvement over FHIS 1 (1990-1994), when the distribution had been neutral.[23] FHIS has been able to allocate more than average

[22] The total excludes contributions from NGOs, which are important in water and sanitation.

[23] Each quintile of municipalities ordered according to poverty (in terms of basic needs in keeping with the above definition), received about the same per capita amount of resources from FHIS. The redistribution index (A kind of Gini coefficient: it has value 0 in case of a neutral distribution, and a value of 1 in case all

of its resources to the poorer municipalities and households and has increased access of the poor to latrines, health centers and schools. This is a positive development. On the other hand, the objective of the Third Credit was "poverty alleviation ... by targeting resources to the poor," and that of the Fourth Credit it was "…. to improve access of the poor to facilities." Hence it is worrisome that still a large share of FHIS resources benefits the wealthier part of the Honduran population.[24] Some donors to FHIS, like KfW allocate only to the poorer regions. However, the Bank has always supported the overall FHIS allocation.

3.14 In recent years, there has been some pressure on FHIS, for example in the context of the Consultative Council that oversees the implementation of the Honduran PRSP, to allocate resources only to the poorest municipalities. But this proved politically impossible. As the FHIS minister stated during the mission in 2005, FHIS is a ministry and is expected to serve the whole country.[25] Even leaving out large and rich municipalities such as Tegucigalpa and San Pedro Sula is politically impossible, according to another respondent. Nevertheless, FHIS did change the targeted allocation of resources again in 2005, making it more progressive than before.[26]

3.15 Another aspect of the targeting process is more subjective: do communities really get what they want; have they been involved in decision-making and is the facility constructed or repaired their first priority? If so, it is expected to enhance their sense of responsibility for O&M of facilities. The 1998 evaluation found that 73 percent of households[27] had been involved in some kind of consultation for the choice of subprojects, and 58 percent of households participated in their execution by providing labor, money or materials. A significant minority of the fifteen subprojects of which procedures were examined in-depth had been negotiated directly with FHIS by individuals, such as a teacher, an engineer with interest in the subproject, or the mayor (Walker et al. 1999). In the quantitative household survey it was also asked whether members of communities would have had other priorities. In health, education and water subprojects the priority coincided generally with the subproject implemented, but in sewerage and latrines only 4 and 7 percent respectively of the respondents in the household survey said that they would have chosen it. There proved to be considerable demand for other types of subprojects not included in the FHIS menu, such as roads (which became included in the Fourth Credit) and electricity (still excluded).

---

resources go to the poorest decile of municipalities) increased from -0.01 in FHIS 1 to 0.12 in FHIS 2. In FHIS 3 (Fourth and Fifth credits), the redistribution index at the level of municipality increased further to 0.26. However, there were important differences between kinds of subprojects. In both periods, health projects had the most progressive allocation. Sewerage projects were most regressive in FHIS 2, while environmental projects were so in FHIS 3. Water projects in FHIS 3 had a redistribution index of only 0.10. The resource allocation by household deciles (potential beneficiaries, so within the area of influence) was slightly more progressive than that for municipalities: 0.21 during FHIS 2, and 0.23 during FHIS 3. For latrines and health facilities it was most progressive.

[24] 21.7 percent of resources allocated under FHIS 2 benefited the richest 30 percent of the population. This was reduced to 12.4 percent under FHIS 3, but given the objective of targeting resources to the poor, this should perhaps be zero.

[25] Interview with the minister for FHIS during 2002-2006, Leony Yu Way.

[26] The Region commented that there are a great number of poor households who live in the municipalities of Tegucigalpa and San Pedro Sula. IEG notes that the report raises the issue of targeting poorer municipalities and not poor households within rich municipalities - which have the resources to take care of their poor neighborhoods themselves. The Borrower in its comments agrees with the Region. For details on Borrower comments see Annex B.

[27] These figure are based on a sample of about 1300 households in the direct "area of influence" of 48 FHIS projects (Walker et al. 1999).

3.16 On 26 September 1998, just before the Fourth Credit became effective, all municipalities (except the two largest, Tegucigalpa and San Pedro Sula) organized open town hall meetings (*cabildos abiertos*) in which Municipal Investment Plans were established. Although this participatory decision making was far from perfect, at least representatives of all communities, local civil society organizations and community based organizations were invited to participate. These plans were to form the basis for negotiations between FHIS and municipalities on investment in the years 1998-2001. However, hurricane Mitch in October 1998 interrupted this planning process.

3.17 The extent of involvement of households in decision making in FHIS subprojects did not increase in FHIS 3 (Fourth and Fifth credits) as compared to FHIS 2 (Third Credit). The percentage of household involved in consultation on the subproject, was 2 percentage points lower than in FHIS 2 (71 percent versus 73 percent).[28] The focus groups interviews reveal that only in eight out of fifteen cases the implemented subproject was selected in the *cabildos abiertos* and was also the first priority of the community. In four other cases the subproject was or had become (after Mitch) a priority for the community, but in the remaining cases the subproject was not the priority of the community. There was lower coincidence between actual and desired subprojects than under FHIS 2 for education and water subprojects (down from 47 to 22 percent, and from 64 to 38 percent, respectively), but higher coincidence for latrines (from 7 to 23 percent) and slightly higher for health subprojects (from 35 to 40 percent). The coincidence on sewerage which was very low in 1998 (4 percent) is missing in the 2005 report.

3.18 Although the appraisal document of the Fourth Credit speaks of securing beneficiary participation in all phases of the subproject cycle, this was not carried out systematically during the Fourth and Fifth credits (FHIS 3) – even apart from the emergency subprojects. In fact, the percentage of households participating during subproject execution was 54 percent in FHIS 3 and this was about the same during FHIS 2 (58 percent).[29]

3.19 In the second evaluation (FHIS 3) there proved to be a link between having been consulted and having participated in construction, and the utilization of subprojects at the household level, so this appeared to be important indeed. Utilization at household level of health centers, water systems and latrines proved to be slightly higher under FHIS 3 than under FHIS 2, but it was the other way round for schools (constituting the vast majority of subprojects).

Impact on poor households

3.20 The two evaluations also examined the impact of FHIS on development indicators at the household level, such as enrolment rates, use of health centers and incidence of diarrhea.[30]

---

[28] In both evaluations, this figure is based on a sample of about 1300 households in the direct "area of influence" of FHIS projects: 48 projects in the first (Walker et al. 1999), and 110 in the second evaluation (ESA Consultores 2005). The table in ESA Consultores (2005: 23) gives numbers for the 1998 evaluation (for the total of projects) that are much lower than the actual numbers in Walker et al. (1999) and also do not square with the figures by project type in ESA Consultores (2005), so it is incorrectly concluded that involvement in decision making has increased.

[29] Based on the same samples of households, see notes 27 and 28. Again, see also note 28 above, the number in ESA Consultores (2005) for total of projects for FHIS 2 is lower than in Walker et al., 1999, giving the impression that participation has increased while it has not.

[30] This was difficult since no baseline data had been collected on development indicators in communities where FHIS had implemented a subproject. The study therefore compared households in communities that benefited from a FHIS project, with those that did not have a FHIS project. For this control group, the

3.21 The first evaluation found no significant increase in enrolment rates but did find a statistically significant increase in the percent of children that was in the right grade for ages eight and nine. This may be the effect of an improved quality of education. In the second evaluation (2002), both variables were higher in the communities with a FHIS subproject but a statistically significant result was only found for enrolment rates. In the before and after comparison 1998-2002, enrolment rates increased from 89 percent to 98 percent, and there was an even larger increase in the percentage of children that was in the right grade for their age: from 41percent to 60 percent. Both increases were statistically significant.

