PD-ABC-314
69994

UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

HONDURAS

PROJECT PAPER

MUNICIPAL DEVELOPMENT

AID/LAC/P-571

Project Number: 522-0340

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)
Amendment Number:
DOCUMENT CODE: 3

2. COUNTRY/ENTITY: HONDURAS
3. PROJECT NUMBER: 522-0340
4. BUREAU/OFFICE: LAC
5. PROJECT TITLE (maximum 40 characters): MUNICIPAL DEVELOPMENT
6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 06 DD 30 YY 97
7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 90 B. Quarter 3 C. Final FY 96

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 90 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	872	128	1,000			
(Grant)	( )	( )	( )	(8,747)	(1,253)	(10,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country		5,000	5,000		15,000	15,000
Other Donor(s)	872	5,128	6,000			
TOTALS						25,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) FN	260	033		0	0	5,000		5,000	
(2) PSEE	720	867				5,000		5,000	
(3)									
(4)									
TOTALS				0	0	10,000		10,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 869
11. SECONDARY PURPOSE CODE: 710

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BW	EQTY	PART
B. Amount	1,000	2,500	6,500

13. PROJECT PURPOSE (maximum 480 characters)

The purpose of the Project is to enhance the participation of the Honduran populace in the local democratic process and improve the operational capacity of municipalities to respond to the land, infrastructure and public service needs of their constituents.

14. SCHEDULED EVALUATIONS
Interim MM 09 YY 92 MM 12 YY 94 Final MM 02 YY 97

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[X] 000 [ ] 941 [X] Local [X] Other (Specify) CACM

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

17. APPROVED BY
Signature: John A. Sanbrailo
Title:
Date Signed MM DD YY

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY

PROJECT AUTHORIZATION

Name of Country: Honduras

Name of Project: Municipal Development

Number of Project: 522-0340

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Municipal Development Project for the Republic of Honduras ("the Cooperating Country") involving planned obligations of not to exceed Ten Million United States Dollars ($10,000,000) in Grant Funds over a seven year period from the date of initial obligation, subject to the availability of funds in accordance with the AID OYB/Allotment process, to help in financing foreign and local currency costs for the Project.

2. The Project consists of a multifaceted initiative to increase citizen participation in decisions related to the allocation of land, public service and facilities by municipal governments, and to improve effectiveness in municipal government in responding to citizens' needs for land, public services and infrastructure. The Project will be implemented by fourteen key municipalities and selected Central Government Agencies, and the Ministry of Finance and Public Credit. By the Project Completion Assistance Date, it is anticipated that key central government agencies will be implementing measures to encourage fiscal responsibility and increased revenue at the municipal level. In addition, central government ministries and autonomous agencies will have taken specific measures to facilitate municipal governments to meet the service needs of their constituents. At the municipal level, assessments of problem areas will be carried out and action plans will be developed in consultation with the community in each municipality participating fully in the project.

   Project funds will be used to finance technical assistance, commodities and training activities in the key areas of municipal intervention. Project management costs will be financed along with project evaluation activities which may include a series of special studies to assess unique features of this new initiative.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with AID regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as AID may deem appropriate.

4. Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by AID under the Grant shall have their source and origin in the United States, Honduras, or countries of the Central America Common Market, except as AID may otherwise agree to in writing. Ocean shipping financed by AID under the Grant shall, except as AID may otherwise agree to in writing, be financed only on flag vessels of the United States.

5. Conditions Precedent to Disbursement

a) First Disbursement

Prior to the first disbursement of the Grant, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(1) An opinion of the Attorney General of the Republic or of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of the Grantee and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its items;

(2) A statement of the names of the persons authorized to act on behalf of the Grantee, and a specimen signature of each person specified in such statement.

b) Additional Disbursement

(1) Prior to any disbursement of funds or the issuance of any commitment document for implementation of the Municipal Development Support Fund component of the Project, AID and the Grantee will conduct a financial review to determine the impact of the Fund on the Grantee's macroeconomic program. The financial review will examine progress toward financial sector reforms, liquidity in the private financial sector, changes in lender practices regarding municipal loans, municipal financial management achievements, and the macroeconomic policy environment. The results of the financial review will be used to determine whether operations under the Fund should be initiated. AID and the Grantee will agree upon whether to initiate the operations of the Fund and will indicate their mutual understanding in a Project Implementation Letter.

(2) Prior to any disbursement of funds or the issuance of any commitment document under the Project Agreement for implementation of the Municipal Development Support Fund component of the Project, an environmental assessment will examine the potential impact of municipal capital investment activities in the areas of: water supply and sanitation; drainage; road construction and maintenance; building construction, and solid waste disposal.

This assessment will develop an environmental review system which will be employed by the municipalities prior to initiation of any specific infrastructure or construction activity which uses local currency Municipal Development Support Fund resources.

6. Covenants

(a) The Grantee agrees to carry out annual reviews of the Municipal Development Support Fund to assess its consistency with Project objectives and macroeconomic policy.

(b) The Grantee shall make every effort to ensure that counterpart funds are available in a timely and satisfactory manner. Upon initiation of the Municipal Development Support Fund, the Grantee shall provide AID with quarterly reports on the provision of counterpart contributions which shall be submitted no later than 30 days after the end of each quarter. Should the Grantee fail to make available amounts designated in the budget or fail to make those amounts available in a timely and satisfactory manner as determined by AID, AID may suspend assistance to one or all project activities until such time that AID shall determine that the assistance may be continues or that one or more of the Project activities be terminated.

John A. Sanbrailo

John A. Sanbrailo
Mission Director

June 29, 1990
Date

ACRONYMS

AID	Agency for International Development
ASAP	Agricultural Sector Adjustment Program
BANMA	Municipal Development Bank (Banco Municipal Autónomo)
BCH	Central Bank of Honduras (Banco Central de Honduras)
CY	Calendar Year
DEC	Executive Direction for Cadaster (Dirección Ejecutiva del Catastro)
DGAATM	Direction of Municipal Technical Assistance (Dirección de Asesoría y Asistencia Téchica Municipal)
DGEC	General Directorate for Statistics and Census (Dirección General de Estadisticas y Censo)
DGU	General Urban Directorate (Dirección General de Urbanismo)
ENEE	National Energy and Electricty Company (Empresa Nacicnal de Energia Electrica)
ERD	Environmental Review Document
FOHPREI	Honduran Preinvestment Fund (Fondo Hondureño de Preinversion)
GDP	Gross Domestic Product
GOH	Government of Honduras
HG	Housing Guaranty
HONDUTEL	National Telephone and Telegraph Corporation
ICMA	International City Managers Association
IDB	Interamerican Development Bank
IMF	International Monetary Fund
INA	National Agrarian Institute (Instituto Nacional Agrario)
INCAE	Central American Institute for Business Administration (Instituto Centroamericano de Administración de Empresas)

IQC	Indefinite Quantity Contract
IRR	Internal Rate of Return
MDP	Municipal Development Project
MDSF	Municipal Development Support Fund
MHCP	Ministry of Finance and Public Credit (Ministerio de Hacienda y Crédito Público)
MNR	Ministry of Natural Resources (Ministerio de Recursos Naturales)
MOU	Memorandum of Understanding
NGO	Nongovernmental Organization
NPV	Net Present Value
PACD	Project Completion Assistance Date
PFI	Private Financial Institution
PIO	Project Implementation Order
PROAG	Project Agreement
PSC	Personal Services Contractor
PVO	Private Voluntary Organization
RFP	Request for Proposals
RHUDO	Regional Housing and Urban Development Office
SANAA	National Water Authority (Servicio Nacional de Acueductos y Alcantarillados)
SECOPT	Secretariat for Communication and Transport (Secretaria de Comunicaciones y Transporte)
SECPLAN	Secretariat for Planning, Coordination and Budgeting (Secretaria de Planificación, Coordinación y Presupuesto)
SDI	Stregthening Democratic Institutions
TA	Technical Assistance
TNE	National Elections Tribunal (Tribunal Nacional de Elecciones)

USAID	United States Agency for International Development Mission to Honduras
USDH	United States Direct Hire
FY	Fiscal Year

TABLE OF CONTENTS

I. SUMMARY AND RECOMMENDATIONS 1
- A. Summary 1
- B. Recommendation 2
- C. Project Paper Development Team 2

II. BACKGROUND 3
- A. Honduras: An Evolving Democracy 3
- B. The Economic and Social Setting 5
- C. The Setting for Municipal Development in Honduras 7
  - 1. Demographic Trends and Urbanization 7
  - 2. The Tradition of Local Government 8
  - 3. The Municipalities 9
    - a) Political Divisions 9
    - b) Basic Characteristics of the Municipalities 9
    - c) The Urban System 10
  - 4. Democratic Initiatives in Local Government 10
  - 5. Centralized Institutions in Support of Local Government 11
  - 6. Regional Patterns of Development 13

III. CONSTRAINTS 14
- A. Municipal Management and Finance 14
- B. Urban Land, Infrastructure and Service Provision 15
- C. Municipal Support Systems and Democratic Processes 15

IV. PROGRAM FACTORS 16
- A. Overview of Recent Initiatives and USAID Experiences 16
- B. Relationship to Agency Policy 19
- C. Relationship to USAID and Honduras Strategies 20
- D. Relationship to Other USAID Activities 21
- E. Other Donor Activities 21

V. DETAILED PROJECT DESCRIPTION 22
- A. Project Goal and Purpose 22
- B. Project Objectives and End of Project Status 23
- C. Project Implementation Strategy 25
  - 1. Strengthening democratic processes 26
  - 2. Priority Areas for Assistance 26
  - 3. Targeting of Project Activities 27
- D. Project Components 29
  - 1. National Level Component 30
  - 2. Municipal Level Component 31
    - a) Approach for delivering assistance to selected municipalities 32
    - b) Municipal Management and Finance 35
      - i) Municipal budgeting 35
      - ii) Tax collection 35
      - iii) Approval of Plans 35
      - iv) Financial accountability 36
    - c) Urban Land, Infrastructure and Service Provision - 36
      - i) Planning for Municipal Development 37

ii) Legislation, Regulation and Control 37
iii) Provision of basic services 37
d) Constituent Based Decision Making 38
e) Municipal Support Systems 39
f) Municipal Development Support Fund 42

VII. IMPLEMENTATION PLAN 47
A. Implementation Schedule 47
1. Project Documentation 47
2. Skills Building 47
a) Skills Building Events 48
b) Skills Building Capacity 48
3. National and Local Level Technical Assistance 50
4. Municipal Development Support Fund (MDSF) 52
B. Administrative and Monitoring Plan 52
1. AID Responsibilities 52
2. Honduran Responsibilities 53
a) Ministry of Hacienda (MHCP) 53
b) Presidential Commission on Municipal Development 53
c) Municipalities 53
d) Regional National Municipal Support Organizations 54
e) Private Financial Institutions 54
C. Procurement Plan 54
1. Skills Building 54
2. National and Local Level Technical Assistance 54
3. Personal Services Contractors 55
4. Commodities and Local Hire Personnel 55
D. Data Collection, Monitoring and Evaluation Plan 55

V. PROJECT FINANCIAL PLAN 60
A. Implementation & Methods of Financing 60
B. Financial Plan 61
C. Audits 62
D. Cost Estimates 63

VI. CONDITIONS AND COVENANTS 67

VII. SUMMARY PROJECT ANALYSES 67
A. Technical Analysis 67
B. Social Soundness Analysis 68

ANNEXES

Annex A	Logical Framework
Annex B	PID Approval Memorandum
Annex C	GOH Letter of Request
Annex D	Social Soundness Analysis
Annex E	Technical Analysis (Technical Assistance and Training)
Annex F	Technical Analysis (Representative Municipalities)
Annex G	Information Plan Report
Annex H	Economic Analysis
Annex I	Statutory Project Checklist
Annex J	Financial Plan Assumptions
Annex K	Municipal Development Support Fund Structure

I. SUMMARY AND RECOMMENDATIONS

A. Summary

The purpose of the Municipal Development Project is to increase citizen participation in decisions related to the allocation of land, public services and facilities by municipal governments and to improve effectiveness in municipal governments in responding to citizens' needs for land, public services and infrastructure. It is aimed at helping Honduras strengthen its democracy and supports Honduran initiatives in municipal reform.

Municipal reform is an important step in the further democratization of Honduras. Municipal authority is the branch of government closest to the people and can be more attuned and responsive to local needs while providing the common citizen better access for redress of grievances. Powerful autonomous central agencies have not proven to be effective and efficient providers of service, nor are they structured to respond to specific municipal needs. Municipal reform will serve to decentralize and distribute the highly concentrated power of the central government to the municipalities and ensure more responsive actions based on citizen needs.

Hondurans understand municipal development to include local government reform, progressive transfer of power from central government ministries and autonomous agencies to local government, use of urban centers as engines of economic growth, and increased local government participation as strengthening democratic processes and fulfilling democratic expectations and greater responsiveness to local demands for basic services.

A number of different constraints operate at both the national and local levels which prevent municipal governments from contributing to more democratic decision making and from playing a more effective role in public service provision and local development. These can be grouped related to municipal management and finance; urban land, infrastructure and provision of service; and municipal support systems and democratic processes.

To address these key problems areas, the Municipal Development Project will work at two levels. National level change will be addressed with the central government through the Ministry of Finance and Public Credit, and selected ministries or autonomous agencies which play a role in the constraints identified above. At the municipal level, the Project will work directly with fourteen economically significant municipalities to improve their planning and operational capacities to better respond to their citizenry, and will work with other municipalities on a less intensive basis. In pursuing change at both levels simultaneously, the Project recognizes that the solutions to effective municipal support systems and democratic processes are interrelated and change on one front only will not produce the desired outcome. Resources will be concentrated at the municipal level and will foment a "bottom-up" approach to municipal development - from citizen to municipality and from municipality to central government.

By the Project Completion Assistance Date, it is anticipated that key central government agencies will be implementing measures to encourage fiscal

responsibility and increased revenue at the municipal level. In addition, central government ministries and autonomous agencies will have taken specific measures to facilitate municipal governments to meet the service needs of their constituents. At the municipal level, assessments of problem areas will be carried out and action plans will be developed in consultation with the community in each municipality participating fully in the project. Agreements on these programs will be set forth in Memorandums of Understanding between AID and each municipality. At the national level, a similar process will take place when opportunities related to devolution of services, control of municipal budgeting processes and other areas are identified.

AID financed inputs for the Project will include technical advisors, experts and skills building activities to assist the municipality in implementing its action plan. Initial resources for capital investments detailed in municipal action plans will be partially provided by the Government of Honduras through a Municipal Development Support Fund, and additional resources will be leveraged by private financial institutions, and municipal contributions. This temporary fund will help alleviate the constraint of municipal access to investment resources and current lender practices and is an essential element of the project.

Technical assistance activities will be concentrated on a selected group of municipalities, but the skills building events will reach a wider audience of municipalities with urban populations. Periodic evaluations will be carried out to determine progress toward project objectives and to assess impact on democratic processes. In addition, the innovative nature of the project will require special studies to evaluate the change in the level of citizen participation.

B. Recommendation

The proposed project forms a part of USAID's strategy of strengthening the democratic process in Honduras. It is consonant with Agency goals of urban development and support to local organizations. It mirrors the Bureau's policy which assigns top priority to the evolution of stable democratic societies. Moreover, the Project relates directly to the Government of Honduras environment which is propitious for direct support to municipalities and devolution of centrally based services. The Project Design Committee has determined that the Project is technically, financially, socially and economically sound and that all elements are required to achieve the project objectives. Provision has been made to ensure environmental soundness of operations using GOH owned local currency for capital investment. Therefore, the Committee recommends that the USAID/Honduras Mission Director authorize the Project.

C. Project Paper Development Team

Mario Pita,	Regional Office for Housing and Urban Development for Central America
William Yaeger,	Regional Office for Housing and Urban Development for Central America
Melissa Stephens,	Office of Development Finance

Paul Davis,	Office of Economic Programs and Analysis
David Noble,	Controllers Office
Carlos Flores,	Engineering Office
Carmen Zambrana,	Office of Development Programs
Francisco Figueroa,	Office of Development Programs
Robert Wilson,	Office of Agriculture and Rural Development
Roberto Figueredo,	Office of Human Resource Development
Michael Keaveny,	Office of Private Sector Programs

II. BACKGROUND

The Country Setting

A. Honduras: An Evolving Democracy

In November 1989 Hondurans democratically elected their third consecutive President and Congress as well as council members and mayors for 289 municipalities. Eight years of unbroken civilian rule with widespread participation in party primaries, active political campaigns, open public discussions through the media and peaceful change of freely elected administrations on the national and local levels are indicative of the support for democracy by Hondurans and their leaders.

The past eight years notwithstanding, the democratic process is new to Hondurans and key institutions in the process are fragile. The vulnerability of the political system lies in its overly centralized structure and its inability to adequately provide for broad involvement of the citizenry in decision making processes and for the delivery of basic public services upon which the lives of citizens depend. Continued delays in addressing essential service deficits could have unsettling social and political implications for Honduras' fledgling democracy.

The Nationalist Party's Plan for Government for the period 1990-94, characterizes the public sector as a "huge inefficient and sluggish apparatus" which has lost touch with its constituency. The Government is committed to change involving a process of democratization on the one hand, with a Government respectful of the sovereignty of the people on the other. The Nationalist Party's 1990-94 plan proposes major economic, social and political reforms which appear, without exception, to embody the strengthening of the democratic process by increasing community involvement in Government decisions while at the same time making Government more responsive to the electorate.

While the will of the new government is clearly articulated in the 1990-94 plan prepared by its party, it is not clear how quickly or how broadly policy goals can be achieved. Developing new attitudes of responsibility in institutions and in the people they serve will likely be a long and difficult task. The area of municipal development and urban services which this project proposes to address is only a part of the change needed to strengthen Honduran democracy; yet it is a sector where substantial groundwork for change has already been laid.

The inability of central government institutions to keep pace with the demand for urban services has attracted considerable political attention and debate for some time. In the 86 intermediate cities with population over 10,000 the coverage of sewerage is 17 percent, water 51 percent, health centers 53 percent, public markets 47 percent, public slaughterhouses 64 percent, street cleaning/garbage collection 87 percent, and surfaced roads 17 percent.[1] In response to widespread concern about these kinds of deficiencies, the Honduran Congress passed Betterment Tax Legislation in 1987 which has helped municipalities to undertake projects for which beneficiaries are willing to pay. In addition, recognition of urban problems has resulted in a number of proposals to amend current municipal legislation. All major proposals presented to Congress for municipal reform contain four basic provisions: separate municipal elections (mayors would be directly elected by local voters rather than as part of the national presidential slate); local authority to fix and control budgets; local authority to fix tax rates and service fee schedules; and regular central government transfers of money to the municipalities. The Nationalist Party's 1990-94 Government Plan supports these proposals and clearly states that it intends to return to the municipalities the control of their own development along with the capacity for decision making and execution.

Several other sectors of the 1990-94 plan support the municipal development effort namely:

a) infrastructure improvement policies include the active participation of the private sector and private organizations in planning and management of infrastructure;
b) social policy calls for fostering the process of intervention of organized groups in the decision making process;
c) human settlements policy calls for promotion and reinforcement of intermediate cities as a form of combating congestion in the major centers; and
d) institutional reform policy calls for a new definition of the Government's role and improved public administration including decentralization of the decision-making process, permanent mechanisms to consider problems of people affected by government decisions, and systems for decentralization as well as for strengthening the municipalities.

B. The Economic and Social Setting

Economic Setting

Honduras is one of the poorest countries in the western hemisphere. In the last two decades, it has made slow economic progress. With GDP growth during the

---

[1] Source: BANMA survey of secondary cities, as reported in Inter- American Development Bank, Honduras Municipal Development Program (November 1987): DITEC, Programa Integral de Mejoraminto Habitacional Urban, Appendix 5 (March 1988); Water service coverage: household connections from BCOEM, de Inversion, SANAA (1987); household occupied units from Census of Housing.