3.22 The first evaluation found a statistically significant higher percentage of persons using medical services in case of a medical problem in communities where FHIS had constructed or improved a health center: 51 percent versus 41 percent. In the second evaluation, the pipeline only proved to include improvements of health centers and no new constructions, and no significant effect could be found. But the before-after comparison revealed an increase from 41 percent to 55 percent in households who visit a health center in case of a medical problem. There also proved to be an increase in the percentage of pregnant women visiting a health center, but it was not statistically significant.

3.23 The 1998 study found a statistically significant effect from latrine subprojects on the incidence of diarrhea: it was 10 percent lower. The second study found a significant impact on diarrhea from both latrines and sewerage (toilets) in the *with-without* comparison. The incidence of diarrhea proved to be higher if water from a well was used as compared to tap water, but lower if water from "other sources" was used. These other sources may include less hygienic sources, but may also include bottles, or water tapped from neighbors. In the *before- after* comparison, improved use of water and sanitation facilities could be registered, implying a lower use of alternative sources of water. But no significant reductions of diarrhea could be established.

Support to Vulnerable Groups

3.24 During the Third Credit, the amount invested in the Basic Needs Program was small and FHIS lacked strategic direction to evaluate and oversee the program.[31] In the Fourth Credit it was decided to set up a Steering Committee, comprised of representatives of government and NGOs, for the implementation of the program. This Committee was expected to improve the evaluation and oversight of subprojects set up under the program and also to increase transparency and efficiency in the identification of subprojects (World Bank 1998). A Steering Committee was established, some workshops were held and technical assistance was provided, but the actual implementation of subprojects in this area was suspended when hurricane Mitch struck and all investment resources of FHIS were used for cleaning and repair activities. [32]

---

researchers used the pipeline of FHIS projects. However, this pipeline of projects was so small that no sample could be taken, thus reducing the statistical validity of the comparison. The second evaluation could use the pipeline of the first for making an additional comparison of communities before and after the FHIS project. It is also important to remember that FHIS often just improved or expanded existing facilities. In those cases, it cannot be expected that FHIS has a large impact.

[31] The completion report on the Third Credit notes that although 69 subprojects were carried out under the Basic Needs Program, the amount invested was small ($1.6 million in total over three years; indeed, much less than the amount mentioned in the appraisal document) and only a few types of subprojects were supported. The completion report also concludes that there was still a lack of strategic direction in FHIS to evaluate and oversee these programs.

[32] In 2000, during the preparation of the Fifth Credit, the Basic Needs Program was re-established under the name FIDAS, Social Assistance and Development Innovations Fund. New aspects of FIDAS include competition among proposals, that FHIS no longer decides but leaves decisions to a Steering Committee in which the majority of members represents civil society, and that there is more explicit targeting. The target

3.25 The *Nuestras Raíces* program began in 1995 as a response to demands from indigenous groups. According to the completion report of the Third Credit, between 1995 and 1998, FHIS provided US$3.8 million in financing for construction and rehabilitation of rural roads or canals etc. in ethnic minority communities using paid labor. In addition, the communities were encouraged to save at least part of the money earned to finance agricultural or commercial activities. They received training in order to better organize themselves. Until mid-1999, the program benefited 3,500 communities representing ten different ethnic groups. There were about 107,000 beneficiaries and 42 percent of them were women (World Bank 2000). The subprojects helped generate income for the poor while at the same time bringing about improvements in community level facilities.

Box 3: A Successful *Nuestras Raíces* (NR) Subproject

Among the subprojects visited for this study there was one NR subproject. Unlike the other visited subprojects, this one was not randomly chosen and apparently it was a rather successful case. The indigenous (*lenca*) community Tenampud in Aguafayer, department of Comayagua, had a NR subproject in the third and in the fourth phase of NR, with money from the Fourth and Fifth Bank credits. Daily payments per worker were first 50L and later 60L. This community decided to save all the money received for their construction work and set up a common bank (*caja rural*). In their first project they built a community house together. With the next project, they began to build another house and they used a small part of the money for buying furniture. The second house is going to be a big one and was still under construction in November 2005. They intend to use it as a future office for the credit bank as well as for renting.

The rural credit bank was the most successful part of this experience. The members (*socios*) were making profits, and several members had been able to borrow money to set up or expand profitable agricultural activities, such as mango and rice growing. They had received training for setting up this rural bank. The interest rate was high (3 percent per month) but borrowers were paying. Despite the high interest rate there is a high demand for credit, also from outside the community. Non-members have to present collateral, while members don't. In order to meet the high demand, the *caja rural* would like to expand its capital base by using aid money, for example from the European Union, or by borrowing from a regular bank. However, the first proved impossible since they are not putting up the legally required reserves for a small savings bank (*encaje legal*; they call it a tax) and the second was also denied to them by the (state) development bank, despite submitting an impressive amount of papers testifying sufficient security and collateral. This indicates that government policies are not very favorable for promoting rural credit expansion. This successful NR subproject cannot expand further.

3.26 During the Fourth Credit FHIS concentrated on financing small hurricane recovery subprojects prioritized by communities, applying a kind of learning-by-doing. Within six months, FHIS had spent $2.1 million in the form of 1,843 small subprojects, benefiting 57,940 households. The Fourth Credit also provided for a role for ethnic federations in implementation which contributed to their strengthening (World Bank, 2003).[33]

---

areas are children in precarious conditions (children affected by HIV-AIDS, by violence, orphans, teenage mothers, etc.), disabled and elderly. Although there are no evaluation results available yet, interviews in the field indicate that this program finally appears to be successful. Hence though the Basic Needs Program did not achieve its objectives during the Third and Fourth credits, lessons learned seem to have had a positive effect on the program as executed under the Fifth Credit.

[33] With money from Fifth Credit, the fourth phase of the program was carried out and the Bank financed about $13 million for this phase, which began in June 2001. This fourth phase has been evaluated by ESA Consultores (2002) who found that the project was good at targeting extremely poor communities and households. It also helped to strengthen and increase legitimacy of ethnic federations through the role they had in the coordination of the projects. Representatives of these federations served as contact persons with FHIS and as supervisors.

3.27 One lesson learnt according to the appraisal document of the Fourth Credit is that FHIS should have "limited objectives". Nevertheless the Basic Needs Program and *Nuestras Raíces* were still included. Both were not part of the core business of FHIS and required special procedures and operations, and specialized personnel. There are not many synergies between the core business of FHIS and these programs. Both programs needed a long lead time before they obtained some efficacy.

EFFICIENCY

3.28 Efficiency of both projects is rated **modest.** While it is true that FHIS has achieved high operating speed, but quantity has often been at the cost of quality (see below, under sustainability) and costs have not been low.