1980-87 period averaging 1.7 percent per year, the IMF estimates that per capita income has declined to only US$565 in 1987 (in 1980 dollars) for a population of about 4.4 million that is growing at 2.9 percent a year. Agriculture employs over 50 percent of the labor force, accounting for about 24 percent of GDP, and generating two thirds of merchandise exports. Over 50 percent of the country's GDP is produced in urban areas. The industrial sector, still at an embryonic stage, employs about 18 percent of the labor force, accounts for about 21 percent of GDP, and generates about 20 percent of exports. The service sectors, including public administration, employ about 28 percent of the labor force and account for about 43 percent of GDP.

During the mid 1980s, a series of external shocks unmasked the long-term structural problems affecting the Honduran economy. In 1987, a drop in export earnings and voluntary external financing cut the supply of foreign currency to the economy substantially, precipitating a balance of payments crisis. The Government dealt with the severe foreign exchange shortage through a number of short-term, ad hoc measures: (a) large increases in arrears were allowed to accumulate, (b) the gap between the official and free market exchange rates was permitted to expand; and, (c) a strong increase in the money supply was used to finance the public sector deficit.

In March 1990, the Callejas administration unveiled an historic economic reform program. The GOH enacted reforms in the areas of exchange rate and tariff policy, which will serve as cornerstones for a revamped export promotion based growth strategy. The GOH also enacted a series of significant revenue enhancement measures that will help control the massive fiscal deficit which has plagued the Honduran economy during the past decade. The negative shortrun impact of the reform measures on the employment and earnings position of vulnerable social groups will be addressed through a short-term employment generation program and targeted subsidy programs which for the first time will be explicitly included in the GOH budget, rather than being hidden through exchange rate distortions and price controls.

While Honduras is still primarily an agricultural and rural country, the pace of urbanization is accelerating. From 1960-1988, the urban population of Honduras more than quadrupled to about 1.68 million people or about 38.3 percent of the total population, as opposed to 23.1 percent in 1960. In terms of numbers of households, the urban areas of Honduras are projected to grow at over 5.0 percent per year - a rate considerably higher than the currently projected national growth rate of 2.8 percent. The low-income populations of urban centers are growing about twice as fast as the urban population as a whole, placing increasing and serious demands on the provision of land, infrastructure and basic services.

These trends also translate into major and growing urban employment requirements. While the agricultural sector in Honduras will continue to absorb some employment, agriculture cannot hope to provide more than a small fraction of needed future jobs in urban areas. Not surprisingly, current open unemployment rates in urban areas are high. In 1987, estimates were 14 percent and 12 percent

in Tegucigalpa and San Pedro Sula, respectively, and 14.8 percent in La Ceiba.[2] Perhaps more telling, 1986 survey results indicated that some 22 percent of employed urban workers work more than 36 hours per week and earn less than L200 per month, a level of income which allows these workers to just barely subsist. Honduras is likely to continue to experience high urban labor force growth rates for at least a decade while, due to a variety of factors, the Honduran economy is expected to grow at very modest rates. As a result, urban unemployment rates could rise, real wages fall even more, or both.

Social Setting

Despite its poverty Honduras has been extending and expanding basic economic and social opportunities for its population. Since 1960 life expectancy has risen from 40 to 63 years; infant mortality has fallen from 150 to 60 deaths per thousand; immunization coverage has risen to over 60 percent coverage for children under one, and gross primary school enrollment is over 90 percent These general social development indicators reflect the progress made to date but indicate that much work remains to be done. More effective municipalities will be able to respond to all needs of their populations as they relate to educational and health opportunities.

In the three municipalities where project analyses were carried out several factors were noted that impede social development. In Choluteca for example, educational levels remain lower than the national average, and drought conditions mean reduced productivity and income of rural families. Migration as well as health and nutrition problems in school age youth do not provide an appropriate environment for learning. The National Health and Nutrition Survey of 1987 concluded that 40 percent of the children under the age of 5 years are afflicted with malnutrition in the Department of Choluteca. Other health problems in Choluteca include the lack of medical, dental, nursing and paramedical professionals, as well as a scarcity of hospital beds and supplies and inadequate stores of medicines. Choluteca also experiences severe water shortage problems which exacerbate the health problems and sewage systems cover only 15 percent of the population.

In Choloma, high adult illiteracy limits occupational opportunities for many including migrant newcomers. The elementary schools are in very poor condition, and in the rural areas of Choloma, access is difficult because schools are widely dispersed. The public school system has not expanded to meet the needs of the growing population and improvements tend to be physical in nature. Yearly lowland flooding has seriously affected rural, elementary children. For families with little or no income, subsistence crops provide the only food source; flooding destroys this source, and malnutrition in children results and affects their ability to learn.

While the population of Choloma is growing in size and density, community services necessary to maintain a healthy community have not kept pace. Childhood health problems reflect malnutrition as well as several water borne diseases.

---

[2] Source: * Direccion General de Estadisticas y Censos,Encuesta Continua sobre Fuerza de Trabajo, SECPLAN (1987 and 1988)

No public hospital operates in Choloma, but several rural health clinics exist as well as some private physicians. The public clinics have few supplies and residents complain about the medical capacity of professionals. In addition, the limited sewage system regularly backs up into homes when it rains, and broken pipes dump raw sewage into the river.

Juticalpa has a higher than average illiteracy rate for both the urban and rural populations which reflects serious deficiencies in the public education system of this municipality. The dispersed rural population with a low income per capita makes it very difficult to comply with the Law of Public Education which calls for compulsory education of children from age 7 to 15. The limited employment opportunities of the rural population require that children in this age group contribute to rural family income. Childhood malnutrition also hampers rural education.

Health care services in Juticalpa have slowly improved over the most recent decade, but remain poor for the majority of the municipal population. Rural health clinics lack sufficient trained personnel to meet the demand, and reliance on the community health volunteers remains high. In the town of Juticalpa, the Public Health Ministry, in association with the municipality, operates a regional hospital whose general condition has deteriorated. Juticalpa has improved some aspects of basic service provision, and will manage a water system being constructed by SANAA. However, the waste water system needs to be expanded since municipal garbage and raw sewage end up in abandoned areas or the river.

C. The Setting for Municipal Development in Honduras[3]

1. Demographic Trends and Urbanization

The population of Honduras reached 4.377 million in 1988 and the country continues to record high levels of population growth. The 1988 census indicates an average annual growth rate of 2.8 percent for the period 1974-88.

In absolute terms, the number of persons residing in urban areas has increased fourfold, from 435,000 in 1961 to 1.68 million in 1988. Rural population growth, which fell to 1.8 percent in 1961-74, has increased during the recent census period to 2.6 percent.

On a regional basis, population growth has been strongest in the Center, North, and East; all of these regions have growth rates above the national average (see Table 1 Annex E). The Center and North regions registered a annual population growth rate of 4 and 3.9 percent respectively, led by urban populations which make up over half the total population of these regions and are growing at 5.0

---

[3]For purposes of analysis, Honduras was divided into five regions: Center (departments of Comayagua, Francisco Morazan, and La Paz); North (Atlantida, Cortés, and Yoro); South (Choluteca and Valle); East (Colon, El Paraiso, Gracias a Dios, and Olancho); and West (Copan, Intibuca, Lempira, Ocotepeque, and Santa Barbara).

percent or more annually. Within the urban sector, rates of population growth are the highest among cities with more than 20,000 inhabitants located along the Tegucigalpa-San Pedro Sula axis. These cities (Tegucigalpa, Comayagua, Siguatepeque, El Progreso, Choloma, and San Pedro Sula) all grew at average annual rates of more than 5.0 percent during 1974-88.

The South and West regions show rates of population growth in both urban and rural sectors that are well below the national average; it is likely these areas are experiencing net out-migration to other regions with more dynamic economic prospects. Only Choluteca in the South region shows substantial growth, averaging 5.3 percent annually during 1974-88.

2. The Tradition of Local Government

Honduras has a long tradition of local government extending back to the strong urban culture of colonial Spain. During the early colonial period, in both Spain and the new world, often the only government to exercise power was the municipality ("municipalidad") and the only source of authority the town council ("cabildo") of the district ("municipio"). Continuance of this tradition can be seen in the "cabildos abiertos" still called occasionally by some Honduran municipalities and the frequent organization of neighborhood associations ("vecinos") (e.g., the "patronatos") to deal with specific problems affecting a neighborhood.

The Municipal Law of 1927 recognized the autonomy of the municipal corporation and gave it a wide range of responsibilities and certain judicial and legislative powers. Each municipal corporation has a Mayor ("Alcalde"), council members ("regidores") and a municipal attorney ("sindico"). The municipality was given authority to provide essential community services such as schools, hospitals, health centers, cemeteries, markets, slaughterhouses, laundries and baths, sanitary services, streets, bridges, jails and other public works. It was also given authority to regulate traffic, fishing and hunting and the use of forests, waterways, quarries and other local natural resources. To meet municipal residents' needs, the law granted to the municipality the authority to generate revenues from service fees and taxes on local residents and businesses, as well as goods and services produced within the municipal boundaries.

In recent years, the municipalities have lost ground to Central Government Agencies and autonomous parastatals. Central government ministries and autonomous entities have proven to be inefficient and costly providers of basic urban services at the local level. Central agencies are also remote from citizen input, thereby removing an important curb on fiscal losses which are borne by the national productive economy and taxpayers. Moreover, these same agencies are powerful lobbies for their continued privileged access to administratively rationed and subsidized inputs, credit and foreign exchange.

Correspondingly, the performance of local governments has worsened. It has been severely impacted by laws which embody the concept of the municipality as an inherently weak organization which has to be controlled from above. This concept has also been used to justify the practice by central government agencies and national parastatals of appropriating municipal functions and resources without compensation. Though municipalities enjoy some degree of political and

operational autonomy, with few exceptions financial and human resource constraints have markedly inhibited their ability to discharge their service responsibilities and have impeded the emergence of effective autonomy.

Although citizens have the opportunity to influence municipal decisions through regular access to elected and appointed municipal officials using formal and informal communication networks, the public has become generally disillusioned because of the inability of the municipalities to respond to their concerns. Nonetheless, frustration with current systems and practices has produced an improving climate for change. Some municipalities and citizens groups have moved independently to solve problems and get concessions from centralized agencies. At least one parastatal, SANAA, has started devolution of some of its water and sewerage authorities to municipal governments. In addition, as noted earlier, Municipal Reform Legislation appears destined to soon provide the legal basis for change.

3. The Municipalities

a) Political Divisions

Honduras is divided into 18 departments administered by Governors named by the President. These are divided into autonomous municipalities. Each municipality is further divided into villages and settlements. Only 104 of the 289 municipalities have populations exceeding 2000 and are classified as urban. The remaining 185 are considered rural, as are the even smaller villages and settlements, the latter consisting of only a few houses. The National Congress is responsible for the creation of departments while the President, through the Ministry of Government and the Governors, is responsible for the creation of municipalities.

b) Basic Characteristics of the Municipalities

Census figures from 1974 and 1988 published by SECPLAN show that a substantial growth in the number of urban municipalities (those with more than 2000 inhabitants) has been taking place. Another significant trend is the growth of municipalities of between 10,000 and 80,000 inhabitants. They now have more than half of the country's population, while in 1974 they contained only 32 percent. At the same time, municipalities with a population range of 80,000 to 300,000 inhabitants decreased as a proportion of the total population from 20 to 13 percent. With the incorporation of San Pedro Sula, cities with over 300,000 inhabitants increased over 300 percent in population, and represent 21 percent of total population. These figures show that while Tegucigalpa and San Pedro Sula have continued to attract large numbers of people, even faster growth is taking place in the intermediate towns.

Sixty-one percent of all municipalities are located in the Center and West regions whose departments contain some of the oldest settlements but limited natural resources. The North region contains the highest proportion of urban municipalities with an estimated 73 percent of all municipalities classified as urban.

c) The Urban System

Tables 5 and 6 of Annex E show the distribution of the urban population by type of municipality for 1974 and 1988. The urban structure of Honduras is characterized by its dispersion and polarization. Of 289 municipalities, 185 are rural and 50 percent of the population lives in villages (aldeas) and hamlets (caserios). Of the 104 urban centers, the two largest contain 50 percent of the urban population and 20 percent of the total population. At the other extreme, the 72 smallest urban centers contain only 9.8 percent of the total population while 14 intermediate cities ranging in population from 15,000 to 100,000 absorb 9.7 percent.

During the period 1974 to 1988, intermediate cities experienced a dramatic rate of growth, increasing in number, population and as a percentage of the urban population. In effect, while six intermediate cities existed in 1974, in 1988 the figure was 14. In terms of urban participation, one fourth of the urban population now lives in these centers as opposed to only 18.4 percent in 1974.

While the data analyzed indicate the continued dominance of the two primary cities (Tegucigalpa and San Pedro Sula), they also demonstrate the importance of the growth of intermediate cities in relation to rural and agricultural development.

4. Democratic Initiatives in Local Government

Traditionally in Honduras citizens have gained access to public officials by favors, often supported by influential friends or groups. There is a tradition of neighborhood, community or special interest groups organized to achieve particular purposes (patronatos), and in some cases towns have service groups or clubs such as the Rotary and Lions clubs. Interactions of individuals and groups with public officials often influence decisions, but not always to the benefit of the majority. Moreover, under the current electoral process it is very difficult to hold municipal officials responsible for their actions since they are elected as part of the national presidential slate rather than separately. Separate municipal elections would correct this deficiency and the concept is a major reform sought under the draft Municipal Law. It is also an objective of the Nationalist Party's 1990-94 Government Plan. According to the theory of local public choice, devolution of budget responsibilities to the local level should both strengthen democratic institutions and enhance service delivery. Here, too, proposed legislation and the 1990-94 plan are in agreement on the need to restore budget responsibilities to the municipalities. Other major areas of agreement on changes needed to return responsibility to the local level include permitting local choice with respect to tax rates and fee levels and eliminating monopolies on service provision. Finally most citizens of municipalities lack any real sense of what their rights and duties are as Hondurans, and as members of their communities. In many cases this is manifested by frustration of apathy toward their local governments, and it has given rise to the patronatos, which constitute alternative service and even quasi-governmental systems as opposed to the formal governance structure.

5. Centralized Institutions in Support of Local Government

During a significant period of recent history, and particularly during highly authoritative and non-civilian regimes, responsibilities for the provision of services at the local level have been gradually assumed by central agencies. At times this trend has been encouraged by international donors who may have seen certain advantages to dealing with a single agency, often organized like a private company and somewhat distanced from inefficient government bureaucracy. In fact efforts by some donors continue to be directed toward programs designed to "fix" these organizations. The IDB/BANMA relationship follows this pattern for instance. Only a few of these institutions have been successful in addressing local needs. Key centralized institutions and their roles are summarized as follows:

i. Municipal Advisory and Technical Assistance Directorate (DGAATM) of the Ministry of Government and Justice

This Directorate, an agency of the Government and Justice Secretariat was created in May, 1960 to provide technical assistance in municipal administrative, cadastral and budgetary matters. Actually, scarce personnel and budgetary resources have limited its actions to reviewing municipal budgets as part of the departmental budget approval process mandated by law for the municipalities.

ii. Municipal Bank (BANMA)

This agency was created in 1961, with the municipalities as its shareholders. BANMA's objective is to provide credit and technical assistance to help municipalities meet basic public service requirements. Additionally, the bank is designated as the economic/financial advisor to Municipal Corporations, acting as receiver of municipal funds and trustee and underwriter of bonds issued by municipalities.

BANMA has been the main financing source of municipal public works and the main financial intermediator for municipalities. However, the bank has faced an increasing arrearage problem in municipal loans that now threatens its financial viability. Municipal arrears pertain to outstanding loans, to guarantees granted to commercial or service firms for the purchase of goods or services, and to the obligatory procurement of the bank's capital shares by the municipalities. Preliminary estimates show accrued arrears to December 31, 1989 of around 47 million lempiras, representing a real loss for BANMA of 7 percent of its capital. This has forced the bank to adopt austerity measures resulting in a reduction from 300 to 150 employees. The institution's capacity to provide technical assistance to municipalities has never been high and with only one person currently in the Technical Assistance Unit it is essentially nil.

iii. Communications, Public Works and Transportation Secretariat (SECOPT)

In relation to public works, the support from this Secretariat is limited to the opening, repair and maintenance of access roads as requested by Mayors. The

General Directorate of Municipal Planning (DGU), an agency of this Secretariat, assists municipalities in the development of urban plans. Its installed capacity is small and even though its goal is the development and maintenance of plans for the 35 main cities, during the last five years it has developed only two plans and initiated two more.

iv. National Cadaster Executive Directorate (DEC)

An agency of SECPLAN, this Directorate has the exclusive legal power to develop real estate registries of the country. Created in 1974, it was initially oriented towards the development of cadasters and inventories of natural resources in all political divisions of the country. Budgetary decreases caused it to focus its efforts on cadasters of productive valleys. By contract, it develops cadasters for municipalities, even though its main task has been to facilitate titles of land subject to the agrarian reform, through an agreement with the National Agrarian Institute (INA). Since 1987 it has developed cadasters for the cities of Puerto Cortés and Villa de San Antonio.

v. National Water and Sewerage Service (SANAA)

This agency is in charge of the development of studies, construction, processing, maintenance and administration of potable water systems in the principal municipalities of the country. At present, SANAA manages 95 water systems of major municipalities and cooperates with 285 local Administrative Boards in the administration of rural water systems.

vi. National Electric Energy Enterprise (ENEE)

Created in 1957, its constituent law empowers this agency with the generation and distribution of electric energy throughout the country. ENEE has been progressively acquiring municipal enterprises that previously provided that service. Of the existing systems, 60 percent are operated by ENEE and the remainder by municipal and private enterprises, the latter representing 9 percent of the total. For local electric distribution ENEE requires cofinancing from municipalities and communities.

Two additional agencies also play a significant role in coordinating economic and social development activities of local governments:

vii. Government and Justice Secretariat

By law, this Secretariat is in charge of coordinating Government activities at the national, departmental and local levels. It is also the governmental bureau empowered to create, abolish, and annex municipalities and to solve controversies that may arise among municipal corporations.

viii. Planning, Coordination and Budget Secretariat (SECPLAN)

A 1987 decree directs SECPLAN to establish Departmental Boards and Planning Units in urban municipalities for the purpose of setting-up and coordinating development plans. As of 1989 Boards have been established in every Department, but the municipal planning units have not yet been formed at any level.

ix. The Presidential Commission on Municipal Development

Established by the President in March 1990, the mandate of this commission is to coordinate GOH efforts to implement municipal reforms outlined in the Government's Plan for 1990-94. Ministers of Finance and Government and Planning are the designated members. A director has been named and the Commission is operational.

6. Regional Patterns of Development [4]

In general, the Center and North regions present the highest levels of development, with the East, South, and West regions (in that order) showing lower levels of development. Conversations with planners at SECPLAN indicate that while the Tegucigalpa-San Pedro Sula axis will continue to have the strongest concentrations of economic activity, the highest rates of economic growth will be found outside this area. The Aguan Valley in the East region and areas in the interior of Olancho are expected to be the primary focal points of growth over the coming decade, followed by increasing activity along the eastern part of the north coast.

The Center and North regions, dominated by Tegucigalpa and San Pedro Sula, are the most highly urbanized with 60 percent and 50 percent, respectively, of their populations living in urban areas. The three other regions all had less than 25 percent of their populations in urban areas in 1988.

Employment patterns across the regions point to a similar division of functions between the regions. Urban employment in the Center region is concentrated in the service sector, especially government. In the North, employment in industry is much higher than elsewhere, though the share of the labor force working in industry has declined during the 1980s because of weak aggregate growth. The three other regions show higher levels of employment related to agriculture and natural resources. Furthermore, employment in the East, South, and West is also much more likely to be with small firms and be nonsalaried (both indicators of lower levels of economic development).