3.29 FHIS project documents do not include any cost-effectiveness analysis. The appraisal document of the Third Credit gives an amount to be spent and does not give physical targets: it notes that if costs per subproject are higher, fewer subprojects will be implemented (p. 27). The appraisal document of the Fourth Credit states "Since the project is fully driven by community demand and basically a line of credit, no cost-benefit analysis has been carried out for the full program." It goes on to explain how FHIS uses standard designs and "technical and simple economic criteria" (the latter referring to a maximum amount to be spent per expected beneficiary) to "… determine subproject economic viability". (p. 11). These statements are more or less repeated in the completion report of the Fourth Credit (World Bank 2003). Both completion reports make an assessment of the relative project management costs (15 percent of total, see Tables 1 and 2 above) which are considered within the normal range for Social Investment Funds in the region.

3.30 Most subprojects were directly contracted. This made the process of project implementation fast: for example, during FHIS 2 (Third Bank Credit) there were on average only 14 days between subproject approval and contracting in direct hiring, against 112 days for private bidding and 78 days for public bidding (Walker et al. 1999). On the other hand, to be able to do direct contracting FHIS had to invest in a system of registered prices and in maintaining a list of reliable contractors.

3.31 Almost all persons interviewed for this assessment (except for FHIS staff) were of the opinion that costs of construction through FHIS were relatively high. Usually, constructing firms and supervisors had to come from Tegucigalpa, and most workers also came from outside the community where the work took place. One respondent estimated that costs would be about 40 percent lower if municipalities had contracted the works to local construction firms using local labor and materials to the extent possible. [34] However, in the 1990s most municipalities were not yet able to do this. Other respondents referred to NGOs that would have been cheaper in implementing water and sanitation subprojects. Several respondents pointed to the high overhead of FHIS itself and the lack of internal coordination, which both increased costs. For example, it was remarked that in one community, FHIS had constructed latrines twice, with different materials – and none of them was in use; they were used for storage.

3.32 The 1998 impact evaluation attempted to assess the costs of direct hiring, as the dominant operation mode of FHIS, by comparing it with competitive bidding. This resulted in only a small increase for most subproject types, but a larger increase of 13 percent in the case of water and sanitation subprojects. It also compared the costs per square meter in education and health buildings with standard costs as recommended by the Honduran Chamber of Construction. FHIS proved to be slightly cheaper in health, and about 19 percent more expensive, on average, in

[34] Interview with director of AMHON.

education (computed from evidence presented in Walker et al., 1999: 44). In water, the same evaluation found that the cost per connection for the user proved to be three times higher than what is considered normal in other projects (Walker et al. 1999).[35]

OUTCOME

3.33 The overall rating for outcome is **moderately satisfactory** for both projects. This is the balance of substantial relevance, substantial efficacy and modest efficiency.

SUSTAINABILITY

The overall sustainability is rated **unlikely** for both credits. Although most FHIS subprojects are reported (in the evaluations) to be in use, they are often not used in full and there were many problems with the quality of subprojects and with their maintenance. On average, utilization, quality and maintenance seem to have improved *in the non-emergency subprojects* of the Fourth Credit. But most Fourth Credit subprojects are in fact emergency subprojects in which less attention was paid to issues like securing community demand, design, quality and sustainability.

Use of Subprojects

3.34 Each FHIS subproject in health and education is approved by the ministries of Health and Education beforehand, implying that the ministry promises to secure staffing, other resources and maintenance. Evaluations by ESA Consultores in 1998 and 2002 and also the mission's visits show that health and education facilities were generally used, but often not in full. This was due to problems like lack of medicines, shortages of personnel, shortages of textbooks and sometimes also of furniture, and leaking roofs in buildings. In 1998, FHIS health centers operated at a similar level as non-FHIS health centers; the utilization of schools was generally better than health centers but FHIS schools had more operation problems than non-FHIS schools (Walker et al. 1999). The use of FHIS health facilities improved in the Fourth Credit as more staff and other resources became available. Between 1998 and 2002, the average number of pupils per FHIS constructed classroom went down from 30 to 20. This indicates some underutilization of FHIS facilities: the national average was 32 in 2002. A recent inventory of schools carried out by the Ministry of Education found that there are many very small schools all over the country, also pointing to possible underutilization and overinvestment. All of the subprojects constructed under the Third and Fourth credits that were visited by the mission were operating, but to different degrees.

3.35 While the study by ESA Consultores found that most latrines constructed under the Fourth Credit were used, the more in-depth analysis of latrine subprojects constructed under the Third Credit revealed that they were often used for other purposes. There proved to be a clear relationship with whether training had been received (Walker et al: 1999: 54, 56). Many persons interviewed also noted that latrines were used for other purposes, such as storage.

Quality of Subprojects

3.36 The 1998 impact evaluation of FHIS 2 showed that quality of schools and health centers constructed by FHIS was not very different from schools and health centers constructed by other

[35] The Region commented that the recent ICR mission for the Fifth Credit found no hard evidence that FHIS costs were too high and for some time now FHIS contracts have been based on competitive processes and the institution has worked with several hundred private sector firms during that time. IEG notes that the analysis presented in the report was for the Third and Fourth Credits.

agencies, but in FHIS facilities a larger proportion of sanitary and electric installations (about one-third) were not working (Walker et al. 1999). Only 44 percent of schools and 67 percent of health centers were classified as having "good quality". In 2002, with the Fourth and Fifth credits the percentage of schools of good quality increased to 87 percent (ESA Consultores 2005).[36]

3.37 In 1998, FHIS sewerage and latrine subprojects were assessed to be better than non-FHIS ones, but in water the FHIS subprojects were of lower quality. While the quality of construction of water subprojects seems to have improved between FHIS 2 and FHIS 3 (percent of good ones went from 70 to 86), that of latrines deteriorated (from 80 to 71). In latrines there was also a big problem with the quality of doors and seats: only 57 percent of them were found in good shape in both evaluation periods.

3.38 The focus groups in the 1998 study brought to the fore many problems with the quality of FHIS subprojects, resulting from both design faults and poor quality materials. Water systems had problems with sand filters, the high pressures led to frequent breaking of pipes, latrines were built on unsuitable soils, and schools and health centers lacked water supplies or had septic tanks without proper drainage fields (Walker et al. 1999: 39).

3.39 The field visits undertaken for this assessment also revealed several problems with the quality of the works. In all cases an inferior material had been used for the roofs, so that they were all seriously leaking. None of the three primary or pre-primary schools visited proved to have had a water source at delivery.[37] According to several respondents, this is a general problem: FHIS primary schools typically do have latrines, but no water. Two visited subprojects had had serious technical problems immediately after construction that had to be corrected, and in one case three new class rooms had been built on soil that was in the process of eroding. In this case, the parents association was active and was constructing a protective wall, but this problem should have been foreseen and addressed at the start of the subproject.

3.40 Representatives of the Ministries of Education and Health report that they have had problems with inappropriate FHIS designs and bad quality. In water, SANAA complained of bad quality of the subprojects. This was not due to bad designs (when FHIS started it had hired SANAA personnel, so these people knew what they were doing), but to lack of adequate supervision. Several donor and NGO representatives and former staff of FHIS confirm the poor quality of many FHIS works: the use of inferior materials and deficient supervision and control during construction are mentioned as main causes. Another example given by respondents refers to the construction of school desks, which were part of the Basic Needs Program until 1995 but then became part of regular FHIS subproject financing. Most suppliers did not use dried wood. As desks consisted of wood glued together, they fell apart within six months. Since FHIS did not exercise control over the construction process, there was no way of ensuring that dried wood was used.

Maintenance of Subprojects

3.41 During the Third Credit, responsibilities for maintenance were not clearly defined: they were formally shared between line ministries, which were not doing it, municipalities, which had insufficient means to do it, and user committees, which were not sufficiently trained. In the Fourth Credit, it was intended to increase training for user committees but this was not fully implemented. After hurricane Mitch, speed became even more important. Most of the money of

[36] The evaluation of FHIS 3 (the Fourth Credit) includes a separate assessment of the emergency projects carried out immediately after hurricane Mitch. This "emergency sample" will be dealt with separately below.

[37] In two cases, it had been constructed later on the initiative of the user committee.

the Fourth Credit was disbursed under an emergency subproject cycle and maintenance received even less attention.

3.42 With respect to maintenance, the agreements concluded by FHIS with ministries did not mean anything: all (ex) ministers and government officers admit that they do not have money for maintenance of schools and health centers, whether constructed by FHIS or not. Maintenance in practice therefore depends on the efforts of user committees and municipalities. According to the appraisal document, FHIS was expected to systematically train beneficiaries so that they would set up user committees (ORMAs) and water boards that would be able to carry out simple maintenance tasks and would also be able to approach municipalities to get resources if needed. In practice, according to the completion report, beneficiaries of all water and latrine projects (526) received training, while training was also provided to beneficiaries of 381 other subprojects. Hence beneficiaries of 907 out of a total of 6,137 projects, or 14.8 percent, were trained under the Fourth Credit. No training was provided during the emergency phase. [38] Hence if we subtract all hurricane subprojects (4,138), training was provided to 45.3 percent of subprojects constructed under the Fourth Credit, In the Third Credit, beneficiaries of 416 out of a total of 4,120 subprojects, or 10.1 percent were trained. Though there was a clear increase in the Fourth Credit, training was by no means a systematic effort yet. Even if training were given in all subprojects, it can be doubted whether this would fully secure maintenance, since communities cannot be expected to always have sufficient time and raise sufficient money for it, see also 3.52.[39]

3.43 The evaluations by ESA Consultores did not compare the maintenance situation of FHIS subprojects with non-FHIS subprojects, but they did look at maintenance of FHIS subprojects in both periods. With respect to schools and health centers, they examined the decoration condition (painting) and the extent of cleanliness. The decoration condition was low in both periods, but improved over time (Table 4). Cleanliness was bad in FHIS 2, especially in health centers, but some improvement in FHIS 3 (Fourth and Fifth credits) was observed.

3.44 Three out of five visited social infrastructure subprojects had not been maintained at all. The quality of painting was bad, the facilities dirty and the roofs were leaking badly. Doors of latrines were broken. Because of the leaking roofs, these facilities could not be used during rains. These three were all constructed in 1996, under the Third Credit (FHIS 2). In two other cases, constructed in 1999 and 2001, the facilities were clean and well maintained. In these cases there was an active user committee (consisting of parents and teachers) that raised funds for maintenance and improvement of the facility. In the case of a pre-primary school, the user committee had even built a water source. And the other school was building the protective wall for the three new class rooms that had been built on soil about to be eroded (see above).

[38] This does not need to be a problem: in case of repairs of existing facilities, well organized user committees may already have been active. In case of cleaning mud, training of user committees is also unnecessary.

[39] The Region in its comments notes that “A recent ICR mission for the Fifth SIF Project found that the line agencies were still not providing the agreed maintenance, but that much headway had been made in terms of practical arrangements with municipalities and user committees.”

Table 4. Maintenance of schools and health centers, % of total facilities examined

	Schools				*Health Centers*			
	Decoration condition		*Cleanliness*		*Decoration condition*		*Cleanliness*	
	FHIS 2	***FHIS 3***	***FHIS 2***	***FHIS 3***	***FHIS 2***	***FHIS 3***	***FHIS 2***	***FHIS 3***
Good	30	67	53	51	0	40	36	57
Regular	42	20	19	44	20	42	44	25
Bad	27	13	29	5	80	18	20	18

Source: ESA Consultores 2005.

Table 5. Maintenance of water and latrine projects, in percent of examined projects

	Water				*Latrines*			
	Maintenance of construction		*Maintenance of equipment*		*Maintenance of construction*		*Cleanliness*	
	FHIS 2	***FHIS 3***	***FHIS 2***	***FHIS 3***	***FHIS 2***	***FHIS 3****	***FHIS 2***	***FHIS 3***
Good	69	74	53	78	80	71	54	39
Regular	28	20	46	11	17	1	33	23
Bad	3	6	2	11	3	0	12	28

*Total does not sum up to 100. There must be a mistake in original source
Source: ESA Consultores 2005.

3.45 The Basic Needs Program did not meet its objectives (see 3.25) so it is of little use to analyze its sustainability. The evaluation of the *Nuestras Raíces* program found that the subprojects were in fact cash transfer programs, and that little was done to guarantee the sustainability of the works. FHIS only paid for salaries and did not pay for materials, often leading to deficient quality. The training provided mainly reached the contact persons and coordinators and was not focused on maintenance. Training for the rural credit banks was also insufficient. In fact, although 84 percent of the communities that had had a project did have a rural credit bank, the amounts saved from the payments received were low and the money that was saved was sub-utilized and not very well managed. In response to these weaknesses, the new Bank credit for *Nuestras Raíces* allows payments of materials and includes more extensive training at the community level (World Bank 2004).

After Mitch

3.46 The high speed of operations after hurricane Mitch and the breakdown of internal management controls also affected the quality of subprojects, for example due to inadequate appraisals ex ante, the hiring of inexperienced constructors or supervisors, or sometimes even lack of supervision. Even less attention than before was given to participation of communities in decision making and to training of user committees. But there were also specific problems. For example, the completion report notes that FHIS had reconstructed six schools and one health center on exactly the same location as where the flooding had occurred, thus making it likely that flooding would take them away again (World Bank 2003). Another example is the "*caja puentes*" that FHIS constructed on a large scale after hurricane Mitch. These are dams with pipes in them to secure the water flow and they also serve as cheap bridges. However, according to a civil society representative, the capacity of the pipes was often too small so that new floods occurred in the next rainy season, destroying houses and harvests again.[40]

[40] These "*caja puentes*" had a standard cost; if rivers were broader, it was not possible to include more pipes. According to several interviewees, these FHIS bridges had to be reconstructed every year.

3.47 These observations from interviewees are by and large confirmed by more systematic studies of the subprojects of the emergency period. ESA Consultores (2005) made a separate evaluation of a sample of 28 emergency subprojects, and held interviews with eight ex-mayors about their experience with FHIS in this period. The mayors were generally satisfied with the speed and flexibility of FHIS in its emergency activities and with the professionalism of FHIS, but about half of them were not satisfied with the extent of coordination with the municipality, the quality of the projects and the transparency in FHIS' financial, contracting and accounting procedures.

3.48 "Good" or "regular" supervision by FHIS had only been available in 58 percent of the subprojects. The shortcomings of the emergency subprojects were most evident in O&M. Only 16 percent of them had an O&M plan, and in only 21percent of the cases had communities received training for maintaining the works. A user committee was only active in 37 percent of the cases.