Finally, average urban incomes in 1986 were highest in the Center at Lps.867 per month. Urban incomes in the North averaged 87 percent of those in the Center. In the East, South, and West incomes averaged 64, 50, and 62 percent, respectively. The Center region showed 53 percent of its urban households with incomes of less than Lps.600 per month, while in the North poverty affected 59 percent of urban households. In the remaining regions, poverty levels were

---

[4]/ Measures of Honduran economic development output are not available at regional or departmental levels. Therefore, the Urban Institute analysis relied on other indicators such as urbanization, employment and income available in SECPLAN's 1987/88 Work Force Survey Study for conclusions on regional development.

significantly higher, reaching approximately 70 percent of urban households in the West and in the South.

III. CONSTRAINTS

The principal counterparts, beneficiaries and targets of the project are the citizens of municipalities of Honduras. A number of different constraints operate at both the national and local levels which prevent municipal governments from contributing to more democratic decision making and playing a more effective role in public service provision and local development. These can be grouped related to: a) municipal management and finance; b) urban land, infrastructure and services provision; and, c) municipal support systems and democratic processes. [5]

A. Municipal Management and Finance

Local level management problems can be summarized as the inability of municipalities to generate and adequately manage their resources to satisfy constituent needs. Although the lack of revenue/money is most often identified by municipalities as their principal constraint, in point of fact existing laws allow them to raise adequate operating revenues at the local level. Revenues are inadequate in the first instance because of poor rates of local tax and fee collection.

However, although municipal governments must look to their own tax bases for most of their revenue growth, they have the right to expect some fiscal support from the central government. Honduras has one of the lowest rates of central transfers of any fiscal system in the western hemisphere. Moreover, rather than make regular, predictable transfers based on an objective distribution system, the central government and its agencies finance or build capital projects for politically favored individual municipalities, or intervene to bail out a municipal budget emergency, which might have been avoided had the revenues been higher and transfers been made on a more equitable basis.

Finally, local governments do not control their own budgets and resources. While the municipal budget should be a fundamental document for achieving both fiscal and political accountability, it is not. The entire budget process is conducted solely to comply with the existing national law, but has no real substance; it sets no local priorities and identifies no program. Because the municipal budgeting and investment decision processes are closed and inconsistent there are no channels for local citizens' input. Most citizens are not aware of the level of municipal resources and the options which a municipality may pursue in determining its investment plan. Without this knowledge, citizens are not

---

[5]. The major constraints were identified through Mission experience and assessments of the municipal sector conducted by the Urban Institute and INCAE during 1989.

able to participate in decisions which affect their daily lives. In short, the budget is not the municipality's creation, does not facilitate effective management of available resources, and is not presented to local citizens for discussion.

B. Urban Land, Infrastructure and Service Provision

Municipal governments currently lack the capacity to analyze and anticipate local service and land use needs, plan solutions and design projects. Generally, these activities, if they are done, are performed for the municipalities by central government agencies and are done on an ad-hoc, piecemeal basis for specific services.

Existing law confers exclusive powers of infrastructure operation on central government autonomous agencies, like SANAA, ENEE, and HONDUTEL, in communities where they are responsible for service provision. These agencies have usually assumed only the most profitable services in the easiest delivery areas, leaving the municipalities with low-income producing services like garbage collection, sanitation, cemeteries and public markets. Current law also severely limits local governments' rights to provide public services through contract with private organizations, to establish urban boundaries, to manage and dispose of "ejidal" lands (community lands) lying within municipal boundaries, and to effectively protect natural resources at the local level.

Because municipalities are unable to adequately plan and anticipate future growth patterns and service needs, they cannot respond to citizen priorities in service provision. The incorporation of planning into municipal operations and the dissemination of such plans will increase citizen involvement and improve the delivery of basic services. In addition, current lender practices tend to limit municipal access to investment resources. This further restricts municipal ability to respond to the needs and priorities of citizens.

C. Municipal Support Systems and Democratic Processes

The administrative, financial and programmatic weaknesses apparent in many Honduran municipalities directly reflect both the limited existing capacity and the current constraints placed on the development of municipal support systems and democratic processes.

Honduran law is now being interpreted so as to prevent mutual self-help. For example, it is difficult for one municipality to help another when a water pump breaks down, or to lend personnel or construction equipment to another municipality. The law of the "Controloria" prohibits all expenditures made outside a municipality's territory, unless there is formal action by both municipal corporations and approval by the Departmental Council. Similarly, current regulations are now being interpreted as restricting the organization of municipal associations at the regional and departmental levels.

The actual supply of technical assistance and training support to the municipalities can be characterized as scarce, dispersed and uncoordinated. Of all potential support institutions only four (BANMA, DEC, DGU and DGAATM) are actually developing activities with local governments and then only on an occasional basis. They provide an extremely limited amount of assistance and training each year which is largely targeted on unrelated themes and topics. Scarce financial and human resources as well as their roles as centralized institutions seriously limit the potential of these institutions to effectively respond to municipal needs in a systematic and timely manner.

Finally, democratic and participatory processes are weak at both the national and local levels. Considerable disincentives to local level policy and program development and accountability exist. Local elections are a byproduct of national elections and local government decision-taking provides almost no systematic opportunities for citizen participation. Systems and procedures to facilitate the effective participation of municipalities in representing local needs and in promoting national level policies and strategies to support municipalities are extremely limited.

IV. PROGRAM FACTORS

A. Overview of Recent Initiatives and USAID Experiences

Through the Strengthening Democratic Institutions project, the Mission has initiated efforts to improve democratic processes at the national level by working with the National Elections Tribunal, the National Congress and the Supreme Court. This project has been successful in assisting the GOH to carry out free and fair elections, establishing apolitical career tracks in the Judicial and Congressional branches, as well as instituting a professional Justice of the Peace program. At the municipal level, USAID has been working with local governments in Honduras for many years, primarily to upgrade urban marginal communities. Two programs were implemented with BANMA, starting in 1974. Over 100 separate projects were financed including physical improvements to a municipality (slaughterhouses, water systems, bus terminals, markets) and administrative reforms such as improvements of municipal cadasters and cost recovery mechanisms. USAID has financed potable water and irrigation systems for secondary cities and adjacent rural areas through SANAA, also part of the central government. RHUDO/CA has implemented several Housing Guaranty programs which have financed water, sanitary and storm sewerage, electricity, and paving projects directly with the municipalities of Tegucigalpa and San Pedro Sula and ten of the largest cities in the country. USAID has also financed similar improvements in medium-sized municipalities through the local currency funded Employment Generation Project.

In the 1970s, the central municipal development and infrastructure institutions, BANMA and SANAA, respectively, were somewhat more effective at responding to municipal requests for basic urban infrastructure projects than they were at assisting municipalities with developing strategies for planning these investments and managing them on their own. As demand for services in Honduran cities grew due to increased economic development, these central agencies were

unable to keep up. As Honduras enters the 1990s, the country's leaders are aware that this centralized model of allocation of resources is in strong need of revision so they have promoted the return of key functions to municipal governments.

AID programs in Honduras involving activities at the local level have been implemented both through BANMA and SANAA and directly with municipal governments. The two programs with BANMA in 1974 and 1980 experienced serious implementation problems and delays. Municipalities were not properly consulted, if ever, about the investment being financed in their locality so projects were often overdesigned, or were unwanted by communities who were later unwilling to pay for the cost of the investment: many slaughterhouses and bus terminals lay abandoned in these towns today. BANMA is currently having serious financial problems due to the number of outstanding loans which many municipal governments have been unable or unwilling to repay. Projects implemented through SANAA also experience problems as they get bogged down in the central bureaucracy. And finally, once constructed, projects lack the promotion in the locality necessary to get the project beneficiaries to pay for the investment. Consequently, both SANAA and BANMA have been surviving with GOH subsidies which are expected to reduce to a trickle since the government has adopted badly needed fiscal austerity measures.

More recent AID projects designed to benefit urban communities have been implemented to the extent possible more directly with local municipal governments. Under the HG-006, 007, and 008 programs, AID has worked with the cities of Tegucigalpa and San Pedro Sula and six secondary cities in carrying out sanitary sewer, water and paving projects. These programs have included a technical assistance and training component targeted primarily to the engineering and cadastral departments of the municipalities. Implementation units were also set up in each municipality as a way to attract qualified personnel to manage the projects. Projects in which the municipal government was directly involved, i.e., was the borrower of the funds (albeit with a central government guarantee), and hired its own staff to implement and promote the projects have been considerably more successful than those relying on a central institution. These are projects which have had direct community support as HG programs require that project beneficiaries sign a contract with the Municipality promising to pay for the investment.

However, these programs have occasionally had serious setbacks in implementation due to low institutional absorptive capacity of local governments. To date, the technical assistance and training components have represented a very small share of the total physical investment. On average, technical assistance has represented less than 10 percent of the total investment.

More comprehensive technical assistance packages tailored to different types of cities are required to increase administrative and financial capacities to address particular growth needs with less reliance on central government.

Specific Lessons Learned in Honduras are:

1. Programs which deal with local governments or groups directly have a stronger base of support among project beneficiaries than do programs relying on central public sector institutions;

2. Programs which include an element of institutional and policy reform have a greater chance of having a larger overall impact in a municipality than the more narrowly defined infrastructure investment project which only focuses on changes required to implement that particular project.

3. In order for a program to have a lasting impact, it is important to look at reforms at both national and local levels. Municipal infrastructure projects in Honduras have constantly run up against laws and regulations over which the municipal government has little or no control and which slow project implementation.

4. Municipal reforms such as strengthening capacity to plan and to raise revenues are crucial if AID and other projects are expected to be replicated.

5. Technical assistance and training should be administered in an intensive manner to groups of cities with economic development potential. Municipal governments and private citizen organizations have been found to be more dynamic in these cities than in those where economic activity is declining.

6. Honduras needs to develop a permanent municipal development training capacity in order to maintain the gains in training obtained through donor financed projects. AID has found that trained personnel with minimum skills for implementing projects are very scarce in Honduras. On average, 60 percent of the time spent implementing an infrastructure project goes to training municipal personnel to manage it.

7. Projects in which the project beneficiaries freely vote in their communities to pay for the improvements provide the municipal government and the borrowing entity the mandate for recovering the cost of the loan and thereby are less likely to default.

8. Almost five decades of experience in working with executive level of governments as well as more limited experience in working with judiciary and legislative branches of governments to provide urban services have indicated that concentration at those levels is insufficient for assuring broad citizen level participation in the decision making processes of government which affect the daily lives of people as indicated by the history of authoritarian governments and periodic appearances of insurgencies throughout Central America.

B. Relationship to Agency Policy

Strengthening democratic initiatives is a fundamental goal of Agency and Bureau policy. The Municipal Development Project fully supports the AID policy on Local

Organizations in Development, and the Policy on Institutional Strengthening. A recent cable from the new Assistant Administrator for the Latin America and Caribbean Bureau places support for the evolution of stable, democratic societies as a top priority. By working at the municipal level AID's support is meant to ensure that individual citizens are effectively and directly involved in development through local organizations that link them to national level resources and process and to further the democratic participation of people in assistance activities directed towards them.

The devolution strategy pursued by the project is consistent with AID's policy to support the transfer of appropriate central functions to local organizations to improve the planning implementation and impact of development activities. AID encourages the devolution of national authority to local government as one way to overcome the inertia and wastage associated with an exclusive dependence on national public organizations.[6] Agency policy stresses that responsiveness at the central level can be improved by strengthening local organizations. Hence the strategy pursued in the Municipal Development Project will create demand for local autonomy and management of fiscal and political affairs and will force a more responsive central government. The Project will provide inputs of technical assistance and training in the areas of administration, management and civic education which further promote the role and capabilities of local organizations.

This strategy is mirrored in the Agency policy on Urban Development which states that AID activities should include "support for urban institutional development at the national and local levels of government through programs to increase efficiency, training to strengthen capacity, and modification of policies to better respond to the needs of the urban poor and enhance the private sector contribution to development."[7] At the national level, the proposed project will foster policies, strategies and a climate of decentralizing public service activities; at the municipal level the project will strengthen the capacity to assume and carry out public service activities; and at the community/citizen level, to promote greater participation in the municipal allocation of resources.

Agency policy on Financial Markets Development promotes "a system of financial markets that is integrated and relatively undistorted." The MDP will contain a directed line of credit, which may alter the market allocation of resources. However, the AID policy paper makes exceptions for targeted credit when such credit would address constraints and help financial institutions develop experience in lending for a specific group of developmental importance. In addition, the temporary nature and review process proposed for Fund meet Agency guidance that "the size and duration of such programs should be limited."

---

6. A.I.D. Policy Paper - Local Organizations in Development (March 1984).

7. A.I.D. Policy Paper - Urban Development Policy (October 1984).

C. Relationship to USAID and Honduras Strategies

Strengthening democratic institutions is one of the four major programmatic goals of USAID/Honduras' strategy. Key project objectives are to provide the citizens better access to their local government and more control over decisions which affect them and to increase the capacity of local governments to structure policies and strategies to address local needs. Undue delays in addressing the basic service needs of the rapidly growing urban poor will have unsettling social and political implications. Related objectives are the redistribution and return of certain administrative services appropriated by central government agencies to local governments. This last objective is consonant with goals of the Mission's macroeconomic program carried out with Economic Support Funds in that devolution of service delivery would reduce the drain on central government resources and subsequently reduce the fiscal deficit.

The Honduran Congress and the two major political parties have been struggling with municipal problems since democratic, civilian rule was restored in 1981. Eight years ago, newly elected municipal officials quickly discovered that there were a number of major managerial and financial difficulties in responding to their constituents' local public service needs. These difficulties stem from having to operate within the framework of existing legislation and practice.

As a result of these experiences, three different proposals for new municipal legislation were introduced in Congress during 1985. In 1986, the Congress requested and received from AID funding for technical assistance to review the situation of the municipalities and the proposed legal reforms. A technical report was delivered to the Congress in early 1988 by a joint Honduran/U.S. team of experts. The report received informal endorsements from the Central Government through the Ministers of Finance, Government and Presidency. As a result of this effort and increasing local pressure, a Municipal Reform bill was introduced in Congress and it appears to enjoy widespread support from the political parties.

Both major political parties have committed themselves to municipal reform for political as well as for economic and social welfare reasons. Both parties have given strong support to key provisions of the new municipal law such as direct elections of the mayors and independence in the management of resources. Their expressed intention is to create a diffused power structure which will make it more difficult for an individual or a small group to dominate the economic, social and political life of the country. The Nationalist Party in its Government Plan for 1990-1994 has articulated a role for the municipalities responsive to their economic growth potential and within the context of transferring resources from the central government based on population and the strengthening of democratic processes. This apparent concurrence of political will should bode well for the significant changes sought for administration of local government in Honduras.

D. Relationship to Other USAID Activities

The Municipal Development Project (MDP) is supportive of other mission efforts to strengthen democracy in Honduras. The flagship project is this area, Strengthening Democratic Institutions (522-0296) works with three central level organizations, the Supreme Court, the National Congress, and the National Elections Tribunal (TNE) to improve their institutional capabilities. Municipal Development complements the SDI project by addressing democracy at the local level where citizens are most directly affected.

Other Mission projects which the MDP will work with include Small Farmer Land Titling (522-0173), and the proposed Agriculture Sector Adjustment Program (ASAP) (522-0374). These projects deal with improved land resource utilization, including land titling, land taxes and land financing. Municipal level activities of the ASAP include cadaster and municipal training. It is anticipated that ASAP will be targeted toward municipalities with high potential rural land bases while MDP will focus on municipalities with significant urban populations. In the event that the priority areas overlap, both projects will work to complement rather than duplicate the efforts of the other. The reconnaissance survey and action plan methodologies proposed for the MDP will help a municipality prioritize actions it plans to take. This process should held the municipality and AID classify areas of opportunity with are most appropriate for a given project.

MDP will build on the successes of the ongoing Secondary Cities Component of the Shelter Sector Program (522-0324, HG-008). Under this project, initial work has been done in some cities which will participate in the MDP. New project activities will not duplicate surveys and assessments which have been carried out, but will address in concrete fashion the constraints identified above. Municipalities which have received substantial assistance to date, such as San Pedro Sula, will have only limited participation in the MDP.

E. Other Donor Activities

The Interamerican Development Bank (IDB) has an ongoing program with BANMA. IDB also hopes to reach agreement soon on a project with San Pedro Sula and has begun discussions with Tegucigalpa. It appears that there are no other major donors directly interested in municipal development at this time. RHUDO's contacts with IDB have revealed an interest on their part in coordinating their efforts with any that USAID might pursue.

A $13.5 million IDB program with BANMA was ratified by Congress in February 1989. Of this amount, $8 million is for infrastructure, $4.8 million for institutional strengthening, $0.58 million for project preparation and $0.12 million for IDB inspection and management. Infrastructure projects will include water, sewers, paving, markets, street lighting and slaughterhouses in cities with 10,000 to 80,000 inhabitants. The institutional component will help 28 cities complete cadasters, improve tax collection and accounting, administer development plans and train employees. BANMA will be strengthened through the technical assistance in the areas of training, economic evaluation, computer programming, project management, systems operation, financial programming, sanitary engineering and

municipal legislation. Funds for project preparation are channeled through the Honduran Foundation for Private Enterprise (FOHPREI) and are in the form of a grant. Execution of the program is expected to begin in 1990. A review of BANMA/IDB target cities reveals that it is likely some of the activities proposed under the MDP would be undertaken in the same municipalities. However, it should be relatively easy to select activities which would be nonduplicative and complementary.

A $50 million IDB program for San Pedro Sula is under review. Of this amount, $2 million would be for institutional development and the rest would finance stormwater drainage, a bus terminal, sanitary sewers and streets.

Tegucigalpa is preparing an application to IDB for grant financed technical assistance to strengthen the municipality in project planning and evaluation, financial management, and training in the areas of project design and management, administration, finance and public relations. If IDB agrees this project might begin in the fourth quarter of 1990.

V. DETAILED PROJECT DESCRIPTION

A. Project Goal and Purpose

The goal of this seven year project is to strengthen democracy in Honduras. The project purpose is to enhance the participation of the Honduran populace in the local democratic process and improve the operational capacity of municipalities to respond to the land, infrastructure and public service needs of their constituents.

The purpose will be accomplished through a two pronged approach which will address key policy areas at the national level while increasing municipal capacity and interest in administration, execution and control over resources. The Project will use a "bottom up" strategy which will create a synergistic effect such that the policy dialogue and limited direct project action at the national level will be leveraged by increasing demands for devolution from municipalities.

Technical assistance for specific studies and plans for devolution will be the key Project input at the national level. At the municipal level, the Project will provide training and skills building for all municipalities, as well as intensive technical assistance and local currency resources for a targeted group of municipalities with significant economic growth potential.

Project analyses identified the previously discussed constraints at both the local and national level which, if not addressed, will impede efforts to improve the municipalities' ability to provide needed services to their communities. At the national level both legislation and practice discourage responsible performance by local government. At the municipal level financial, administrative and management skills have atrophied. Consequently, constituents have little confidence in local government's ability to respond to their needs, and often prefer to seek solutions to problems of municipal purview through

private concerns or alternative sources such as NGOs or the military establishment. This pattern of behavior weakens the democratic process to the extent that elected representatives of the people are not perceived as being able to respond to constituent needs.

B. Project Objectives and End of Project Status

The goal of the Municipal Development Project is to strengthen democracy. Indicators of achievement of this goal which pertain to the proposed project are: municipal operations strengthened by the active participation of communities in municipal decisions; and public confidence increased by high community awareness and participation in municipal activities.

By the 1997 PACD of the Project, the project will have accomplished its purpose of enhancing the participation of the Honduran populace in the local democratic process and improving the operational capacity of municipalities to respond to the land, infrastructure and public service needs of their constituents. This achievement will be evidenced by the following End of Project Status indicators:

a) Active involvement of patronatos and community groups in local government dialogue.

b) Municipalities are analyzing, anticipating needs, and planning solutions with citizen input; and undertaking mutual self-help activities independent of central government involvement.

c) The public looks to the municipality in the first instance to meet its basic urban service needs and to voice its concerns.

d) greater municipal responsibility and authority for delivery of public services versus 1990 central government and national agencies responsibilities.

Key outputs anticipated from the Project will be evidenced at the National and Municipal levels in the three areas of i) municipal management and finance; ii) urban land, infrastructure and services provision; and iii) municipal support systems and democratic processes.