3.49 KfW also did an assessment of subprojects carried out in this period. Out of a total of 274 subprojects, 29 subprojects were examined, of which 83 percent were emergency subprojects (World Bank 2003). The study found that the shortening of the project cycle led to superficial project formulation and appraisal, implying that technical documentation was not always complete nor fully checked in the field. Procedures for targeting subprojects to the poorest communities were no longer applied, and insufficient attention was given to verifying the need for a subproject at the beneficiary level. The prototypes for school construction were not always suitable for the zones where they were built, and water supply and drainage subprojects were often poorly designed and were inadequate in scope. Supervision by FHIS was insufficient. Ninety-nine percent of subprojects were given to contractors recommended by municipalities without looking at the FHIS database of qualified contractors. The selection procedure of contractors was not transparent. Twenty percent of projects had cost overruns, and 53 percent were finished later than planned. Although FHIS had in most cases not provided training of user committees, and the ministries of Health and Education did not provide finance for cleaning and repair, most subprojects were adequately operating and maintained thanks to the efforts of staff and users. But users did not have sufficient resources for carrying out larger repairs, suggesting that over time these sub-projects may not be maintained.[41]

3.50 In 2003, FHIS started a new modality in order to improve the sustainability of subprojects, the PEC (*proyectos ejecutados por la comunidad*, projects executed by the community). In PEC, the community organization manages the funds, supervises the work and pays the contractor. The community is also expected to contribute 10 percent to the costs of the project, in labor or in providing materials or money (30 percent in the case of water subprojects). FHIS provides for extensive training of the community organization before and during subproject implementation, and there are also follow-up visits after finishing the subproject. PEC subprojects must be included in the strategic municipal development plans and they are carried out in consultation with municipal governments. By November 2005, 200 subprojects had started under this modality. However, this modality also has its limitations. Managing and – daily – supervising the project implies a heavy burden on community members, and – despite the training they receive – they cannot be expected to have adequate capacity to supervise technically the work of engineers and construction workers. Furthermore, it can only be expected to work if subprojects are a very high priority for the community. This does not always seem to be the case. The mission visited a PEC subproject in execution. This happened to be an expansion of a vocational school, a "Colegio", and it was clear that it was not the community that had asked for it. The expansion had been requested by the mayor and the school director had intensively lobbied for it. The

---

[41] IEG's recent Natural Disaster Study found that these shortcomings are typical of projects responding to disaster situations.

chairperson of the user association was afraid that the community would not be able to contribute the 10 percent required. It can be questioned whether this is the ultimate solution for achieving sustainability.

INSTITUTIONAL DEVELOPMENT IMPACT

3.51 Overall, institutional development impact is rated **substantial**. This is the balance of three assessments: a neutral assessment of having a separate institution for implementing small infrastructure projects: it worked positively, on balance, for health and education projects but not for water and sanitation projects; a qualified positive judgment of the role FHIS played during the emergency, and a positive assessment of the effect that FHIS had on the decentralization process in the country.

Institutional Development Impact in General

3.52 FHIS was effective in repairing and expanding the stock of basic social infrastructure in the country. Its use of a poverty map that was based on availability of infrastructure was an innovation and led to a slightly progressive distribution of its resources. FHIS had an advantage over other agencies in that it was exempted from state procurement rules (more direct contracting and more contracting of not formally qualified engineers was allowed) and that it could pay higher salaries. The latter allowed FHIS to attract higher quality personnel and to apply higher professional standards of work. There are however drawbacks to having this task carried out by a separate institution. The quality of design of health and education facilities was sometimes affected by the fact that FHIS did not always take the professional views of the Ministries of Health and Education into account when designing new or repairing existing facilities.[42] But relationships in this area have improved over time. Further, despite the fact that FHIS worked mostly in response to priority setting by municipalities and communities, the allocation of subprojects may have been suboptimal. This was because choice was limited to subprojects that were within the FHIS menu, excluding a potentially important developmental facility such as electricity. In addition, priorities according to demand and within ceilings defined by a poverty map may lead to suboptimal allocation *within* a sector. For example, according to the recent inventory of primary schools there may be too many small schools.

3.53 Yet, the bottom line is that in the absence of FHIS, line Ministries in Health and Education would not have implemented the same number of subprojects, and they would certainly not have achieved the same progressiveness and rural coverage. Though the line Ministries did not provide for maintenance, the fact of the matter is that they would not have done so even if the donor money for construction had been given directly to them. Hence, with respect to schools and health centers, the existence of FHIS as a separate institution financing basic infrastructure can be assessed as positive.

3.54 In water and sanitation the situation was different. FHIS only played a small role in the water sector, and water subprojects were not sustainable because sufficient attention was not paid to the establishment of water boards that are in charge of O&M. Furthermore, FHIS sometimes undermined community participation policies of other agencies, by paying community members for their contributions (for digging holes, or supplying materials) instead of requesting a contribution from them as the Ministry of Health did.[43]

---

[42] According to interviews with staff and former ministers of these agencies.

[43] The region commented that "FHIS's practices in the water supply and sanitation sector have evolved tremendously, and have more recently been referred to as good practice in a number of publications of the Bank and other agencies," and that IDA support also led to greater harmonization in the water sector.

3.55 There are also limitations to the extent that FHIS can be seen as a high quality professional institution. FHIS has proven not to be exempt from the political process. First, changes in government every four years bring about high staff turnover, thus weakening the professionalism of the institution. Second, and just like other state agencies, FHIS is subject to political interference. In fact, the huge amount of donor money that can be spent through FHIS makes the institution particularly suitable for the advancement of political objectives. Yet, according to some civil society representatives and other non-government observers, political intervention in FHIS has been less than in other state agencies.

Emergency performance

3.56 With respect to the situation after hurricane Mitch, FHIS was a suitable institution for carrying out emergency subprojects since it was able to react quickly. But the speed accentuated the already existing weaknesses of FHIS, especially in the area of securing quality and sustainability. Getting things done quickly took priority over quality leading to weaknesses in subproject design, contracting, and supervision. In the emergency period FHIS worked mainly with municipalities and mayors to determine priority needs. The involvement of direct beneficiaries in subproject selection and formulation, in execution and in O&M was even less than before. Interviews held by ESA Consultores revealed that even mayors were not always satisfied on contracting procedures and transparency of FHIS during the emergency period.

3.57 After the emergency period, FHIS was not able to return to its institutional strength of before the hurricane. Although finally, in 2000, a normal subproject cycle was reestablished it was much shorter than before and ad-hoc decision making continued to dominate. Furthermore, the internal administration remained chaotic and the MIS was never fully restored. One reason for these problems is that due to the huge scale of the devastations by Mitch, emergency subprojects were not additional to a “regular FHIS”, but FHIS became an emergency institution. Even more importantly, FHIS then suffered two changes in its leadership within eight months, with high turnover in other key staff. The institutional memory had been completely lost. In addition, the FHIS minister from March 2000 onwards appeared mainly interested in increasing the quantity of subprojects and not so much in restoring orderly procedures and criteria.

Role of FHIS in Decentralization

3.58 Toward the end of the Third Credit, FHIS had begun working with municipalities and communities, responding to their demands, providing training to communities and building capacities in municipalities. In the emergency period after Mitch, FHIS gave an important coordinating role to municipalities and mayors in deciding on priorities for emergency subprojects. The decentralization pilot that was finally carried out in 2002 involved, apart from improving participatory micro-planning, the setting up of a decentralized operation of the project cycle (DOCP), making municipalities responsible for almost the full project cycle.

3.59 FHIS was by no means the only institution to strengthen capacities in municipalities and to give them more responsibilities, but its efforts have certainly contributed to the decentralization process in the country. During the Maduro administration (2002-2006) decentralization was taken more seriously and the Ministry of the Interior could build on the experience of FHIS, as well as on other experiences, to develop standards for local participatory planning for elaborating long-term Strategic Municipal Development Plans. These plans have since been elaborated in all municipalities, and their content is no longer limited to the FHIS menu. The Ministry also began to use the FHIS poverty map for the allocation of a part of the five percent transfer of central tax revenues to municipalities.

However, IEG notes that all these achievements did not happen during the Third and Fourth Credits which are the subject of review.

3.60 With strengthened capacities within municipalities (and sometimes groups of municipalities - mancomunidades), FHIS has developed the delegated project cycle for the execution of subprojects, implying that the municipality carries out almost the full project cycle. The government sees FHIS as the appropriate agency to mobilize donor money for supporting this decentralized project execution, and IDB and KfW have provided new loans to support this decentralized modality. However, between the signing of these new credits (December 2004) until November 2005, FHIS has not been able to carry out a single project according to this modality. This raises concerns whether FHIS still is the appropriate agency through which to promote decentralization. Donors willing to support decentralization should perhaps consider financing municipalities directly or via budget support, for example to the Ministry of the Interior so that it can raise the municipal transfers.

BANK PERFORMANCE

3.61 Overall Bank performance was **satisfactory,** but there are certain caveats. Project quality at entry was generally good for both the interventions, though the design of the Basic Needs Program was not given adequate attention and the two projects were ambitious with respect to the objective of enhancing sustainability. Responsibilities were meant to be shared between line agencies, municipalities and beneficiaries though it was not made clear how these were to be distributed between the three (especially in the Third Credit) and neither was adequate provision made for providing training and resources for user committees (both credits). With line ministries not complying with agreements on providing maintenance, FHIS now seems to expect maintenance from beneficiaries. However, it is doubtful whether relying on beneficiaries can provide a long-term sustainable solution to the problem of maintenance of education and health facilities.

3.62 In the aftermath of Mitch, the Bank was very proactive and flexible in allowing all the money to be disbursed in emergency sub-projects. This allowed FHIS to respond quickly to the huge needs and to contribute to restoration of basic facilities. However the Bank appears to have agreed to flexible procedures for too long. Despite the fact that FHIS did not return to normal procedures in project appraisal and implementation, the Fifth Credit was approved in November 2000. In this period, there were also problems with auditing. In this light, the Fifth Credit was probably approved too early.

BORROWER PERFORMANCE

3.63 Borrower performance was **satisfactory** during both credits, but with some caveats. The government has ensured availability of counterpart funds. Given the moderately progressive allocation of FHIS resources, line agencies have probably assigned more staff to the poorer areas than they would have done in the absence of FHIS. Line ministries have also complied with their agreements with FHIS insofar as they have provided finished FHIS subprojects with staff and resources to the same extent as other facilities. While some underutilization of FHIS facilities has been found, this is at least partly due to the fact that line agencies do not give sufficient priority to providing the accompanying resources such as medicines and textbooks. A more fundamental problem is that there is lack of a good government policy with respect to maintenance of basic infrastructure facilities.

3.64 When hurricane Mitch hit the country, FHIS could use its institutional strength and its previous contacts with municipalities all over the country to quickly respond to the huge needs. However, the short and fast emergency procedures adopted by the social fund continued even after the emergency was over, and hence most subprojects financed through the Fourth Credit and its supplement did not pay sufficient attention to quality and sustainability, although not all of these were emergency projects. The lack of orderly procedures during the post-emergency period

also caused auditing reports that were unacceptable to the financial management specialists of the Bank. A recent donor-financed public auditing program also found irregularities in FHIS accounts.

3.65 Another area of weakness, especially during the Fourth Credit, was lack of stability in FHIS leadership. The frequent changes in leadership and staff in the crucial period after Mitch, when FHIS had to return to normal procedures after actually serving as an emergency institution, wiped out the institutional memory of FHIS. This implied that the institutional strength of FHIS of the period before Mitch was largely lost.

4. Lessons

Three lessons are identified here.

Lesson1: While social funds are attractive for donors and can initially be successful in providing remote communities access to basic health and educational facilities, the experience of the Honduras social fund shows that they are not a long-term sustainable solution for providing basic infrastructure. The maintenance issue, especially of health and education facilities, goes beyond social funds and needs to be seriously addressed as a part of the overall policy dialogue of the Bank with the country. Social funds may contribute by training of user committees, but that in itself can never be sufficient for securing maintenance.

Lesson 2: Because of the apparent success in its core activity of financing basic infrastructure projects, FHIS has been and continues to be attractive for donors for programs that do not belong to the core activity (example, the Basic Needs Program that involved funding for priority social programs in nutrition, childcare, training of midwives, care for elderly and disabled, etc. and the *Nuestras Raíces* Program which involved social assistance for indigenous communities). However it took much longer for the Basic Needs Program and the *Nuestras Raíces* Program to achieve some efficacy. Currently FHIS has become a patchwork of donor-financed programs. Donors should be cautious in channeling money to social funds for carrying out non-core activities.

Lesson 3: FHIS had a positive institutional development impact in promoting decentralization by helping to strengthen local government capacities in project planning and implementation. However, once these capacities are strengthened, it can be questioned whether donors should still fund small infrastructure projects through FHIS instead of searching for more direct channels to finance local governments.

References

Cuesta, José and Jose Rafael del Cid (2003). Aprendiendo sobre la marcha: La experiencia de la Estrategia de Reducción de la Pobreza en Honduras. Stockholm, Sida and Institute of Social Studies. www.iss.nl/prsp

Demombynes, Gabriel (2005). Poverty Assessment Honduras: Background Paper: Poverty Analysis (first draft), World Bank.

Dijkstra, Geske (2005). "The PRSP approach and the illusion of improved aid effectiveness: Lessons from Bolivia, Honduras and Nicaragua." *Development Policy Review* **23**(4): 443-464.

ESA Consultores (2002). Evaluacion del programa "Nuestras Raíces"- Etapa IV. Tegucigalpa, ESA Consultores for the World Bank. Informe final.

ESA Consultores (2005). Evaluacion ex-post del Fondo Hondureño de Inversión Social (FHIS 3: 1998-2002). Tegucigalpa, ESA Consultores for the World Bank.

Juan-Ramon, V. Hugo (1999). Honduras' growth performance 1970-1997. Washington, IMF. IMF Policy Discussion Paper.

OED (1994). ICR Review of First and Second Social Investment Fund Credits. Washington, World Bank.

OED (1994). ICR Review of the First Social Investment Fund Credit to Honduras. Washington, World Bank.

OED (2005). The effectiveness of World Bank support for community-based and -driven development. Washington, World Bank, Operations Evaluation Department (OED).

Vos, Rob, Maritza Cabezas and Kristin Komives (2005). Regional Report 2005: Budgeting for Poverty Reduction. Stockholm, Sida/ISS. www.iss.nl/prsp

Walker, Ian, Rafael del Cid, Fidel Ordoñez and Florencia Rodríguez (1999). Ex-Post Evaluation of the Honduran Social Investment Fund. Tegucigalpa, ESA Consultores.