At the national level it is expected that central government agencies will be implementing measures to encourage fiscal responsibility and increased revenue generation at the municipal level. Related indicators of success are:

a) formula based revenue sharing program adopted and implemented; and
b) streamlined system which minimizes national level involvement in annual planning, programming and budgeting of local development resources.

Central government agencies and parastatals will have taken specific measures to facilitate municipal governments to meet the service needs of their

constituents. Actions in this area will be shown through the following indicators:

a) strategies and plans developed and implemented devolving selected urban service functions and responsibilities to municipalities;

b) title to and management of ejidal lands transferred to municipalities; and

c) increased municipal responsibility and active participation in the management of natural resources.

At the municipal level it is anticipated that selected municipalities will be able to execute managerial and financial functions on a sustainable basis in response to constituent needs substantiated by the following indicators:

a) 14 selected municipalities generating and administering revenue augmentation programs, (at least 7 by year 5);

b) 14 selected municipalities carrying out participative investment planning, (at least 7 by year 5); and

c) 14 selected municipalities carrying out technically sound participative annual programming and budgeting, (at least 7 by year 5).

In addition, participating municipalities will be delivering selective services on a sustainable basis at costs affordable to the majority of the urban population as indicated by:

a) 14 selected municipalities developing and implementing strategies to improve the delivery of public services on a financially viable basis, (at least 7 by year 5);

b) 14 selected municipalities carrying out technically based urban land use planning and development policies, systems and procedures,(at least 7 by year 5); and

c) 14 selected municipalities maximizing effective participation of local citizens in the formulation and execution of service delivery choices, (at least 7 by year 5).

During the seven years of project implementation, municipal officials and community leaders will demonstrate an increased awareness of constituent needs and rights through:

a) increased instances of municipal officials consulting with citizenry and soliciting their inputs for given decisions versus the situation of 1990; and

b) preparation and implementation of municipal Action Plans and Programs based on the identification of critical community needs.

It is also anticipated that municipal support systems will be functioning by the end of the Project with:

a) regional and/or national organizations comprised of municipalities, functioning as an effective voice and pressure group for continuing dialogue with the Central Government;

b) sustainable mechanism established to provide research, training, and technical assistance to municipalities.

c) intermunicipal information channels established to disseminate information on national and municipal level policies and changes.

With regard to the expected outputs, it should be emphasized that political considerations will impact and possibly modify, dilute or delay reforms being sought. The changes sought involve major shifts of power to the local level and invasions of turf and privilege that have sheltered incumbents for years. As a priority the Administration must address major economic and financial issues and resulting measures will not be popular. It is not clear how much progress the Administration will be able to make on municipal issues. Project design has taken these factors into account in pursuing national level reforms independently. On the other hand, the skills building and local project components will be able to proceed, thereby broadening the constituency for reform and ultimately making the Administration's task easier in this regard.

C. Project Implementation Strategy

To achieve sustainable impacts through interventions at the national and local levels will be a demanding undertaking requiring a clarity of purposes throughout the project's seven year period. The implementation strategy envisions a "bottom-up" development process rather than concentrating on changing the national public sector institutional infrastructure. Changes at the national level will be pursued on a selective basis as needed to strengthen the transfer of decision making and resources to local governments. The following basic principles and approaches will underline all work done on this project.

1. Strengthening democratic processes will be the foundation of all project activities.

The project is responsive to the Government's objective to strengthen the democratic process in Honduras. The theme of strengthening democracy and increasing citizen participation is incorporated into every project activity and will be carried out on two interrelated levels:

At the community-municipal level: Local project assessments and decisions will involve citizens directly; proposed changes in municipal policies, systems and procedures (i.e., new budgeting systems, hearings on development decisions, etc.)

will explicitly provide the opportunity for citizen input and feedback; local election mechanisms to be developed will seek to maximize accountability; and community leadership and organizations will be oriented and trained to increase their effective participation in local development activity.

At the municipal-national level: Increasing the effective participation of municipalities in representing local needs and in decision-making which effects local development will be a priority; policies, systems and procedures required to support municipal development on a sustainable basis will be identified and promoted; an effort will be mounted be to keep national and all 289 local governments and their constituencies informed of progress on national and local municipal reform agendas. This strategy calls for an active role for municipalities who must demonstrate their financial and political support for municipal associations, particularly as minimal project resources will be directed to this end.

2. Priority Areas for Assistance

Local Level - Analysis of a series of recent studies suggests that local government capabilities vary widely with all municipalities seriously lacking in one way or another. Table 9 of Annex E gives a generalized view of priority areas for training and technical assistance at the municipal level. Major deficiencies have been identified in the following areas: financial administration; planning of municipal development; provision of basic services; legislation, regulation and control; community organization; and conservation of natural resources.

National Level - A Municipal Reform Law is before the Honduran Congress and is expected to pass. The law, as currently envisioned, would cement the basis for devolution of service responsibility and financial management to municipalities. These areas coincide with anticipated project activities at the national level. However, with or without a Municipal Reform Law, major opportunities for change at the national level presently exist and will be actively pursued by the Project. Reforms considered to be of high priority include: regulation and execution of a system of resources transfers; design and promulgation of a programming and budgeting system; a plan for the devolution of SANAA water and sewer functions to selected municipalities; a plan for the transfer of common "ejidal" lands to the municipalities. Other opportunities for devolution of responsibility will be addressed to the extent that they seek to alleviate the three primary constraints identified above.

3. Targeting of Project Activities

Project resources will be concentrated in regions and urban centers of strategic economic development potential for both industry and agriculture. However, all municipalities will have the opportunity to participate in project sponsored training events, and to belong to and support regional or national associations, as discussed below in the description of the municipal level component. Working in cities which offer conditions conducive to sustained technical, administrative and financial systems will assure a greater impact for the limited project

resources. This strategy is consistent with AID's Urban Development Policy to "support productive investments in industry, commerce, and services in those urban centers which provide comparative advantage and to ensure that the supporting investments in shelter, infrastructure, and social services are provided in those same locations using appropriate standards which are affordable and provide access to the urban poor."[8] Initially, strengthening support systems in selected municipalities which are judged most likely to succeed will presumably provide the best experience and insights needed to promote replication on a national basis.

The purpose of selection is to facilitate execution of policy reforms related to:

a) development activities of individual cities of different sizes, within the region;

b) identification and resolution of common development problems at the regional or subregional level;

c) strengthening municipal support systems (associations, intramunicipal cooperation, public/private sector partnerships, etc.) within the region.

Preliminary evaluation and selection of municipalities which will receive intensive technical assistance should be largely quantitative in nature to ensure that limited resources reach a high percentage of Hondurans. In addition, participation throughout the life of the project will require continuing interest on the part of municipal officials and leaders. Selection factors include:

- Urban population of at least 7,500 inhabitants;
- Urban growth rate of at least 4.0 percent from 1974-1988;
- Proximity to other urban centers;
- Municipal revenues (1986) greater than L200,000;
- Municipal investment level (1986); and
- Significant economic potential

Municipalities meeting these criteria are concentrated in the North and Center regions. However, the Project will work with selected municipalities in the South and East which exhibit substantial rates of growth, or are determined to be areas of high potential economic and population growth. Municipalities in the West are generally the oldest in Honduras, but do not represent significant population concentrations or demonstrate substantial population and economic growth, and consequently will not be targeted for intensive technical assistance. Table 7 of Annex E presents the criteria in tabular form.

Technical assistance to individual cities would be targeted to support the objectives and activities specified in individual plans of action and Memorandums of Understanding. The purpose of project efforts to strengthen municipal support systems in selected regions is to provide the experience and insights required,

---

[8] AID Policy Paper - Urban Development Policy (October 1984).

while simultaneously stimulating support for the expansion of such activities on a national basis over the medium and longer term.

Selected Departments and Municipalities are:

Stage 1: Years 1-5 of Project

CORTES:
San Pedro Sula (limited)
Choloma
Puerto Cortés
La Lima
Villanueva

YORO:
El Progreso

ATLANTIDA:
La Ceiba

Stage 2: Years 3-7 of Project

OLANCHO:
Juticalpa
Catacamas

COLON:
Tocoa

Individual Municipalities: Years 2-7 of the Project

Starting in the second year of the project, selective technical assistance will be provided, on a phased basis, to a limited number of cities throughout the country whose rate of urbanization, contribution to regional economic growth, basic resource levels and demonstrated interest merits their participation. These cities are:

Tegucigalpa (limited)
Siguatepeque
Comayagua
Choluteca

Other cities which meet the above criteria may be eligible to participate in project activities depending on availability of funds.

D. Project Components

Project analyses clearly demonstrate a healthy climate for change. Reform legislation has been drafted and congressional consideration was initiated in December 1989. Major political parties agree that problems exist and that changes must soon be invoked for the national good. Local governments and constituents have been very receptive to ideas of training and dialogue advanced under the on-going Secondary Cities project (USAID Project No. 522-0324, Housing Guaranty 008) and in response to the recent Urban Assessment (Urban Institute 1989) and the study of Technical Assistance and Training Needs (INCAE 1989).

The unique focus of this new project will be the processes and relationships by which local governments deliver services that are responsive to constituent needs. The foundation of the project will be a broad based skills building effort designed to address constituent/local/national government relationships countrywide. Project activities at the municipal level will address real problems which will be identified through participative assessments involving

local government and a wide range of neighborhood and special interest constituent groups. While improved public services delivery systems at the local level are the expected result, this project's activities will be focused on the strengthening of democratic processes and institutions at national and municipal levels. Project outputs will be quantified and evaluated for each participating municipality in terms of how participatory interaction has increased as well as in terms of specific service received (water, sewer pipe, etc.)

Strengthening local democratic initiatives and improving operational capacities of municipalities will create a demand for increased responsibility and autonomy at the municipal level. The Project will be structured with two components which will address the three main constraint areas. The national level component will help the central government pursue, on a selective basis, changes needed to expedite the transfer of decision making and resources to local governments. The municipal level component will carry out activities to address municipal management, financial and delivery deficiencies as well as developing mechanisms for effective citizen participation, and fostering the development of municipal support systems.

Inputs for this effort will be technical assistance to help up to 14 municipalities carry out detailed urban assessments, identify operational constraints and assistance and identify, plan, and carry out programs responsive to constituent needs. The project will also provide financial resources to these municipalities to assure financing to carry out construction programs and system reforms resulting from project activities.

Skills building events will focus broadly on constituent/local government relationships in all 289 municipalities in Honduras, and will also concentrate on specific skills needed to help local governments improve current operations and to assume new responsibilities resulting from decentralization policies. The training will be a combination of local events reaching over 2,000 participants and U.S. or third country participant training for specific needs. This participant training may be specific courses which address the constraint areas, or may include study tours for municipal officials to visit Latin American or U.S. cities with similar characteristics.

1. National Level Component

The national level policy agenda seeks to strengthen central-local government relations and processes and the capacity of the central government to assist local governments to better serve their constituencies. Areas of priority concern are: municipal management and finance; urban land infrastructure and service provision.

The highest priority outputs expected from activities under this component are:

i. A formula based revenue sharing program to reinforce fiscal responsibility and encourage local revenue generation;
ii. streamlined systems for national level involvement in annual planning programming and budgeting of local development activities by the municipalities;

iii. progressive devolution of urban service functions to selected municipalities;
iv. transfer of state (ejidal) lands and their management to the municipalities; and
v. increased municipal participation in the management of natural resources.

Working with the responsible Ministries and Agencies, a broad range of national level agenda items will be surveyed and the baseline status established for each one. Actions required to achieve the desired end of project status will be defined and next steps will be recommended. This survey will be the basis for a work plan to advance the dialogue on the agenda. The project will provide resources to carry out scopes of work embodied in the work plan.

Short term technical assistance may be used to support the DGAATM in the Ministry of Government in planning and implementing the formula based revenue sharing system as required. This system would assure more equitable and regular transfers to municipalities, and would facilitate the municipal planning and budgeting process. SECPLAN and DGAATM will also be key recipients of technical assistance related to the definition and publication of the new budgetary system to be used by the municipalities. While it is recognized that such transfers may dilute achievement of the GOH's fiscal deficit target, the anticipated benefits in terms of strengthening local democratic institutions and improved municipal operations are substantial and merit support.

With regard to devolution, the Project will concentrate on initiatives related to water and sanitation and roads. Project technical assistance will be used to support studies to determine the services and responsibilities to be transferred and the municipalities that will be receive them. Key participant institutions can include: SECPLAN, SANAA, SECOPT and selected municipalities. The National Agrarian Institute (INA) should be assisted to transfer ejidal lands and their management responsibilities to the municipalities. Technical assistance to the Ministry of Natural Resources (MNR) may similarly assist in identifying and promoting potential opportunities for increasing municipal participation in management of natural resources at the local level.

An institutional contractor will provide the technical assistance required to carry out the National Level Component. It is envisioned that one highly qualified resident specialist will carry out assignments in collaboration with assigned central government personnel. Upon agreement with the GOH on the specific steps, the work will be carried out in a three phase process: reconnaissance surveys and work plans; execution of specific studies using short-term contractor personnel or subcontracts with preapproved local firms; and sustained support to promote implementation of what has been planned.

i. Reconnaissance surveys will be conducted by a resident expert in collaboration with assigned GOH personnel and on topics/institutions mutually developed by the relevant ministry or agency and USAID. The survey will identify constraints to be addressed and establish a baseline for measurement, the institutions affected and will recommend areas for further studies, and/or actions.

ii. Execution of studies and technical assistance will be accomplished by the institutional contractor using short-term personnel and in collaboration with affected ministries or agencies.

iii. Sustained support envisions life of project availability of short term technical assistance to the ministries and agencies affected by reforms. Assistance would be used for such things as evaluating progress, taking additional actions,

2. Municipal Level Component

At the Municipal level project activities will extend to all 289 municipalities, albeit with varying levels of involvement. All municipalities will participate in orientation seminars on the Municipal Law and related legislation and regulations governing municipal roles. The 289 municipalities will also benefit from panel discussions on varying topics, and will be essential in national or regional municipal associations. Additional benefits will be received by the 104 urban municipalities who will also participate in courses on the promotion of community participation. The 32 municipalities with urban populations greater than 7,500 will participate in all of the above activities and will also receive a series of seminars, workshops and training courses on strategic municipal development planning, financial management, and municipal planning, programming and budgeting. The citizens of the fourteen municipalities identified in the Project Implementation Strategy section will be the primary beneficiaries of project activities and will receive "packages" of on-site technical assistance to address specific constraints in addition to full participation in all training events.

The Municipal Level Component will address constraints and impediments to municipal responsiveness to constituent needs in the effective delivery of basic services. This component will pursue an agenda which is closely linked with the interventions at the national level. However, at the municipal level, the Project will strengthen the capacity of municipalities to plan and implement programs for which the authority and responsibility will be devolved from the national level. The rationale for this complementary effort is to ensure that municipalities are capable of carrying out their own programs. If municipal capacities are not strengthened, devolution of authority and responsibility will not result in improved access to basic public services for the majority of urban populations. The level of service could in fact decrease as national level providers such as SANAA relinquish their authority, but are not replaced by competent municipal authority.

Two of the key areas addressed in this component, municipal management and finance and urban land, infrastructure and service provision, mirror initiatives at the national level. A third closely related area which is inherent in activities at the national level is further developed at the municipal level. This element focuses on constituent based decision making and is the theme of all project activities. The municipal component has a fourth element which addresses the need for municipal support systems to provide sustainable means for municipal interaction and cooperative efforts and to be a potential source

for technical assistance and training. The major contribution of municipal support systems will not be the discrete services which they may provide, but rather the forum that will be presented for municipalities to form a cohesive interest group which can petition for reform from the bottom up.

a) Approach for delivering assistance to selected municipalities

Fourteen municipalities were selected for full participation in the Project based on their populations and growth rates, financial capacity and regional role. Not all municipalities selected exhibit all characteristics. For example, municipalities in the East region which will participate fully in the project are Tocoa, Juticalpa and Catacamas all of which have a low level of municipal financial capacity. But each is a regional center of economic importance and will be a magnet for future growth. Conversely, in the North, Tela has not been selected for participation, due to its low population growth rate and diminishing economic status.

These municipalities will be centers for technical assistance and training activities. The approach for delivering this assistance is described below.

An assessment will be conducted in each municipality to define specific constraints and to reach agreement on measures to be undertaken. Three main streams of activity will be carried out: reconnaissance surveys; preparation of municipal policies, strategies and investment programs; and sustained support.

A brief Reconnaissance Survey will be carried out in target municipalities which will: review the current situation and broad areas of concern; identify the major opportunities which should be further analyzed and developed; and recommend appropriate activities to begin to address constraints. It will raise key questions requiring local government decision so that the dialogue around these issues and alternatives can be built into the negotiation of a Memorandum of Understanding (MOU) between AID and the municipality concerning work to be undertaken and the responsibilities and commitments of each party. The reconnaissance survey will be a quick but comprehensive review of the physical, social, economic, financial, administrative, and legislative aspects of all main streams of work.

The preparation of Municipal Policies, Strategies and Investment Programs will be based on the MOU and is a major stream of work which will be carried out in three stages. The urban analysis (Stage 1) will provide the basis for the identification of key issues and strategic plan formulation (Stage 2), and the preparation of an action plan and program (Stage 3).

Urban Analysis

The analysis will address economic, social, physical, financial and administrative issues such as: urban and regional economic trends and potentials; population and income growth characteristics and 10-year projections; review/inventory of existing urban infrastructure and services; identification of key infrastructure related to health, safety, economic efficiency and productivity; identification of target groups and their locations related to major environmental problems and infrastructure deficiencies; identification of

existing growth trends and land use requirements; identification of roles and functions of key national government agencies, patronatos, commercial interests and voluntary associations in the local decision-making process.

A review of past trends (5 years) in municipal finance will include such things as: central government transfers to the municipality; local revenues by source; project investment financing practices by various sources, and capital and recurrent expenditures; municipal debt obligations; existing tax sources; and new potential tax sources. A review of staffing and skill levels in key municipal departments and a review of performance (efficiency/productivity) will cover the existing municipal functions. The potential for improvement will be evaluated including: upgrading of existing staff capacity through training and technical assistance; new staffing requirements at minimum acceptable levels; opportunities for private sector support and increased community participation.

Strategic Plan Formulation

Strategic Plan formulation will be based on the data analysis and discussions carried out in each municipality during the urban analysis stage. Work will be focused on joint identification of the key priority issues facing each municipality, with respect to: urban land, service and other deficiencies facing municipal residents and businesses; municipal management and finance; the extent of citizen participation in municipal activities, (patronatos, private sector associations, etc.); and other municipality-specific areas of concern.

The key issues and problems identified for each municipality will be discussed with municipal officials, private sector leaders, patronatos, voluntary groups and all other interested parties at the municipal level. Based on the feedback received, the municipality with assistance from the technical assistance team will formulate affordable strategies to address at least the following: level and priority of services in existing compared to expansion areas of the municipality; alternative growth directions and generalized land use and development strategies with rough cost implications for each; expenditure balance between improved maintenance versus new capital investment; balance/priorities for capital investment requirements among key subsectors, together with a rough outline of a five year investment program; key actions needed to improve municipal revenues and municipal financial management; priority actions needed to improve constituent participation and to mobilize and effectively utilize private sector support in the local development process.

Action Plan and Program

Based on the analysis and discussions held during the first two stages, an action plan and program will be prepared by the municipality with participation of interested community groups. Relevant GOH agencies will be involved on an as-needed basis. This proposal would include:

i. A program of policies and actions required by the municipality to achieve a balanced financial system.

ii. A 3 to 5 year rolling investment program that can be financed within reasonable expectation of budget and credit constraints and implementation

capacity. This would provide the framework for annual budget preparatory work for each municipality and include justification of sectoral components and the identification of existing component work status and follow-up requirements.

iii. An action plan and program for the municipal administration will improve existing levels of capital infrastructure, maintenance and urban administration. This will include the identification of the organizational responsibilities and priority staffing required by the municipality. It will also identify mechanisms such as regularly scheduled town meetings, special community action councils, budget hearings and dissemination of public information to stimulate and strengthen the participation of the private and community sectors.

In general, the role of the technical assistance team should be to support the preparation by the local staff of a sectorally integrated urban investment program for each target municipality. While the work would include the preparation and elaboration of an action program, the preliminary and detailed engineering required to implement infrastructure projects would be outside the scope of this project.

Sustained support will be provided to individual municipalities based on their varying abilities to take responsibility for the various development and implementation tasks. The degree of assistance and involvement by technical advisors will be reviewed on an individual basis during the life of the project.

Tasks related to sustained support include:

- providing technical input and preparing manuals on the basic aspects of municipal analysis and planning for use by municipal staff and private institutions; and

- providing technical advise on national policy agenda items to municipal support groups.

b) Municipal Management and Finance

The objective of this subcomponent is to:

Increase municipal capacity to generate and administer revenues, including: assessing municipal revenues (existing and potential); developing municipal revenue augmentation programs; and investment planning, programming and budgeting (annual and medium-term).

Based on the Action Plan and MOU developed by AID and the participating municipality, specific actions to improve municipal management and financial administration will take place. These may include:

i) Municipal budgeting - the revision of plans and schedules for taxes and fees; the development of an investment plan which is coordinated with the

municipal development plan and builds financial analysis and forward planning skills. The Technical Analysis revealed that Choluteca, for example has a weak accounting and budgeting system, particularly in regard to expense controls which consequently limits the type of analysis and quality of decision making which is based on this information. In addition, the Choluteca municipal budget is developed by the internal auditor with inputs from the cadaster and accounting departments, but with little input from the technical providers of services or the community.

ii) Tax collection - In order to improve its revenue generations a municipality may review its tax collection system and implement an integrated program of specialized personnel, updated billing system and collection plan,and community promotion. Experience in San Pedro Sula and in Puerto Cortes has shown that both specialized personnel and community promotion are effective mechanisms in increasing tax collection.

iii) Approval of Plans - Municipalities need to develop effective action plans toward increased revenue. The lack of such plans is evident in the municipal operations of Juticalpa where total receipts have decreased at an annual rate of 1.4 percent in nominal terms due to an outdated cadaster, inefficient administration of funds and lack of proper controls. Municipalities may choose to review not only their tax collection systems but the cadastral base for that revenue. Puerto Cortes and Villa de San Antonio found that updating their cadasters was a sound investment and increased that source of potential municipal revenue by 486 percent and 332 percent respectively. Obviously a one time update of a municipal cadaster is not a long term solution, but rather a step toward a continuing system of analysis and investment which ensures municipal revenue generation. This Project will not dedicate specific resources to cadastral work, but will instead work with municipalities to develop sound management and planning systems. Municipalities participating fully in the Project may choose to access the Municipal Development Support Fund to carry out their own cadastral updates.

iv) Financial accountability - Closely related to increased revenue generation, and budgeting is the need for strengthened financial accountability on the part of the municipalities. As municipalities manage increased resource flows, either from central government transfers or from their own efforts, the controls which ensure sound use and provide for evaluation of these funds become an important aspect of the financial management system of a municipality. In Honduras, the Controller General of the Republic is responsible for auditing municipal operations. To the extent possible, interventions in this area will be coordinated with and channelled through the ongoing Assistance to the Controller General Project.

The Project resources for improving municipal management and finance will fund technical assistance in 14 municipalities and training events for the 32 municipalities with urban populations of greater than 7,500. The training will include:

Municipal Financial Management Courses - targeted on improving the capacity of municipal officials and staff to generate and administer revenues; including revenue and expenditure analysis, policy and strategy formulation, actualization and modernization of cadaster and tax systems, and municipal planning and budgeting.

5 courses of 1-2 weeks duration will be held.

Annual Planning, Programming and Budgeting Courses - based on the new Municipal System and Procedures for Annual Planning, Programming and Budgeting envisioned as a result of efforts at the national level, these courses would explain and prepare responsible municipal level officials and staff to utilize the same.

5 courses of 1-2 weeks duration will be held.

c) Urban Land, Infrastructure and Service Provision

The objectives of this subcomponent are to:

i) identify and implement strategies to improve the delivery of public services, including the planning, programming and packaging of annual investments;

ii) improve urban land use planning and development policies, systems and procedures.

The accomplishment of these objectives will have a significant impact on citizens living in target municipalities. As such, this subcomponent is essential to put into effect the changes in practice and regulation which are part of the national level agenda. The effective incorporation of citizen participation through public hearings and town meetings in determining service delivery choices will be an important ingredient in the execution of these activities. Areas to be addressed include: i) planning for municipal development, ii) legislation, regulation and control, and iii) the provision of basic services.

i) Planning for Municipal Development - This is an integrated process which will be new to many participating municipalities, and will strive to develop an overall strategy for growth and for carrying out municipal functions. This activity corresponds to the Strategic Plan Formulation phase of the implementation approach discussed above for the municipal component, but is the application of that strategy with actual municipal operations.

Specific activities will concentrate on economic development and urban development plans which include participation of community leaders, promotion and feedback from the community on proposed strategies. Specific regulations and operating needs such as personnel and equipment will be included in the plans for municipal discussion. The Technical Analysis shows that lines of authority and responsibility within municipalities are

often blurred or completely reliant on the mayor. Municipal Development strategies should examine and define the functions of each area of municipal government.

ii) Legislation, Regulation and Control- As a result of the Municipal Development planning process, municipalities should be ready to move into plans and schedules for taxes and fees, the passage of ordinances to guide and control municipal actions, and the creation of decentralized enterprises and units where applicable. Actions in this area are intertwined with other project activities which seek to devolve tax rate setting authority to municipalities. Municipalities are likely to need economic and legal advice in the development of governance mechanisms as well as financial skills to analyze the potential impact of taxes and fees.

iii) Provision of basic services - Once municipalities have strategies for development which incorporate community participation, and have designed pertinent governance mechanisms, the actual provision of key services should flow from the direction of these processes. At present the provision of services is limited and of poor quality. In Choluteca, only 15 percent of households have sewerage coverage and solid waste collection is provided for 60 percent of the municipality, but the disposal facilities cannot accommodate this capacity. Assuming a strategy is accepted, the municipality can proceed with the identification of needs, based on its own analysis and on information solicited from the citizenry, subproject formulation, the execution of specific studies, a detailed plan for service delivery,and promotion of the financial resources required to carry out the project. Related municipal functions carried out in conjunction with the activity may include affordability studies, a promotion plan, billing system and collection of revenues.

Individual strategies and Action Plans will be developed with each participating municipality, and will be tailored to the needs of that community. The Project will provide technical assistance, training and financial resources to assist in the provision of basic services. As described in the overview section, MOUs with each municipality will govern the specific collaborative actions undertaken. Key training activities related to the area of urban land, infrastructure and service provision will be:

Strategic Municipal Development Planning Courses - directed at improving municipal policy, institutional and management capacities through strategy and administrative systems development and training for local policy makers and senior administrators.

6 courses of 3-5 days duration will be implemented.

Project Identification, Preparation and Implementation Courses - are targeted on improving the capacity of municipalities to formulate and execute priority urban development projects in conjunction with the private sector. Community promotion and participation, cost recovery systems, and private sector contracting are among the key issues to be addressed.

2 courses of one week duration would be implemented.

Similar to activities under the Municipal Management and Finance subcomponent, the technical assistance will be carried out directly with 14 key municipalities, while the training events will reach an audience of 32 municipalities which have urban populations of greater than 7,500. The degree of assistance and involvement by technical advisors in a given municipality will be reviewed on an individual basis during the life of the project.

d) Constituent Based Decision Making

The specific objective of this subcomponent is to maximize the effective participation of local citizens in the formulation and execution of policies, plans and programs.

The need for constituent based decision making is addressed throughout the Project. Efforts at the national level to devolve authority to municipalities and ensure greater local control over municipal budgeting and investment are related to this fundamental objective as are the participative processes used to develop municipal strategies and service delivery choices. However, specific attention is needed to further promote the concept of effective citizen participation.

Municipalities are currently seen as unresponsive to citizen needs and must work to overcome this perception. The Social Soundness Analysis found that municipalities are rarely identified as major sources of support for community improvement projects. Citizens must be brought into the influence channel and have an opportunity to express their needs.

The project will work directly with municipal officials to increase their consciousness as to the value of citizen input and feedback and to help them define mechanisms in their municipal operations to incorporate increased citizen participation. Depending on the specific municipality and the assessment of needs, the actions may range from town meetings and budget hearings to specific interaction with a council of patronatos, to discussions with the local chamber of commerce. Dissemination of information related to municipal processes and decisions is also essential to community involvement and will be stressed with key municipal officials.

In addition to sensitizing municipal officials to their responsibility to respond to citizen input, the Project will work directly with community leaders, patronatos and other organized groups to ensure that they are integrated into the process and to increase their awareness of the potential for influencing municipal decisions. The development of Action Plans, and investment strategies will require community involvement, and these groups will be encouraged to express their needs and expectations to provide a more complete information base for municipal and community decisions.

The Project will sponsor Promotion of Community Participation Courses targeted on community leaders and municipal officials. The courses will help educate citizens as to their rights and duties vis-a-vis local governments and will be directed to the identification and analysis of opportunities for promoting the

effective and efficient participation of patronatos and other special purpose organizations in municipal activities. The development of an ongoing community dialogue which solicits information from citizens and municipal officials will be an invaluable tool in sustaining the participation of the community. This course will include techniques for community dialogue, promotion, and leadership training. 15 courses of 3-5 days duration will reach 2,000 municipal officials and community leaders in the 104 urban municipalities.

e) Municipal Support Systems

Closely related to the need for community based decision making is the need for municipal support systems. Municipalities currently have no formal channels for exchange of information, concerns and achievements. Each operates independently of the others and finds it difficult if not impossible to gain from other municipal experiences. As described in the Constraints section, mutual self-help opportunities are currently restricted by law, and national level institutions charged with providing assistance have not been able to deliver consistently.

The objective of this subcomponent will be to foster the development of regional or national municipal associations which provide intermunicipal coordination and provide a forum for the exchange of information and formulation of agendas for national action. Due to the need for genuine municipal participation, as well as financial and time constraints, the Project will not devote substantial resources to the institutional development of an organization. Rather, it will seek opportunities with existing regional or incipient organizations which adhere to the same objectives. The achievement of the outputs for this subcomponent will be almost exclusively dependent on municipal initiative and willingness to promote and support a mutual assistance organization. This approach was chosen to ensure that the perceived need and support for such organizations are generated by municipalities themselves, and not by a technical assistance provider. It is anticipated that an organization established by and for municipalities is more likely to respond to their needs and to be sustainable in the longer term. The existence of the Municipal Association of Cortés indicates that municipalities support the concept of mutual assistance. This Association currently plays a role in the North in promoting regional concerns and is likely to be an active project participant. The Project will seek other existing or nascent regional or national organizations which may also be interested in promoting mutual support systems.

Limited technical assistance will be available to help structure organizations or provide expertise in areas such as:

i. Policy and Strategy Analysis and Planning

Associations could serve as activists in the following related activities:

a. monitoring and evaluating national decentralization policy, strategy and systems development.

b. analysis, formulation and execution of policies, strategies and programs for intra-municipal cooperation and support.

ii. Policy Dialogue and Consensus Building

The various associations may serve as initial catalysts for efforts to establish a greater understanding of decentralization issues and other issues affecting municipal-local development, through three types of activities:

a. seminars, conferences and publications to increase municipal participation in and understanding of policy and procedural developments which affect central-local government relationships and citizen and municipal participation in local development activities, and establish a more open and systematic dialogue among national and municipal authorities;

b. advancing intragovernmental relations through policy dialogues and lobbying efforts directed at the executive and legislative arms of government; and

c. public relations and education efforts to increase public understanding of the importance of decentralization and democratization efforts to national development.

iii. Strengthening of Municipal Support Systems

Associations could assist in the formulation and implementation of policies, strategies and plans to stimulate, encourage and facilitate citizen participation, intramunicipal support, and local public/private sector partnerships in local development activities.

Project sponsored training events which will be open to all 289 municipalities and will contribute to increase municipal support systems include:

Panel Discussions which will serve to brief municipal officials and others on municipal reform and to solicit and organize their effective participation in the process of formulating and executing related policy, institutional and management reforms required to meet both immediate and longer-term decentralization and democratization objectives.

12 courses of 1-3 days duration will be implemented.

Orientation Courses are aimed at senior officials and policy makers at the municipal and national levels and will serve to orient participants on the existing legal and regulatory structure governing municipal actions and to analyze the legal, institutional and management structure required for effective decentralization and municipal development, as well as respective local and national roles and responsibilities.

10 courses of 2 days duration will be implemented.

A corollary output of other project activities will be the establishment of a sustainable mechanism to provide research, training and technical assistance to municipalities. The lack of consistent technical assistance and training necessitates a sustainable mechanism; however, the essential element for this type of entity is broad based municipal support. The Project will not provide substantial institutional support resources to establish such an organization. Rather the Project will provide the raw materials and attempt to promote municipal support for this type of activity.

The Project will develop training materials for the 5 skills building events to be carried out, and train a basic cadre of 40 Honduran trainers. These individuals will not be full time employees of a training group or institution. Rather, it is anticipated that they will be municipal officials who may be "on call" to deliver future training events, thus helping to ensure the sustainability of the training operation. In addition, the technical assistance activities will be carried out by joint expatriate/Honduran teams and will help contribute to the pool of local technical assistance providers. It is anticipated that a municipal association, nonprofit organization, or private sector firm could use these materials and personnel to continue providing technical assistance and training on a long term sustainable basis.

f) Municipal Development Support Fund -

In addition to the technical assistance and training courses, the Project will provide resources for Municipal Development Support Fund. The local currency equivalent of US$15.0 million will create a Municipal Development Support Fund to be tapped by those 14 municipalities receiving intensive technical assistance.

As described in the Constraints section, there is no effective domestic capital financing system for municipalities in Honduras. Occasionally commercial banks make short term (3 to 6 months) pro-bono loans to the larger intermediate municipalities and to Tegucigalpa and San Pedro Sula to cover municipal payrolls. The institution charged with providing municipal financing, BANMA, is technically bankrupt and does not operate in support of local initiatives. With a few notable exceptions, the low level of administrative efficiency and the mediocre revenue bases have combined to make municipalities poor credit risks, reducing further their ability to leverage resources and provide services to their constituents.

The need for the Municipal Development Support Fund is based in part on the current practices of lenders which restrict municipal access to investment resources. Commercial lenders have indicated that the precarious financial position of municipalities, which is characterized by high debt service, uncertain central government transfers and limited capacity to manage fiscal resources, makes municipalities a poor credit risk. One lender indicated that the pattern of personnel turnover at the municipal level which occurs with each national election reduces his assessment of municipal willingness to meet obligations.

At the same time, lenders indicated that their limited experience with intermediate cities was more favorable than similar dealings with Tegucigalpa.

These bankers indicated that although the current obligations of municipalities would deter lending which would depend on existing income sources, they would be willing to discuss loans for specific activities which would be self-financing. In addition to the financial viability of the proposed activity, an important factor in banker propensity to lend is the involvement of the ultimate beneficiary. The same lender who indicated a reluctance to loan to municipalities for longer than one administration because of the wholesale changes which occur in a political environment, said that written evidence of beneficiary willingness to pay for the service would significantly strengthen the prospect for the loan. Along with the weak municipal ability to service debt, lenders discussed the relatively low priority of municipalities as clients in competing for scarce resources. Credit restrictions and high reserve requirements were mentioned as factors which continue to limit the ability of financial institutions to expand service to municipalities.

A demand analysis, derived from Attachment I to the Technical Analysis (Annex F) indicates that the three representative municipalities, Choluteca, Juticalpa, and Choloma would require the local currency equivalent of $52.1 million to meet their needs for water, sewage, road construction and maintenance, and garbage collection. Extrapolating from this analysis, the demand from the twelve intermediate cities anticipated to participate in the Project would total $194.4 million. The proposed $15.0 million in local currency equivalent will be sufficient to fund demonstration projects in the municipalities, but is not intended to fill the total demand. Because all subprojects must be self financing to qualify for funding, no additional burden will be placed on existing municipal finances.

Technical assistance and training provided under the Project will be targeted to achieve sustainable improvements in municipal revenue generation, financial management, and development of appropriate projects which would require financing. These improvements will build the municipal financial capacity and credit worthiness which are required to eventually enable municipal governments to borrow from the private finance system to finance services. Confidence building in the local government and the banking community will take time, and initial lending operations will require special incentives and credible guarantees.

Therefore, support to the municipalities targeted for intensive technical assistance will be provided for the purpose of leveraging improved municipal performance and financing priority investments, with the participation of private financial institutions as a way to establish a track record. Based on the success of these initiatives private sector financial institutions will be encouraged to lend directly to municipalities.

Objectives of the MDSF:

- To stimulate and support increases in municipal revenue generation and improvements in financial management;

- To encourage municipal governments to focus on basic needs, equity and efficiency in urban development and on improvements to local revenue generating enterprises;

- To stimulate municipal governments to plan, prepare and implement integrated urban development programs incorporating central and local government funds into multi-year budgets;

- To test and evaluate mechanisms for mobilizing international and national/local finance for municipal development on a sustainable basis.

The procedures governing resources of the Municipal Development Support Fund will be similar to the ones being implemented in the San Pedro Sula Urban Development Program supported by HG-008. The basic premise of the fund is that the Municipality will receive funds based on an investment program approved by the municipality in consultation with the citizenry.

The current situation with regard to lender willingness, liquidity constraints, and financial sector structure has been discussed above. These impediments form part of the rationale for the MDSF. However, the Fund will not become operational until Year 3 of the Project, by which time major reforms in the financial sector may have taken place, thus reducing the need for a directed line of credit. In order to avoid unnecessary distortions of the financial market, the need for the Fund will be reviewed prior to its initiation. The Project Agreement will contain a condition to this effect. The review will be based on an updated analysis of progress toward financial sector reforms and macroeconomic policy considerations. In addition, once initiated the Fund will be subject to annual reviews of its consistency with project objectives and agency policy.

i. Eligible Municipalities:

MDSF resources would be used exclusively to reinforce the project policy and institutional development agenda in each target municipality with MDSF loans conditioned on achievement of USAID/Municipality MOU objectives and agreements.

ii. Eligible Activities:

MDSF would finance:

- Eligible bankable infrastructure and urban services projects to be constructed by the private sector, including: water and sanitation; solid waste collection and disposal; road construction and maintenance; and, building construction.

- Eligible bankable municipal efforts with a direct effect of increasing municipal revenue such as updating the municipal cadaster.

iii. Basic Operating Procedures

A primary purpose of the MDSF is to leverage improvements in municipal financial capacity and credit worthiness and to increase municipal access to private sector credit for local development activities. To achieve this objective, municipalities will work directly with Private Financial Institutions (PFIs) to leverage private resources and to establish a relationship for future operations.

All capital projects would need to demonstrate their financial viability on terms of full recovery of capital, operating and maintenance costs, perhaps with central government transfers put up as credit guaranty against municipal loans.

AID and the MHCP will establish basic guidelines and operating procedures. However, to avoid disruption in their lending programs, the PFIs will establish both the terms and interest rates for the municipalities within the broad MDSF criteria. Approval of loan operations would be the responsibility of individual participating PFIs. Repayment risk, associated with municipal loans, would be further reduced by encouraging local governments to use transfers to guaranty loan repayment.

iv. Programming of Funds

AID and the MHCP will jointly program the local currency equivalent of $15.0 million. Programming may take place over the life of the Project, but the majority will be requested in FY 91, 92 and 93 in order to have funds available for disbursement when municipalities become eligible in FY 92. Once funds have been programmed they will be deposited in a special bank account in the Central Bank for the MDSF.