World Bank (1995). Staff Appraisal Report Honduras, Third Social Investment Fund Project. Washington, World Bank.

World Bank (1998). Project Appraisal Document, Honduras, Fourth Social Investment Fund Credit. Washington, World Bank. No.17778-HO

World Bank (1999). Honduras: Memorandum and recommendation of the President of IDA to the Executive Directors on a proposed Supplemental Credit for the Fourth Social Investment Fund Project. Washington, World Bank.

World Bank (2000). Implementation Completion Report, Honduras, Third Social Investment Fund Project. Washington, World Bank. No.19589

World Bank (2003). Implementation Completion Report, Honduras, Fourth Social Investment Fund Project. Washington, World Bank.

World Bank (2004). Project Appraisal document, Honduras, Nuestras Raíces Project. Washington, World Bank.

Annex A. Basic Data Sheet

HONDURAS THIRD SOCIAL INVESTMENT FUND PROJECT (CREDIT 2766)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total Credit Amount	30	27.4	91.3
Total project cost	112.5	117.9	104.8

Project Dates

	Original	*Actual*
Departure of Appraisal Mission		02/13/1995
Board approval		07/11/1995
Signing		08/03/1995
Effectiveness		1114/1995
Closing date	12/31/1999	12/31/1999

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	N° Staff weeks	*USUS('000)*
Preappraisal	87.2	234,132.00
Appraisal	13.3	72,846.00
Negotiations	11.8	26,496.00
Supervision	61.6	172,664.00
Completion	0.0	224.00
Total	174.0	506,362.00

Mission Data

	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance rating Rating trend	
					Implementation Status	Development Objectives
Through appraisal: Identification/Preparation	10/19/1994 11/01/94	11	14	Mission Coordinator, Co-team Leader, Org. & Mngmt Effic., Economist, Social Sector Dev., MacLean Schmidt, Household surveys, 3 consultants RUTA (Sarmiento, Zavala & Anderson	S	S
	11/07/1994	1	1	Environment Spec.	S	S
Pre-Appraisal	12/04/1994 12/17/1994	9	14	Mission Coordinator Engineer Water & Supply Spec. Comnty Partic. Spec. Mnmgt & Staffing Sensus Spec. Household surveys Spec. MIS Spec. Programming & Flow of consultants FHIS policies & proc. Soc. Sct. Dev.	S	S
	01/22/1995	1	2	Environment Spec. (PRATAM)	S	S
	02/05/1995	1	7	Economist	S	S
Appraisal through Board approval (Appraisal Mission)	02/13/1995 02/24/1995	12	14	Mission Coordinator Sr. Oper. Officer Nassir Djafari T. Torres & A. Ganet IDB Soc. Sctr. Spec. MIS Spec. Household Surveys Spec. Comm. Part. Programming M. Anderson M. Zavala Watere & Supply Spec.	S	S
	04/23/1995	1	5	Plann. & Targeting	S	S
	04/23/1995	1	5	Economist	S	S
	04/23/1995	7		Planning & Strategy Economist 2 Mission Leaders J. Torres & P. Gottnet – BID Procurement Soc. Sctr. Spec.	S	S
Pre-Negotiation Mission	04/23/1995 04/29/1995	7	6	Beatriz Uribe Sr. Operations Officer J. Torres & A. Gottnet IDB Procurement Soc. Sctr. Dvlpmt.. Spec.	S	s
Supervision 1	08/09/1995	1	1	Task Manager	S	S
Supervision 2	11/24/1995	7	4	IDB Co Task Manager	S	S

	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance rating Rating trend	
					Implementation Status	Development Objectives
				IDB Consultant IDB Consultant Task Manager Programming Procurement Water Supply/Envir.		
Supervision 3	04/20/1996	6	3	IDB Consultant Programming Environment Audit Water Supply/Env. Task manager	U	S
Supervision 4	06/09/1996	6	4	Task Manager Engineer Programming/Finance Procurement Water Supply//Env. Operations Officer	S	S
Supervision 5 (Mid-term review)	03/15/1997	9	7 7 6 12 7 7 3 7 7	Operations Programming/Finance Procurement Water & Sanit/Eng. Procurement Task Manager Environment Cmty Participation Engineer	S	S
Supervision 6	07/25/1997	3	12 5 6	Task Manager Impact Evaluation SIFS/Mun. Strengthening	S	S
Supervision 7	12/17/1997	2	3	Finance Management Institutional Analysis	S	S
Supervision 8	03/07/1998	11	5 5 5 1 5 14 12 1 1 2 5	Inst. Analysis Soc. Assistance Anthropologist Financ. Mngmt. Co-Task Mngr. Task Leader Operations Water Engineer Financial MIS Eng. (Roads)	S	S
Supervision 9	02/27/1999	7	5 5 5 5 5 5 5	Task Manager Soc. Funds Spec. Operations Analyst Inst. Analysis US Geological Survey FEMA Consultant KfW Consultant	S	S
Supervision 10	11/01/1999	7	7	Task manager Insat. Strengthening Water & Sanitation Economist Monitoring & Eval. Team Assistant Indigenous Peoples Sp.	S	S
Supervision Completion Mission	05/11/1999	1	10	Programming		

Other Project Data

Borrower/Executing Agency:

FOLLOW-ON OPERATIONS			
Operation	***Credit no.***	***Amount (US$ million)***	***Board date***
Fourth Social Investment Fund Project	31180	45.0	1998
Hurricane Emergency Project	3159	58.66	1998
Nutrition and health Project- Supplemental Credit	2452-1	7.5	1999
Fourth Social Investment Fund Project – Supplemental Credit	31181	22.5	2000
Fifth Social Investment Fund Project	P064895	60	2001

HONDURAS FOURTH SOCIAL INVESTMENT FUND PROJECT (CREDITS 31180 AND 31181)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	***Actual or current estimate***	***Actual as % of appraisal estimate***
Total credit	45	67.5	150
Total project cost	136.5	161.7	118
Cancellation			

Project Dates

	Original	***Actual***
Departure of Appraisal Mission		
Board approval		07/14/1998
Signing		
Effectiveness	11/23/1998	11/30/1998
Closing date	02/28/2002	01/31/2003

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	N° Staff weeks	***USUS('000)***
Identification/Preparation	4.4	0.5
Appraisal/Negotiation	175.6	97.66
Supervision	108.03	245.77
ICR	2.5	6.5
Total	290.53	350.43