As discussed in the Background section, San Pedro Sula and Tegucigalpa represent 49.7 percent of total urban population, but the project will work with these municipalities only on a limited basis, providing technical assistance and training opportunities in a few key areas. Similarly, Municipal Development Support Fund resources for these primary cities will be limited to a maximum of 30 percent (local currency equivalent of $4.5 million). The remaining 70 percent will be available for the intermediate cities participating in the project. In order to ensure that resources remain available for municipalities which are brought into the project during the second phase, which begins in year 3, 30 percent of the funds available for intermediate cities will remain uncommitted until these municipalities become eligible to borrow from the MDSF.

v. Municipal Application Development

Municipalities will be participating in Project activities to improve their managerial and executing capacities. As discussed above, a series of MOUs will be developed with each municipality to define expectations and responsibilities. An area to be covered in these MOUs will focus on municipal investments and the process used to determine investment priorities.

Based on the MOU, a municipality will review its options for investment by carrying out financial feasibility, environmental soundness and community need analyses. The evaluation process will also determine the potential for private sector involvement in the execution of the proposed activity. Based on the results of these evaluations the municipality will prioritize its investment needs.

vi. Role of Private Financial Institution

The municipality will then invite proposals for financing from private financial institutions (PFI). Municipalities will borrow directly from the PFI, at market rates. Proposals will outline the terms of the financing arrangement, including additional funds which the PFI shall invest in the activity.

The PFI will review the proposed activity and from its own analysis will propose a financing arrangement including counterpart financing, interest rate, and administrative charges. The municipality will review all proposals received and based on the offer most advantageous to the municipality will negotiate final terms and conditions with a PFI. Using the funds from the credit line at the Central Bank and its own specified investment, the PFI will manage the funds on behalf of the municipality. The municipality will contract with private sector firms to carry out the infrastructure work where possible, or with specialized agencies where necessary. The PFI will collect the income related to the service being financed (i.e. service fees, betterment tax receipts, property tax receipts, etc.) and will make the municipal loan payment directly to the MDSF account at the Central Bank.

Incentives for PFI participation are:

- Fee income from management of resources;
- Liquidity improvement from access to municipal funds until disbursed;
- Cash management gains from direct handling of taxes, fees, etc.;
- Reduced risk in municipal lending.

Municipalities will accrue the following benefits:

- Improved capacity to manage financial operations;
- Increased access to investment capital through PFI leveraging;
- Increased provision of service;
- Establishment of improved credit history.

vii. Loan Terms

It is anticipated that PFIs will offer different terms depending on the type of operation being proposed. The following table provides examples of the types of operations which could be financed.

Activity	Borrower	Collateral	PFI Counterpart (percent of total financial costs)
Solid Waste/ Collection and Disposal	Municipality	GOH Transfers	40
Water and Sanitation	Municipality	Service Fees	40
Cadastral Update	Municipality	Property Tax Receipts	20

In accordance with AID's Financial Markets Policy, the rate of interest charged to the PFI by the BCH will be at least equal to the cost of local nonconcessional sources of capital. Loans to municipalities will be on market terms. In addition, the municipality would be required to provide a minimum counterpart of 15 percent of the total cost of the activity from its investment resources exclusive of MDSF resources. AID will not approve disbursements from the account at the Central Bank, although periodic evaluations may review this account, and the end uses of funds.

viii. Termination of Fund

The MDSF will be a one cycle fund such that repayments to the Fund will not be recycled for other municipal investment. PFIs will access the Fund for an aggregate of the local currency equivalent of $15.0 million; leverage these resources with additional funds; and undertake loans to municipalities. Municipalities will repay the PFIs who will in turn repay the Central Bank. At this point the funds will not return to the ESF local currency Special Account, but will be sterilized. Thus the MDSF is a one time bridge for municipalities and not a permanent source of special financing.

VII. IMPLEMENTATION PLAN

A. Implementation Schedule

1. Project Documentation

The target date for Project Authorization is June 1990. The Project Agreement will be negotiated with the GOH Ministry of Finance and Public Credit. No major negotiating issues are contemplated and it is believed that the Project Agreement also could be signed in June 1990. Recruitment of contract personnel for this project will be a major undertaking. RHUDO expects to have draft scopes of work for proposed training, technical assistance institutional contractors and PSCs concurrent with project authorization. Initial technical assistance personnel and PSCs would be on board in the first quarter of FY 91 and the training contractor during the third quarter of FY 91.

2. Skills Building

This assistance will be delivered by an institutional contractor to be selected through customary AID Contracting procedures.

The contractor will carry out 55 training events to train approximately 2,040 local and national officials and practitioners and leaders of significant constituent groups. In addition, the contractor will be responsible for developing curriculum materials for the five highest priority skills development areas: Community Participation; Municipal Development Planning; Municipal Financial Management; Annual Planning and Budgeting; Project Preparation and Management. In addition the contractor will develop a cadre of 40 trainers capable of presenting this material after the project terminates.

a) Skills Building Events

Training events are designed to respond to agenda concerns at the municipal level and will be targeted to local practitioners and constituent groups although some national level practitioners might well participate. Orientation Seminars and Panel Discussions are planned to keep officials, practitioners, and constituent groups informed of progress in meeting agenda objectives.

Skills building activities can dramatically expand the coverage of Municipalities under the program. All 289 municipalities should benefit from orientation seminars on the Municipal Law and related legislation and regulations governing municipal roles, functions and responsibilities. The 104 urban municipalities (population of over 2,000 inhabitants) should also receive the training courses on the promotion of community participation. The 32 municipalities with populations of over 7,500 would receive panel discussions, orientation seminars, courses on the promotion of community participation and should also benefit from a series of seminars, workshops and training courses on: 1) strategic municipal

development planning; 2) municipal financial management; and 3) municipal planning, programming and budgeting.

Each of these courses should be tailored to the specific needs of different sized cities, as follows:

Primary Cities:	greater than 100,000
Intermediate Cities I:	30,000 - 100,000 inhabitants
Intermediate Cities II:	15,000 - 30,000 inhabitants
Small Towns:	7,500 - 15,000 inhabitants

b) Skills Building Capacity

The Contractor will prepare manuals and guides containing training curriculum/materials, guidelines, training aids, and evaluation criteria for each priority core training seminar/course in a form suitable for future use and adaptation.

Training packages for each training course will be designed to be used nationwide to meet the immediate training requirements of municipalities of varying sizes and capabilities.

The Contractor will prepare a medium to long-term strategy and functional plan for the implementation of research, training and technical assistance to support municipal development at sustainable levels. Work will be coordinated with other project components and be done in close association with participating municipalities and municipal associations as they develop. Policy, institutional, management, and financial requirements related to curriculum and training materials production and development will be addressed.

The Contractor will recruit and train a basic cadre of 40 Honduran trainers, who will be municipal officials and will be used on a part time basis during the life of the project.

The Contractor will be expected to pursue the activities described below.

i. A reconnaissance survey will be undertaken immediately on the start-up of work. The survey will identify priority actions needed to improve constituent participation and key grass roots associations involved in local decision making as well as review project objectives, municipal status and experience and ascertain the basic training issues and broad alternatives of concern. The survey will identify the major opportunities which should be developed during the work and will raise the key questions requiring local/municipal and central government decision so that the dialogue around these issues and alternatives can start early for feedback into the work at appropriate times.

   Based on the reconnaissance survey, a comprehensive work program will be established. The work program will explicitly identify and integrate the tasks required to produce project training seminar/course outputs. It will define the processes and activities required to ensure sustainability of

municipal development training. It will describe how all staff (counterparts, local and international consultants) will be introduced to the approaches and methodologies to be used. It will show how participating municipalities, the consultant and government staff are integrated into task force teams with assigned responsibilities and schedules.

ii. Curriculum and training materials development activities will be focused on the development of the content of priority course materials and the preparation of training manuals and guidelines for future use. These systems will support not only curriculum development, but other aspects of the training process, including; information/library systems, research, course monitoring and evaluation etc.

The curriculum and training materials development process will include:

- planning with municipal counterparts priority target audiences to be trained;
- development of a medium term strategic framework related to priority courses and target groups;
- monitoring of course implementation to assess the success of the materials in the classroom or in a field training environment;
- evaluation of the impact of a course on trainees and on the work of their institutions after the course is completed; and
- periodic adjustments to course materials based on changing circumstances and the results of monitoring and evaluation.

In addition, the Contractor will be responsible for identifying municipal training needs which cannot be provided in-country by the project in a timely manner and will recommend relevant participant training and on-the-job training in third-countries or the United States to meet such needs. Potential areas include municipal management, personnel management and internal staff development programs, management of urban services, etc.

<u>Proposed Schedule</u>

Authorization	June 1990
PROAG Signed	June 1990
Conditions Precedent met	July 1990
PIO/T Approved	July 1990
RFP Issued	September 1990
Proposals received	November 1990
Technical review completed	December 1990
Cost Negotiations Completed and Contract Signed	February 1990
Chief of Party on board	April 1991

Reconnaissance Survey completed and work program accepted by USAID	July 1991
First Training Activities	October 1991

The contract will provide for staged inputs by the contractor over the life of the project. Heavy involvement of two resident training specialists is envisioned during the initial 3-4 year period while training systems and curricula are being developed and the local cadre of trainers is selected and trained. Training contractor inputs during the last 2-3 years would be intermittent as required to surveil performance of systems, adjust systems or designs, or to develop additional curricula.

3. National and Local Level Technical Assistance

This assistance will be delivered by the International City Managers' Association (ICMA) through a "buy-in" to its current centrally funded AID contract. A technical assistance team of three urban specialists is envisioned to effectively carry out reconnaissance work and the three stage municipal assessment. This team would be supported by local and expatriate short-term specialists as well as sub-contracts with preapproved local firms.

The technical assistance team will also provide technical inputs and prepare manuals on the basic aspects of municipal analysis and planning for use by the contractor responsible for the development of training program curriculum/materials. The team will also provide inputs and advise on national policy agenda and systems and procedures development.

On-the-job training of local staff and discussion workshops with preparation teams in other cities will form part of the technical assistance work program. Transferring the concept of increasing citizen participation throughout municipal decision making will be a principal theme of the technical assistance in addition to the specific skill area. A six year contract is envisioned with intense input at the national level by one highly qualified senior resident advisor during the first 3 years while programs are being put in place to address national level agenda items. At the municipal level it is estimated that the Contractor will initiate reconnaissance surveys simultaneously in clusters of cities (stage 1 cities in Cortés for instance) and that MOUs for this group would be in place by mid CY 92. Thus all action plans and programs under the project should be underway by mid CY 93 (last Quarter FY 93). This six year contract would be staged to provide for the team of two highly qualified expatriate analysts at the municipal level and the senior advisor at the national level during the first 3 years of the project while action programs are being developed. In addition, ICMA would subcontract with a local technical assistance firm to provide four Honduran professionals who would remain throughout the six year contract to oversee action plan implementation and to respond to short term technical assistance needs. Some additional short term technical assistance may be needed in specialized fields.

In the event that the current ICMA contract is not extended in 1993, technical assistance would be arranged through personal service contracts for the long

term expatriate personnel, and by a local institutional contractor for in-country long and short term personnel. Short term expatriate technical assistance would be procured through a combination of IQCs and purchase orders. Project implementation would be delayed due to the additional time required for multiple contracting actions, but at that point, the emphasis will be on Honduran professionals providing technical assistance, and a separate multiyear contract with a local firm could be used.

Proposed Schedule

Authorization	June 1990
Conditi ns Precedent met	July 1990
PIO/T Approved	July 1990
Cost Negotiations Completed and contract signed between AID/W and Contractor	September 1990
Chief of Party, National TA on board	November 1990
Municipal TA Personnel (3) on board	January 1990
National and first Municipal Reconnaissance Surveys completed and MOU's between a Municipality and USAID and National level institution and USAID agreed	May 1991
Short list of local subcontractors approved by USAID	March 1991
First municipal assessment underway by joint municipality/contractor team	May through July 1991
First action plan and program concurred-in by Municipality, other required GOH agencies and USAID	August 1991

4. Municipal Development Support Fund (MDSF)

For the MDSF to be operational by project year three, detailed financial and administrative procedures will need to be established. Although each operation will be handled separately, the central mechanism for programming, disbursing, and repayment can be established with the MHCP and BCH.

Proposed Schedule

Initial discussions with MHCP and BCH	May 1990
Project Agreement Signed	June 1990
Financial/Administration Procedures Drafted	July 1990
USAID/GOH Agreement on Procedure	Sept 1990
MDSF established	October 1990

B. Administrative and Monitoring Plan

1. AID Responsibilities

USAID will manage the procurement of the training institutional contractor and will process a PIO/T to buy into the ICMA Contract for technical assistance activities.

Day to day administration of contractors will be the responsibility of one USDH to be located in the RHUDO office and under supervision of the Deputy Director/RHUDO. This officer will be assisted by two PSCs, one to be located in the offices of the municipal level technical assistance contractor in San Pedro Sula, and the other in the office of the national level technical assistance contractor in Tegucigalpa. This puts the first level of USAID surveillance and liaison on the "front line" so to speak. It is anticipated that most of the project related paperwcrk would be generated at these levels so that administrative loads at RHUDO and USAID due to project activities will be minimized. However, USAID will be involved in policy issues, concurrence with survey results and work plans and programs. In addition USAID will instigate and administer periodic evaluation: of the activity.

For project activities at the national level, AID will have direct relationships with ministries and autonomous agencies which present targets of opportunity to alleviate constraints to municipal responsiveness to citizen needs. Such institutions may include SANAA, SECPLAN, INA, Ministry of Natural Resources, Ministry of Government, ENEE, SECOPT.

2. Honduran Responsibilities

The Ministry of Finance will be the counterpart agency for the national level component. MHCP is not a technical body and will only operate as a financial counterpart with regard to overall project budgets and resources for the MDSF.

The 14 key municipalities will be the counterparts for activities carried out under the Municipal Component. As described above, MOUs will be established with each municipality to determine respective responsibilities for implementation of project activities in that municipality. In addition,

municipal associations such as the Municipal Association of Cortés may be project counterparts to assist in the development of municipal support systems.

a) Ministry of Hacienda (MHCP)

The Ministry of Finance and Public Credit (MHCP) will execute the Project Agreement on behalf of the GOH, and function as an official representative of the government for activities carried out under the national component. Requests for specific technical assistance, studies or training at the national level would be channeled through the MHCP. It is anticipated that all requests would be countersigned by the requesting agency or Ministry to ensure adequate project coordination. MHCP will also be the counterpart for programming local currency for MDSF.

b) Presidential Commission on Municipal Development

This new commission with representation of Ministries of Finance, Government and the Planning Secretariat is charged with coordinating GOH municipal development efforts set forth in the 1990-94 Government Plan. USAID will maintain contact with the Commission and will keep it informed on contractors' work plans for training and technical assistance efforts. It may also be asked to participate in reviews of municipal surveys and proposed work programs, and to facilitate cooperation with and between GOH agencies involved in carrying out work programs. A MOU between AID and the Commission will be developed which outlines specific roles and responsibilities.

c) Municipalities

The fourteen municipalities targeted for direct project activities will be the primary counterparts for project activities. A series of MOUs will be established between AID and each municipality which will detail the respective responsibilities of each person. Assistance to municipalities will be phased and continued assistance will be conditioned upon performance on agreed upon measures such as increased revenue collection, increased community involvement. Participation in project sponsored specialized skills building events such as municipal budgeting, project identification and planning will be included in the MOUs. Qualifications for access to the MDSF resources will also be covered in the MOUs and municipalities must meet certain criteria to become eligible.

d) Regional National Municipal Support Organizations

Existing organizations such as the Municipal Association of Cortés will be invited to participate in relevant project sponsored skills building events. If organizations review their internal goals and identify a specific need, project financed technical assistance may be available to assist with expert advice. Separate MOUs will be developed with each organization wishing to participate and will outline expectations in the policy related areas detailed in the Project Description.

e) Private Financial Institutions

The resources available for Municipal Development Support Fund will be deposited with private financial institutions (PFI). Each operation will leverage additional funds from the PFI, the amount of which will vary by project activity. PFIs will negotiate directly with municipalities, but will follow basic procedures and guidelines established jointly by USAID/MHCP & the BCH.

f) Community groups

The active involvement of community groups, such as civic clubs, patronatos and local nonprofit organizations is essential to the success of the project. Key leaders in such groups in the 104 urban municipalities will be invited to participate in the training events on Community Participation, and in the fourteen municipalities which participate fully in the project, it is anticipated that community groups will be active players in municipal dialogues.

C. Procurement Plan

1. Skills Building

This assistance will be delivered by an institutional contractor selected through customary AID contracting procedures. RHUDO will prepare the Scope of Work before Project Authorization in June 1990 and an RFP will be issued by the USAID Contracting Officer in September. Proposals will be received in November 1990 and technical review will be conducted by a USAID Committee chaired by Deputy Director/RHUDO. Cost negotiations by the USAID Contracting Officer should be completed and a contract signed by February 1991. It is proposed to make the contractor responsible for its own logistic support including local transportation.

2. National and Local Level Technical Assistance

It is proposed to deliver this assistance initially through a single institutional contractor, the International City Managers Association (ICMA) buying into its existing contract with AID. RHUDO, will prepare the scope of work by the time the project is authorized in June 1990 and the PIO/T will go forward as soon as the PROAG is signed and Conditions Precedent met. It is envisioned that one contract employee will be posted in Tegucigalpa along with a team of three in San Pedro Sula and that subtasks under the contract would be performed by short-term contractor personnel or by local sub-contracting with preapproved firms. The AID/W Contracts office will negotiate the proposal, and a contract is anticipated by September 1990. It is proposed that the procurement make the institutional contractor (ICMA) responsible for its own logistic support, including local transportation and office space.

3. Personal Services Contractors

Scopes of work and PIO/Ts will be prepared so that, on the basis of advertisement and expressions of interest, the USAID Contracting Officer can proceed to negotiate contracts with selected candidates as soon as the PROAG is signed. The PSCs will be heavily involved in the day to day management and technical assistance activities.

4. Commodities and Local Hire Personnel

Office furnishings and equipment, including computers will be purchased directly by USAID with project funding to service PSC personnel assigned to Tegucigalpa and San Pedro Sula.

The project agreement will provide for local costs for office supplies and vehicle maintenance and support personnel for the PSCs (clerical and chauffeur).

It is intended that the institutional contractors provide their own commodities under their contracts.

D. Data Collection, Monitoring and Evaluation Plan

The Municipal Development Project will be a new initiative in the field of strengthening democratic institutions for USAID/Honduras. As such, it will be essential to maintain adequate measures of progress toward project objectives at the national and municipal levels and in the "hard" areas of service delivery and the "soft" area of increased citizen participation. The Information System for the Project will address this need and will incorporate municipal officials, decision-makers, community groups as well as national level agencies and ministries in the information gathering and analysis process. A framework for data collection, monitoring and evaluation is presented below. Annex G suggests information to be included in quarterly and semiannual reports.

Users of the Information: Information will be generated at both municipal and national levels, and primary users will be in three groups as follows:

Municipal Level:

- Municipal authorities
- Local organizations
- Municipal Associations
- Community leaders
- PVOs (local and international)

National Level:

- Presidential Commission
- MNR
- MHCP
- Heads of Agencies (SANAA, ENEE,INA,etc.)
- Congressional leaders
- SECPLAN

USAID:

- RHUDO Project Officer
- Other Offices

USAID will be responsible for maintaining the Information System, and for making changes to the system required to incorporate each municipality. In addition, the Information System will be reviewed regularly by Project Management and during evaluations to make adjustments necessary and to allow provision of information to address changes in project design or implementation strategy.

Institutional Locus: One objective of this Project is to increase the flow of information between municipalities and their citizenry and between the central and municipal government entities. In addition, increased access to information is expected to help municipalities better assess, plan and carry out programs which respond to community needs. In accordance with these objectives, participating municipalities and affected national level agencies will help gather and analyze information related to project implementation and achievements. Information will be used by these groups as a management tool, and the project will work to integrate such analysis into everyday municipal practices. The Information System will be coordinated and housed in the Project Management Units in Tegucigalpa and San Pedro Sula. The Tegucigalpa Unit will have primary responsibility for information needs and collection at the national level and for municipalities in its geographic area, while the San Pedro Sula Unit will oversee municipal participation of the North and North Eastern regions. Technical Assistance and Training contractors will be responsible for quarterly reports on progress as outlined below, and for assisting municipalities and national level counterparts to determine appropriate information gathering and analytical techniques. The USPSC in each unit will be charged with coordination of the Information System for his component.

Project Goal, Purpose and Output Questions, Indicators and Methodologies:

Project Goal: The goal of this Project is to strengthen democracy in Honduras.

Goal Level question: Using municipalities as the unit of analysis, to what extent will citizens express the belief that the common people are the primary source of political power?

Indicators: municipal operations strengthened by the active participation of communities in municipal decisions; public confidence in municipalities increased by high community awareness and participation in municipal activities.

Data Collection Methodologies: During year two of the project a consultant will carry out a sample survey to determine citizen perceptions on the role of democracy in Honduras. The sample will include municipalities receiving intensive technical assistance as well as those smaller municipalities who do not participate directly in project activities. The survey will include questions on willingness to participate in the local election process.

Project Purpose: The project purpose is to enhance to participation of the Honduran populace in the local democratic process and improve the operational capacity of municipalities to respond to the land, infrastructure and public service needs of their constituents.

Purpose Level Question: To what extent have municipalities become more responsive to constituent needs in the provision of land, infrastructure and public services, and to what extent have citizens increased their effective participation in local democratic processes? To what extent are citizens involved in the decision process for allocation of municipal resources? To what extent do citizens feel they can influence this decision process?

Indicators: Active involvement of patronatos and community groups in local government dialogue; municipalities are analyzing, anticipating needs, and planning solutions with the help of citizen input, and undertaking mutual self-help activities independent of central government involvement; the public looks to municipality in the first instance to meet its basic urban service needs and to voice its concerns; greater municipal responsibility and authority for delivery of public services versus 1990 central government and national agencies responsibilities.

Data Collection Methodologies: Data will be collected by the technical assistance team and the municipality for each participating municipality during the initial reconnaissance survey which will establish baseline social and financial conditions. The parameters to be measured are outlined in the Municipal Component section of the Detailed Project Description. Throughout the life of the project this data will be updated through the series of MOUs which will outline responsibilities and expectations for continued municipal participation in the project. Because municipalities will be required to meet certain outputs before a subsequent phase of project assistance is carried out, the basic data collected and kept by the municipality will be reviewed periodically by the technical assistance team and Project Management. In addition, Technical Assistance and Training Contractors will be required to include progress toward these indicators in their quarterly reports which will also provide their assessment of increased community participation in municipal planning and investment decisions.

Project Outputs: Project Outputs will be: 1) measures taken by the Central Government to encourage increased municipal fiscal responsibility and revenue generation; 2) devolution of service provision to municipalities; 3) improved financial and managerial operations at the municipal level; 4) sustainable, affordable municipal provision of public services; 5) increased municipal awareness of constituent role; and 6) functioning municipal support systems.

Output Level Question: What measures has the Central government taken to increase municipal responsibility for fiscal soundness, revenue generation, control of municipal resources and provision of basic services? Have municipalities increased their revenues, if so to what extent? Are municipalities carrying out annual planning, budgeting and investment exercises that provide for constituent input? Are municipalities providing basic public services on an affordable sustainable basis? Are municipal support groups being formed, if so how do they interact with the Central Government? Are these groups effective as a lobbying group to represent municipal interests? Has an organization been identified to supply technical assistance, training and

research to municipalities on a permanent basis? If so, how is this organization interacting with municipalities? How effective are the technical assistance and training interventions sponsored by the Project at changing municipal operations? What additional areas should the Project address?

Indicators: Key indicators responding to these questions will be: number and type of Central government measures to devolve control of services and fiscal responsibility to municipalities; level and percentage of increased revenues in participating municipalities; coverage and affordability of public services provided by participating municipality; changes in municipal planning and budgeting systems; increased instances of municipal officials soliciting citizen input; municipal groups petitioning the central government on municipal issues; and organizations providing research, training and technical assistance to municipalities

Data Collection Methodology: Municipal officials will be required to collect revenue, and service coverage information on a quarterly basis. This condition will be part of the MOU with each participating municipality. In addition, municipal officials and technical advisors will be involved in compiling and analyzing information related to investment planning, and the process used by municipalities to make decisions. This information will be supplemented through evaluations and rapid low-cost studies. During the initial phase of technical assistance to each municipality community groups will be interviewed to assess their level of participation in municipal decisions and meetings. Increased participation will be measured by special studies and the scheduled evaluations. In addition, through rapid low-cost studies citizens will be surveyed periodically to determine their perceptions of municipal responsiveness, receptivity and transparency of operations. Municipal officials will be interviewed to determine their assessment of the effectiveness of training and technical assistance inputs into municipal operations. Municipal associations and support groups and their members will be interviewed to assess progress toward mutual cooperation, membership and activities will be examined. Central level agencies will be asked to report on progress toward devolving authorities and responsibilities to municipalities. Records of official title to ejidal land will be reviewed, GOH budget processes will be reviewed. Existing legislation will be examined to determine changes which encourage increased municipal responsibility and authority. Private sector involvement will also be examined. Training events will be structured to measure participant knowledge of the topic to be addressed prior to and following the course. In addition, participants will be asked to comment on the strengths and weaknesses of the course, and to identify areas for improvement. Training data will be disaggregated by gender. Where appropriate, gender information will be collected and analyzed when developing municipalities' services projects. Records of women leaders will also be kept and addressed when analyzing community group participation in municipal decisions and meetings.

Special Studies:
Special Studies will be required during the life of the project to determine progress toward community participation objectives, and toward the effectiveness of municipal support systems and are referenced in the Data Collection Methodology section which relates to Project Outputs. Low cost case studies will

be carried out for the Municipal Association of Cortés and one other regional municipal association to determine changes in operations, orientation of organization, responsiveness to municipal needs and perceived role of organization by municipalities. In addition, the Project will carry out rapid, low cost studies to assess citizen participation in municipal operations. Such studies may include group interviews with patronato presidents, civic groups and others to determine their involvement in municipal resource allocation processes. In addition, in Year 3 of the Project, a special study will be carried out to assess impact of the Municipal Reform Law and its effect on project implementation.

Feedback: One aim of the ongoing technical assistance is to help municipal functionaries and decision makers realize the importance of information in the decision process, and to develop sustainable effective means by which gathering and using information can be incorporated into routine practices. As such, feedback will be a continual process and a task of the technical assistance team. Information resulting from the reconnaissance surveys and action plans will be shared with municipal users (officials and the community at large), and AID. At the national level, the PSC based in Tegucigalpa will be responsible for ensuring that information is shared with heads of agencies, and ministries as well as keeping congressional leaders informed on municipal progress.

Budget: Approximately 5 percent (US$500,000) of the AID financed portion of the project costs or 2 percent of total AID and GOH contributions to the project will be set aside for two mid-term evaluations, a final evaluation and a series of special studies outlined above. Personnel to maintain the system will be covered under the Project Management line item as will computer equipment and related office expenses. The specific costs are detailed in the Financial Plan.

Evaluation Schedule: The results of the data collection and analysis will provide a base for the scheduled midterm and final evaluations. Evaluations will address issues such as willingness of municipalities to assure greater responsibility for public service delivery and accept greater civic participation. Formal evaluations are scheduled for years 3, 5, and 7. The first two evaluations will address progress to date and will recommend changes in project implementation and the final evaluation will focus on lessons learned and the impact on democracy.

V. PROJECT FINANCIAL PLAN

The total cost of the Municipal Development Project is $25.0 million, consisting of $10.0 million in AID financing and a $15.0 million GOH counterpart contribution.

These funds will finance technical assistance and training efforts to increase citizen participation in municipal decision making and to improve municipal operations. The GOH contribution will be used for capital investments by municipalities. AID will directly procure the services of two institutional contractors. Technical assistance services will be provided through a buy-in to an existing PRE/H contract with ICMA. The training services will be

contracted using the competitive process. Each of these two prime contracts will include professional and support staff, as well as related commodity support of office equipment, computers and vehicles.

Other direct AID procurements will relate to Project Management, Evaluation and environmental services. Personal services contractors will be used in the Project Management Units and to carry out Environmental technical assistance related to the review and monitoring of MDSF activities. Evaluations and special studies will be carried out through IQCs and purchase orders.

Commodity support to central government agencies and municipalities is not anticipated. The dispersed nature of project activities and counterpart institutions makes AID direct contracting the most appropriate method of procurement. Direct payment to most suppliers of services is anticipated. Payment through Federal Reserve Letters of Credit will be used where the supplier is a qualified U.S. nonprofit organization. The Table below presents a summary of the proposed methods of payment and implementation.

Counterpart funds will be disbursed through the MDSF procedures outlined in the Project Description section.

A. Implementation & Methods of Financing

Method of Implementation	Method of Financing	Approximate Amount
Training		
Institutional Contractor (USAID Contracted)	Direct Payment	$ 2,489,500
Technical Assistance		
Institutional Contractor (AID/W Buy-in)	Federal Reserve Letter of Credit	$ 4,529,400
Participant Training		
PIO/P's (USAID Initiated)	Direct Payment	$ 317,500
Evaluation		
IQC (AID/W)	Direct Payment	$ 275,000
Personal Services Contracts (USAID Contracted)	Direct Payment	$ 125,000
Purchase Orders (USAID Contracted)	Direct Payment	$ 100,000
		$ 500,000
Project Management		
Personal Services Contracts (USAID Contracted)	Direct Payment	$ 1,920,600
Services Contractor (USAID Contracted)	Direct Payment	$ 150,000
		$ 2,070,600

Development Grants (Specific Support Grants/ Mission Grant Officer)	Direct Payment	$ 200,000
Environmental Activities		
Personal Services Contractor (USAID Contracted)	Direct Payment	$ 78,000
Purchase Orders (USAID Contracted)	Direct Payment	$ 34,000
		$ 112,000
Audit		
Services Contract	Direct Payment	$ 50,000
TOTAL		$10,000,000

B. Financial Plan

Tables 1 - 4 present the financial plan for the Municipal Development Project. Cost estimates are shown in terms of summary and annual expenditures. The summary table (Table 1) also gives the anticipated level of effort and approximate unit cost for each input. Table 3 presents anticipated expenditures by fiscal year, while Table 4 portrays project costs by output area. Annex J to the Project Paper gives the underlying assumptions and rationale for project cost estimates.

C. Audits

The GOH Controller General is responsible for auditing the AID projects. However, because of inadequate human and other resources the Controller General is often unable to perform audits on a timely basis. To assure audits are made of the Project, the amount of $50,000 has been budgeted for the auditing and financial review costs during the life of the Project. In addition, the AID Inspector General may audit aspects of the Municipal Development Project to determine compliance and the efficiency of the use of Project funds. It is anticipated that the Office of the USAID Controller will make financial reviews to assure accounting and internal controls are established that should insure Project assets are safeguarded.

Controller

6/26/90
Date

D. Cost Estimates

MUNICIPAL DEVELOPMENT (522-0340) TABLE 1

	(Person Months)	Unit Cost ($)	AID	GOH
National Level Component				
Technical Assistance				
Expatriate Long term	19	16,500	313,500	
Expatriate Short term	20	15,000	300,000	
Local Long Term	36	3,000	108,000	
Local Short Term	12	3,000	36,000	
Subtotal National Component	87		757,500	
Municipal Level Component				
Technical Assistance				
Expatriate Long Term	89	16,500	1,468,500	
Expatriate Short Term	28	15,000	420,000	
Local Long Term	252	3,000	756,000	
Local Short Term	36	3,000	108,000	
Commodities				
Vehicles	3		105,000	
Local Support Costs/				
Personnel (Tegucigalpa)				
Program Assistant	72	1,500	108,000	
Clerical	72	650	46,800	
Service	72	400	28,800	
Office	72	2,250	162,000	
Personnel (San Pedro Sula)				
Clerical	144	1,200	86,400	
Service	144	700	50,400	
Office	72	2,250	162,000	
Subtotal Municipal TA			3,501,900	
Training				
Team Leader	36	10,000	360,000	
Curriculum Developer	24	10,000	240,000	
Local Professionals	96	3,000	288,000	
Short term Assistance	24	10,000	240,000	
Training Events				
Initial Events	35 days	7,500	262,500	
Subsequent Events	236 days	4,000	944,000	
Commodities				
Vehicles	1		35,000	
Office Expenses	48	2,500	120,000	
Participant Training			317,500	
Subtotal Training			2,807,000	
Development Grants			200,000	
Evaluation and Special Studies				
Evaluations	3 Evaluations		250,000	
Special Studies			250,000	
Subtotal Evaluation			500,000	
Project Management				
Tegucigalpa				
Professional	72	16,500	1,188,000	
Program Assistant	72	1,500	108,000	
Clerical	216	650	140,400	
Office	72	1,500	108,000	
San Pedro Sula				
Professional	36	12,500	450,000	
Clerical	36	600	21,600	
Service	36	350	12,600	
Office	36	1,194	43,000	
Subtotal Project Management			2,071,600	
Environmental				
Technical Assistance	26	3,000	78,000	
Seminars	17	2,000	34,000	
Subtotal Environmental			112,000	
Audit	6	8,333	50,000	
Municipal Development Support Fund				15,000,000
TOTAL			10,000,000	15,000,000

TABLE 2

MUNICIPAL DEVELOPMENT (522-0340)

PROJECTION OF EXPENDITURES BY FISCAL YEAR
($ U.S.)

FISCAL YEAR	AID FX	AID LC	GOH (MDFS)	TOTAL
1990				
1991	1,267,438	182,400		
1992	2,006,417	222,950		
1993	2,121,542	234,775	2,000,000	
1994	1,459,417	212,075	5,000,000	
1995	936,917	191,300	4,500,000	
1996	579,802	165,450	2,500,000	
1997	343,469	76,050	1,000,300	
Total	8,715,000	1,285,000	15,000,000	25,000,000

TABLE 3

MUNICIPAL DEVELOPMENT (522-0340)

COSTING OF PROJECT OUTPUTS/INPUTS
($ U.S.)

Project Inputs	PROJECT OUTPUTS: Municipal Management & Finance	Urban Land & Infrastructure	Municipal Support Systems/ Democratic Processes	TOTAL
AID FINANCED				
Technical Assistance	1,481,790	1,714,290	1,063,320	4,259,400
Training	1,156,331	501,247	1,149,422	2,807,000
Development Grants			200,000	200,000
Evaluations/Information	150,000	150,000	200,000	500,000
Project Management	689,260	701,760	680,580	2,071,600
Environmental		112,000		112,000
Audit	15,000	20,000	15,000	50,000
TOTAL AID	3,492,381	3,199,297	3,308,322	10,000,000
GOH FINANCED		15,000,000		15,000,000
TOTAL PROJECT	3,492,381	18,199,297	3,308,322	25,000,000

TABLE 4

MUNICIPAL DEVELOPMENT (522-0340)

	Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Year 7		AID
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	
National Level Component															
Technical Assistance															
Expatriate Long term	66,000		99,000		99,000		49,500								313,500
Expatriate Short term			90,000		90,000		45,000		45,000		15,000		15,000		300,000
Local Long Term			18,000		18,000		18,000		18,000		18,000		18,000		108,000
Local Short Term					9,000		9,000		6,000		6,000		6,000		36,000
Subtotal National Component	66,000		207,000		216,000		121,500		69,000		39,000		39,000		757,500
Municipal Level Component															
Technical Assistance															
Expatriate Long Term	231,000		495,000		495,000		247,500								1,468,500
Expatriate Short Term			105,000		105,000		60,000		60,000		45,000		45,000		420,000
Local Long Term			126,000		126,000		126,000		126,000		126,000		126,000		756,000
Local Short Term			16,000		16,000		16,000		20,000		20,000		20,000		108,000
Commodities															
Vehicles	60,000			7,500		7,500		7,500		7,500		7,500		7,500	105,000
Local Support Costs/															
Personnel (Tegucigalpa)		15,300		30,600		30,600		30,600		30,600		30,600		15,300	183,600
Personnel (San Pedro Sula)		11,400		22,800		22,800		22,800		22,800		22,800		11,400	136,800
Office		33,000		66,000		66,000		54,000		42,000		42,000		21,000	324,000
Subtotal Municipal TA	291,000	59,700	742,000	126,900	742,000	126,900	449,500	114,900	206,000	102,900	191,000	102,900	191,000	55,200	3,501,900
Training															
Team Leader	60,000		120,000		120,000		60,000								360,000
Curriculum Developer	60,000		120,000		60,000										240,000
Local Professionals			72,000		72,000		72,000		72,000						288,000
Short term Assistance			40,000		50,000		60,000		50,000		40,000				240,000
Training Events															
Initial Events	37,500		37,500		187,500										262,500
Subsequent Events	40,000		88,000		240,000		352,000		212,000		12,000				944,000
Commodities															
Vehicles	20,000		2,500		2,500		2,500		2,500		2,500		2,500		35,000

TABLE 4 (Continued)

	Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Year 7		
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	TOTAL
Office Expenses	15,000		30,000		30,000		30,000		15,000						120,000
Subtotal Training	232,500		510,000		762,000		576,500		351,500		54,500		2,500		2,489,500
Participant Training	26,458		52,917		52,917		52,917		52,917		52,917		26,458		317,500
Development Grants			25,000		50,000		50,000		40,000		35,000				200,000
Evaluation and Special Studies															
Evaluations					75,000				75,000				100,000		250,000
Special Studies			25,000		50,000		75,000		50,000		50,000				250,000
Subtotal Evaluation			25,000		125,000		75,000		125,000		50,000		100,000		500,000
Project Management															
Tegucigalpa															
Professional	99,000		198,000		198,000		198,000		198,000		198,000		99,000		1,188,000
Support		20,700		41,400		41,400		41,400		41,400		41,400		20,700	248,400
Office		24,000		18,000		15,000		15,000		15,000		15,000		6,000	108,000
San Pedro Sula															
Professional	75,000		150,000		150,000		75,000								450,000
Support		5,700		11,400		11,400		5,700							34,200
Office		13,000		12,000		12,000		6,000							43,000
Subtotal Project Management	174,000	63,400	348,000	82,800	348,000	79,800	273,000	68,100	198,000	56,400	198,000	56,400	99,000	26,700	2,071,600
Environmental															
Technical Assistance						18,000		18,000		18,000		12,000		12,000	78,000
Seminars						8,000		10,000		8,000		8,000			34,000
Subtotal Environmental						26,000		28,000		26,000		20,000		12,000	112,000
Audit		5,000		7,500		7,500		7,500		7,500		7,500		7,500	50,000
TOTAL	789,958	128,100	1,909,917	217,200	2,295,917	240,200	1,598,417	218,500	1,042,417	192,800	620,417	186,800	457,958	101,400	10,000,000

VI. CONDITIONS AND COVENANTS

Additional Conditions and Covenants beyond those normally contained in the standard AID Project Agreement will be as follows:

1. Prior to any disbursement of funds or the issuance of any commitment document for implementation of the Municipal Development Support Fund component of the Project, AID and the Grantee will conduct a financial review to determine the impact of the Fund on the Grantee's macroeconomic program. The financial review will examine progress toward financial sector reforms, liquidity in the private financial sector, changes in lender practices regarding municipal loans, municipal financial management achievements, and the macroeconomic policy environment. The results of the financial review will be used to determine whether operations under the Fund should be initiated. AID and the Grantee will agree upon whether to initiate the operations of the Fund and will indicate their mutual understanding in a Project Implementation Letter.

2. Prior to any disbursement of funds or the issuance of any commitment document under the Project Agreement for implementation of the Municipal Development Support Fund component of the Project, an environmental assessment will examine the potential impact of municipal capital investment activities in the areas of: water supply and sanitation; drainage; road construction and maintenance; building construction, and solid waste disposal. This assessment will develop an environmental review system which will be employed by the municipalities prior to initiation of any specific infrastructure or construction activity which uses local currency Municipal Development Support Fund resources.