Mission Data

	Date (month/year)	No. of persons	Specializations represented	Performance rating Rating trend	
Identification/ Preparation	07/25/1997	4	Task Manager, Consultants (2), KfW		
Identification/ Preparation	10/06/1997	2	Task Manager, KfW		
Identification/ Preparation	10/24/1997	5	Task Manager, Public Specialist, Consultant, KfW, Procurement Specialist		
Identification/ Preparation	11/25/1997	1	Consultant (Indigenous People)		
Identification/ Preparation	04/07/1998	1	Engineer		
Identification/ Preparation	04/25/1998	3	FHIS – Washington DC (3)		
Appraisal	02/22/1998	1	Mission Leader		
Appraisal	02/22/1998	7	Economist, Procurement, Finance, Consultants (4) Note: Some additional supervision not accounted for in this table, given overlaps with SIF V project.		
Supervision	12/11/1998	4	Task Manager, Social Development, Resettlement & Disaster, Indigenous Peoples Dev	HS	HS
Supervision	02/27/1999	7	Task Manager, Consultant, US Geological Survey, FEMA Consultant, KfW Consultant	HS	HS
Supervision	11/05/1999	7	Task Manager, Inst. Strength Specialist; Water & Sanitation Specialist; Economist; Impact Evaluation Specialist, Team Assistant, Consultant-Ind. Issues	HS	HS
Supervision	03/17/2000	7	Task Manager, Institutional Strengthening, Social Assistant, Rural Water and Sanitation, Preparation Coordinator, Interagency Coordinator, Engineer/Procurement	S	S
Supervision	07/08/2000	6	Task Manager, Institutional Strengthening, Water and Sanitation (2), Environment/Preparation Coordination/ Engineer/Procurement	S	S
Supervision	02/02/2001	5	Task Team Leader; Infrastructure/W&S, M&E, SF Specialist, Financial Management	S	S
Supervision	07/16/2001	7	Task Team Leader, Supervision, Water, Consultant, Financial Management	S	S
Supervision	04/05/2002	12	Task Team Leader, Infrtr/W&S; SF Specialist (2), Field Impl. Coordinator, Local Inst. Strgt, Procurement Specialist (2), Water & Sanitation, Social Assistance, Financial Management, Indigenous Peoples	S	S
Completion	07/12/2002	7	Task Team Leader; SF Specialist, Procurement Specialist, Local Inst. Strgt., Social Protection Specialist, Consultant M & E, Engineer Consultant	S	S

Annex B. Borrower Comments

SECRETARIA DE FINANZAS
REPUBLICA DE HONDURAS

Tegucigalpa M.D.C. 19 de Junio de 2006

CP-884

Lic. ALAIN BARBU
Jefe División de Evaluación de Programas
Sectoriales, Temáticos y Mundiales
Grupo de Evaluación Independiente.
Banco Mundial.

Estimado Sr. Barbu:

Tengo el agrado de dirigirme a usted para informarle que hemos revisado el documento que contiene el informe de Evolución del Tercer y Cuarto Proyecto del Fondo Hondureño de Inversión Social, Crédito 2766-HO, 31180 y 31181 y se tienen los siguientes comentarios:

En el Inciso 3.2, dentro del Aspecto Pertinencia, los avances en descentralización en los períodos evaluados, son considerados por ustedes como menores, es de nuestra opinión que estos son significativos, porque fueron la base para el alcance de los logros posteriores, en esa etapa las municipalidades no estaban preparadas para enfrentar los retos de descentralización, por lo que el FHIS tenía inicialmente que involucrarlas en la solicitud de los proyectos y fortalecerlas en las diferentes etapas de los mismos, por lo que se recomienda si es posible reevaluar este aspecto.

En el Inciso 3.4: en relación al término "Industria Contratista Local", el FHIS define dicho término como la mano de obra de cada comunidad, se recomienda definirlo de dicha manera dado que son conceptos diferentes y que destacan la participación ciudadana en la ejecución de los proyectos.

En el inciso 3.13, se afirma que una gran proporción de los recursos de FHIS beneficia a las personas con mayores ingresos, al respecto, cabe aclarar que el hecho que se destinen recursos a los municipios de Tegucigalpa y San Pedro Sula, no significa que éstos no tengan alto índice de pobreza (barrios marginales), de igual manera el FHIS desarrolla proyectos en los municipios para beneficio de los más desposeídos. Es por esta razón que en el Mapa de la Pobreza, no se excluye a ningún municipio, ya que la pobreza es a nivel nacional, por lo que se recomienda omitir o modificar dichas aseveraciones.

SECRETARIA DE FINANZAS
REPUBLICA DE HONDURAS

Pag-2

En el Inciso 3.34, hace referencia al uso de los subproyectos, específicamente la infraestructura de educación y salud, las que no siempre se usan de forma plena. Es importante hacer de conocimiento que la responsabilidad del FHIS es llevar a cabo la finalización de las construcciones de los proyectos y que estos queden en perfecto funcionamiento, (Escuelas y Hospitales), En vista de que el mantenimiento de estas obras no depende del FHIS, sino de la asignación del limitado presupuesto con que cuentan estas instituciones. Por lo que se recomienda tomar en cuenta que esto es una variable exógena por parte del FHIS, lo que no tendría que afectar negativamente su calificación.

En general, muchas de las limitaciones que presentó el FHIS en el período evaluado son resultado del prolongado período de reconstrucción luego del paso del Huracán Mitch aspectos que en su mayoría han sido superados.

En espera que nuestras observaciones sean tomadas en cuenta para efecto del informe final.

Lo saluda atentamente a usted,

REBECA P. SANTOS
Sub-Secretaría de Crédito Público

OG/GdeC./YM

06/22/2006 12:02 237-4142 PUBLIC CREDIT

MINISTRY OF FINANCE
REPUBLIC OF HONDURAS

Tegucigalpa, MDC
June 19, 2006

Mr. Alain Barbu
Manager
Operations Evaluation Department
Sector Thematic and Global Evaluation
Independent Evaluation Group
The World Bank

CP-884

Dear Mr. Barbu:

I am pleased to inform you that we have reviewed the document containing the progress report on the Third and Fourth Honduran Social Investment Fund project (FHIS), Credit 2766-HO, 31180 and 31181, and would like to make the following comments:

Under section 3.2 entitled "Relevant area," your team concluded that little progress had been made in the area of decentralization during the periods evaluated. However, we are of the view that significant progress has been made, because it set the stage for subsequent success. Moreover, during that stage, municipalities were not prepared to face the challenges posed by decentralization, and this is why the FHIS had to initially include these municipalities when the projects were being requested and support them during the various stages of these projects. We are therefore recommending that this area be reevaluated.

In section 3.4, the FHIS defines the "local contracting industry" as the labor force of each community. A recommendation had been made to define this term as such, because the concepts vary and the citizens contribute significantly to the execution of the projects.

In section 3.13, it was noted that a large portion of FHIS resources benefits higher-income persons. It is therefore important to make it clear that the allocation of resources to the cities of Tegucigalpa and San Pedro Sula does not mean that these cities do not have high poverty rates (marginal communities). Similarly, the FHIS is executing projects in cities for the most dispossessed people. This is why no city was left off the Poverty Map, as poverty is a national phenomenon. We are therefore recommending that these assertions be deleted or modified.

In section 3.34, reference is made to the use of subprojects, particularly the health and education infrastructure, which are not always fully utilized. It is important to point out that the FHIS is responsible for completing the construction of the projects and ensuring

that they function properly (schools and hospitals), in view of the fact that maintenance of these construction works does not depend on the FHIS but on the allocation of the limited funds available to these institutions. This is why we are proposing that it be taken into account that this is a variable which is external to the FHIS, which should not adversely affect its evaluation.

In general, many of the limitations of the FHIS noted during the period of evaluation can be attributed to the extended reconstruction period following the passage of Hurricane Mitch. It bears noting that most of these obstacles have been surmounted.

In the hope that our remarks will be taken into account in preparing the final report, we remain,

Yours truly,

OFFICIAL STAMP
/s/
REBECA P. SANTOS
Undersecretary of Public Credit

OG/GdeC./YM