VII. SUMMARY PROJECT ANALYSES

Analyses for the Municipal Development Project were carried out on three representative municipalities from the following population ranges: 50,000 to 200,000; 20,000 to 50,000; and 10,000 to 20,000. The specific municipalities chosen were Choluteca, Choloma, and Juticalpa which meet the population criteria, and offer a variety of regional, geographic and growth characteristics.

A. Technical Analysis (Annexes E and F)

Urbanization in Honduras is more than a demographic phenomenon. It is the result of complex social and economic changes which reflect the transition from a dual economy composed of large export oriented, traditional crop plantations surrounded by a hinterland of subsistence forms to a more sophisticated agriculture processing and service economy. As a consequence, the importance of urban centers in Honduras is increasing and future social and economic development is becoming dependent upon the ability of urban centers to perform crucial productive and basic service delivery functions.

The municipalities of already rapidly growing secondary urban centers will need to play a key role in that process. However, the local government sector needs strengthening in almost every respect, and policy and institutional targets will

need to be set selectively, and with a recognition that practical decentralization is the work of a decade. Sustained efforts to increase the effective participation of the local citizens and beneficiary target groups in local development activities must be an essential part of that process.

Project technical assistance and training support for the implementation of required changes at the constituent, municipal and national levels must be carefully staged and targeted. The formulation and execution of mutually reinforcing national and local policy and institutional reforms, and the strengthening of municipal support systems and democratic processes are among the essential issues. The strategic organization and management of the project in a manner which enhances sustainability is considered critical.

The project will use a combination of technical assistance and training interventions to address the three primary constraint areas. It is believed that intensive technical assistance delivered by long term advisors will allow the transfer of methodologies and changes in practice required for project success. The advisors will be able to build relationships with municipal and national level counterparts and will be able to assess the need for changes in direction of the technical assistance. The long term nature of the assistance will reduce the time required to familiarize short term assistance with the Project concept and goal. In addition, through long term advisors the idea of constituent based decision making can be continually reinforced at all levels within the municipality.

The proposed combination of expatriate and local technical advisors will help ensure sustainability of project interventions, and will strengthen the local capability to provide such assistance. The existence of local technical advisors will be essential for municipal support systems to function upon completion of the project.

Short term expert assistance will be required to supplement the long term advisors. The proposed buy-in to the ICMA contract will allow the Project to provide practitioners who will be able to easily transfer their skills and knowledge in a practical rather than theoretical manner. These experts will be able to share knowledge gained through experience to Honduran counterparts who may encounter similar situations.

Training interventions are designed to complement the technical assistance activities and are targeted on the same constraints.
Honduran professionals will be responsible for the delivery of the majority of training events, and will consequently build their skills as, and their knowledge in the specific area of expertise. In addition, the development of training materials will assist in creating a sustainable mechanism for providing assistance to municipalities.

Specific topics covered in the technical analysis are: a) financial/revenues; b) participation of the community in service delivery; and c) public administration. Similar sources of information were used in each municipality studied; the Mayor, Magistrate, Treasurer, Accountant, Tax Collector, and the offi ial in charge of public services. The analysis also reviewed the roles and responsibilities of national level institutions.

Constraints and the bases for determining national and local level agendas are analyzed and responses as well as geographic focus are recommended. Methodologies for selecting and assessing municipalities are recommended and reflected in the Detailed Project Description.

B. Social Soundness Analysis (Annex D)

Socio-cultural Context

Traditionally local governments have served as centers of power and authority. Current trends, however, indicate they no longer function as they once did. Historically, municipalities controlled most basic public services. Over time, however, the central government has centralized many of the more lucrative services within their agencies or autonomous parastatals (such as water, electricity, and forests). Municipalities remain in control over the least fiscally productive services whose legislatively-fixed tariffs are out of touch with current financial needs, such as garbage collection, markets and sewage. As a result, most municipalities have very small budgets that do not support proper service delivery.

Current budgetary procedures further exacerbate the problem. Municipalities develop their budgets on unrealistic income expectations. They then pass these on to the central government which makes its own allocations to the municipalities without truly considering the budgets received. Municipalities continually run deficits and must request subsidies from the central government to pay their debts.

Finally, human resources in the municipalities tend to be poor. Most municipal workers lack training and education, and the low pay provides little work incentive. To complicate matters, high turnover in personnel makes it difficult to justify investing in personnel training.

As a result, municipalities generally have the following characteristics:

- With most major public services under the control of centralized autonomous agencies, citizens have found service delivery unresponsive to local needs;

- While local governments still have control over the less profitable services, serious funding and management problems hamper effective delivery;

- Given their inability to obtain the services desired, local constituencies have lost faith in local officials and seek support elsewhere either from outside organizations or through channels that do not include the local government;

The three sites selected for analysis illustrate the diversity within which the project will operate. Choluteca, located in the southern part of the country, represents the most populated in the study. Choloma, located near Honduras' second largest municipality (San Pedro Sula), is the second largest in the study,

with a rapidly growing population. Juticalpa is the smallest with a largely agricultural population. (Annex 2 to the Social Soundness Analysis provides a detailed profile and findings for each of the three sites visited.)

Overall, the department of Choluteca most reflects the national averages. While a large portion of the population works in agriculture, some diversity exists within the economic community. The department of Olancho (where Juticalpa is located), on the other hand, is uncharacteristically rural, with 70 percent of the population involved in agriculture. Choloma is located in one of the most urbanized departments of Honduras (Cortés) where only 25 percent work in agriculture and 35 percent in financing and personal services.

Ranking the municipalities according to size, complexity of local government administration, and public service delivery places Choluteca as the most complex, Choloma second, and Juticalpa third. While the municipality of Juticalpa has experienced a stable, but relatively slower, growth rate, Choluteca and Choloma are growing very rapidly and face severe problems developing public services to meet new demands. Choloma has the only significant industrial base, which should provide substantial new employment opportunities but could strain municipal services even further than they are now. Choluteca does not have many new employment opportunities, a condition which will hamper community development. Juticalpa maintains a mostly rural population whose well-being depends on proper natural resource management and access to markets for sustained agricultural development.

Despite this diversity, the three municipalities share several common problems:

- a scarcity of potable water;
- a total mismanagement of municipal wastes (including trash, sewage, etc.);
- inadequate maintenance of public properties;
- deforestation;
- housing deficits;
- inadequate sewage systems and maintenance;
- few improvements to the local public education system,
- unpaved, but heavily travelled roads in urbanized areas with inadequate shoulders and drainage, and

Similar municipal government characteristics of these municipalities include:

- dependency on the central government;
- new mayors who are experienced businessmen;
- no project planning skills among municipal technical personnel;
- large deficits with BANMA (the municipal bank);
- constituencies with low expectations for municipal services;

- constituency distrust and frustration with local officials;
- no explicit environmental policies beyond crisis management for water; and
- low government work force productivity.

The municipalities also share the social problems of high illiteracy rates, malnutrition of rural pre-school and school age children, and fertile land distribution favoring a few major landowners. These factors require local government attention as well as central government efforts. Choluteca and Choloma also have serious problems associated with flooding which affect the economic development of the area.

Current Participation Patterns

Because the Municipal Development Project will focus on increasing citizen participation in decisions related to municipal priorities and allocation of resources, the Social Soundness Analysis determined current activities related to community improvement in municipalities. These activities usually involved, the patronatos, local and international organizations, the local leader of the party controlling the central government, religious groups, the local military leaders, particular individuals. Respondents rarely identified the municipality as a major source of support for community improvement projects. Local government officials explained that they lack the resources to provide such support. A major finding of the study is that local and international organizations have become major participants and supporters in community improvement at the local level.

The Newly Elected Government

The MDP will operate in an environment primarily determined by the elections in November, 1989. As a result of these elections, the National Party took control of the central government and the vast majority of the municipalities. The new mayors interviewed in this study (all National Party members) were all businessmen, and had plans to increase community participation in local government.
These plans also included using local leaders as voluntary technical advisors to the municipality.

It is important to note that all the mayors also assumed they would receive a great deal of support from the central government.

Excluded Groups

Despite the number of organizations that exist in these communities, some groups lack representation and others are excluded from certain activities. The Municipal Development Project will work in municipalities in which all members of the community may not have equal access to decision makers, or ready avenues for participation. The Project will seek to address this through its widespread training activities and in particular through the Community Participation course which will be open to community leaders, patronatos, and other organizations as well as municipal officials. One of the objectives of this course will be to

show these leaders methods through which they can increase participation in their respective groups, and consequently in municipal processes. The Social Soundness Analysis found that women, campesinos, groups in outlying areas and labor groups were the most likely to be excluded from effective participation.

Socio-Cultural Feasibility

Factors Supporting the Project

Citizens exhibit strong community spirit and organization needed to complete community improvement projects. Citizen groups expressed a desire to work with the municipality if it would benefit their immediate community. Local businessmen have financed projects in the past and some have voluntarily supplied technical assistance to the municipality. The newly elected government's plan to increase participation in local government aligns itself well with project objectives.

Possible obstacles to the Proposed Project

Groups (like the patronatos) tend to work outside of the local government to complete community improvement projects. They have learned to by-pass local officials and have identified other sources of assistance.

Local governments remain financially weak and consequently are very dependent on the central government for support. They need to plan for alternative sources of assistance. Community improvement planning has been crisis-oriented and no long-term planning framework exists. Partisan politics may block project efforts. The new municipal reform law, however, may ameliorate much of this problem. In sum, the MDP will face substantial obstacles to success, and must allow adequate time and resources for dissemination of information and for the results of project interventions to be translated into increase confidence in municipalities.

Spread Effects

Diffusion of information and benefits will be a key element of the Project. The following factors will assist in this endeavor:

- networks currently exist between citizen groups;
- political party support links many of the municipalities together;
- local media presence, particularly radios, is an effective means to spread information and public service announcements throughout the Department.

The following factors may impede diffusion:

- not all citizens are organized;
- few sources of public information for current events (outside of one local radio station) exist;

- low literacy rates limit the type of training possible;
- and few networks are available between municipalities.

Beneficiaries

The first beneficiaries will be those directly receiving technical assistance and training. Project benefits, however, will reach a far greater number as citizens in the participating municipalities are more actively involved in the decision process, and have more effective means by which to voice their concerns and priorities. Groups which are organized are more likely to receive direct benefits from the project. Accordingly, members of patronatos will receive greater benefits that citizens who do not belong to groups. The less organized include: women, campesinos, outlying areas, and communities without patronatos. Although unions and political parties represent organized groups, these tend to be excluded from participating in certain activities

Impact

The project will likely increase the power of certain beneficiaries. The project needs to focus particular concern on the volunteer technical advisors which all the new mayors interviewed plan to use. Given their positions as community leaders and their role in the local government, they are likely candidates to receive training under the project. This training could possibly further enhance their power, and given their position in the local government, they could begin to control local politics--even though they are not elected officials.

The project will also increase local government power. Currently, constituents do not respect the municipality because of past problems. If the municipality shows citizens that it is able to provide and improve service delivery, confidence and dependence on local government should increase. At the same time, if citizens begin to depend on municipal governments, they may not seek as much support from outside sources. Local and international organizations will be free to use their resources in other areas.
In addition the local party in power is likely to be strengthened if the MDP succeeds, since they will be seen as a party or group able to bring about effective change at the municipal level.

The interventions planned under the MDP will be tailored to specific needs of a given municipality. However, as illustrated above, the needs of the municipalities analyzed are basic, and it is anticipated that the approaches used to improve municipal operations and increase citizen participation in these municipalities could be duplicated throughout Honduras. One area which will need to be carefully analyzed in each new municipality deals with identifying the key nongovernmental organizations. For example, the analysis found that in Choluteca patronatos are a major force and are very well organized, but that in Choloma patronatos have a mixed record of effectiveness, and that in Juticalpa they are basically weak and that local civic groups are a more important element in the community.

Role of Women in Development

The Social Soundness Analysis found that women are less likely to be actively involved in municipal operations, and in groups which may influence such operations. Only in one municipality, Juticalpa, was a women's group "Damas Voluntarias" cited as an important local organization. The past mayor of Choloma was a woman, and at present, the Mayor of Tegucigalpa is a woman. This indicates that women are not excluded from positions of authority and influence in municipalities. However, the MDP should identify key groups in municipalities and encourage more effective participation of women.

If the MDP is successful and municipalities are more responsive to citizen needs, the potential for women to contribute to development should increase. Provision of basic services, increased access to water and sewage systems will reduce the burden on women and allow them to increase their efforts in productive activities. Improved municipal operations will also increase the potential for investment and will provide new employment opportunities which will extend to women.

Information on the level of women's participation in project activities is part of the Information System. Records for training events will determine the number of women receiving direct benefits from the Project.

C. Environmental Assessment

The local currency equivalent of U.S.$15.0 million will be made available by the GOH to carry out capital investment activities in selected municipalities. While the extent of construction activities is unknown, five general areas of investment can be identified: 1) extension of water and sewer collection lines to municipal areas not currently served; 2) water collection and treatment; 3) road construction and maintenance; 4) drainage; and 5) solid waste disposal.

Activities in each of these areas will have environmental effects, and to assure the environmental soundness of the implementation of those infrastructure activities, an environmental assessment will be required as part of the municipality's request for funding for each subproject. Each environmental assessment will determine the potential environmental impact of the construction, how the municipality intends to avoid or control any adverse effects through prudent construction practices, and how the construction will be reviewed and monitored for its environmental impact. This information will comprise an Environmental Review Document (ERD), which will be prepared by the municipality and submitted with its request for financing.

An Environmental Assessment of the Municipal Development Project will develop the guidelines to be used in preparation of the ERD, as well as establishing practical procedures for municipalities to follow in contracting construction or infrastructure subprojects. A principal objective of the project is to increase municipal capacity to implement and analyze proposed investments, and the procedures used by municipalities to assess environmental soundness in conjunction with MDSF funds will be applicable to future capital projects financed with municipal resources.

The participating municipalities will be receiving intensive technical assistance in the development of strategies and action plans to address service needs. It is anticipated that environmental considerations will be included in this technical assistance, and may also be address in the Project Preparation and Management course which will be offered to municipalities. As the MDSF becomes operational in year three of project implementation, special seminars on environmental planning and monitoring may be held for municipalities ready to be using the MDSF resources.

Monitoring will be carried out by the municipalities who have direct responsibility for implementing the activity. In addition, USAID will review the ERD submitted with the financing request to ensure conformity with Agency environmental guidelines. It is anticipated that USAID will contract with a local environmental engineer to review ERDs, and to monitor MDSF activities during the life of the project.

D. ECONOMIC ANALYSIS

JMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEASUREMENT OF ACHIEVEMENT	IMPORTANT ASSUMPTIONS
.1. GOAL To strengthen democracy in Honduras.	A.2.a) Municipal Operations strengthened by the active participation of communities in municipal decisions. b) Public confidence in municipalities increased by high community awareness and participation in municipal activities.	A.3 (as related to GOAL) Surveys, special studies.	A.4 (as related to GOAL) 1. Maintenance of consensus within Honduras to continue development of the democratic process. 2.Regional Political Stability 3.Economic improvements.
.1. PURPOSE To enhance the participation of the Honduras populace in the local democratic process and improve the operational capacity of municipalities to respond to the land, infrastructure and public service needs of their constituents.	B.2. END OF PROJECT STATUS a) Active involvement of patronatos and community groups in local government dialogue. b) Municipalities are: analyzing, anticipating needs, and planning solutions with the help of citizen input; and undertaking mutual self-help activities independent of central government involvement. c) The public looks to its municipality as its first line of representatives to meet their basic urban service needs and to voice their concerns. d) greater municipal responsibility and authority for delivery of public services versus 1990 central government and national agencies responsibilities.	B.3.(as related to Purpose) a) Project Evaluation b) Project Evaluation c) Municipal Assessments, reconnaissance surveys, special studies. c) Surveys.	B.4 (as related to Purpose) 1. Continued central government support for strengthening municipalities. 2. Continued willingness of municipalities to assume greater responsibility for public service delivery and accept greater civic participation.
OUTPUTS National Level Key central Government agencies are implementing measures to encourage fiscal responsibility and increased revenue generation at the municipal level.	C.2. OUTPUT INDICATORS National Level 1.a) Formula based revenue sharing program adopted and implemented. b) streamlined system versus 1990 procedures for national level involvement in annual planning, programming and budgeting of local development resources.	C.3. (as related to Outputs) National Level a) Review of GOH Budget procedures. b) Review of GOH and Municipal budget procedures.	D.3 (as related to Outputs) National Level 1. Affected central government agencies are responsive to technical assistance.
Central government agencies and parastatals have taken specific measures to facilitate municipal governments to meet the service needs of their constituents.	2.a) Strategies and plans developed and implemented devolving selected urban service functions and responsibilities to municipalities. b) Title to and management of ejidal lands transferred to municipalities. c) Increased municipal responsibility and active participation in the management of natural resources.	2.a) Project records Official records(La Gaceta) b) Official title records c) Review of legislation and regulations, project records	2. Municipalities will lobby for greater autonomy.

SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEASUREMENT OF ACHIEVEMENT	IMPORTANT ASSUMPTIONS
MUNICIPAL LEVEL	MUNICIPAL LEVEL	MUNICIPAL LEVEL	MUNICIPAL LEVEL
1. Selected municipalities are able to execute managerial and financial functions on a sustainable basis in response to constituent needs.	1.a) 14 selected municipalities generating and administering revenue augmentation programs, (at least 7 by year 5). b) 14 selected municipalities carrying out participative investment planning, (at least 7 by year 5). c) 14 selected municipalities carrying out technically sound and participative annual programming and budgeting, (at least 7 by year 5).	1.a) Municipal Assessments Project Progress Reports b) Review of investment plans and process. c) Review of budget process.	1. Continued central government willingness to accept decreased municipal financial dependency as local revenues increase.
2. Participating municipalities are delivering selective services on a sustainable basis at costs affordable to the majority of the urban population.	2.a) 14 selected municipalities developing and implementing strategies to improve the delivery of public services, (at least 7 by year 5) on a financially viable basis. b) 14 selected municipalities carrying out technically based urban land use planning and development policies, systems and procedures,(at least 7 by year 5). c) 14 selected municipalities maximizing effective participation of local citizens in the formulation and execution of service delivery choices, (at least 7 by year 5).	2.a) Municipal Records MDFS records b) Project evaluation c) Review of legislation and regulations, project evaluations. MOUs.	2. Continued municipal willingness to include citizens in decision making. 3. Municipalities willing to exercise authority for provision of basic services. 4. Increased community group interest in participating in municipal decisions as municipalities provide increased services.
3. Officials and municipal leaders demonstrating increased awareness of constituent needs and rights.	3.a) Increased instances versus 1990 of municipal official consulting with citizenry and soliciting their inputs/votes for given decisions. b) Preparation and implementation of municipal Action Plans and Programs based on the identification of critical community needs.	3.a) Interviews with municipal and community leaders, project evaluation. b) Project Progress Reports/ Review of MOU achievements	5. Municipalities make good their willingness to form and support (financially and politically) mutual support efforts.
4. Functioning municipal support systems	4.a) Regional and/or national organizations comprised of municipalities, functioning as an effective voice and pressure group for continuing dialogue with the Central Government. b) Sustainable mechanism established to provide research, training, and technical assistance to municipalities. c) Intermunicipal information channels established to disseminate information on national and municipal level policies and changes.	4.a) Project Evaluation b) Special Study on Municipal Support Systems. c) Publications Interviews with municipal officials, project evaluations.	6. Municipalities demonstrate a long-term interest in a training and TA resource.

2

1 INPUTS	AID	GOH	TOTAL
		($000)	
:chnic: Assistance/			
lunici; l Mngmt, Urban Development, :mocratic Processes, Municipal Support 'ste..s)	4259		4259
LT Exp. Advisors			
LT Hond. Advisors			
·aining/			
'1 Training Events, Curriculum ·velopment	2807		2807
rticipant Training			
velopment Grants (Municipal Support ·stems)	200		200
aluation (2 interim, 1 final and ecial studies)	500		500
oject Management/ (2 Professionals and pport)	2071		2071
vironmental (Technical Assistance, ninars)	112		112
dit	50		50
SF (Capital Resources)		15000	15000
TAL	10000	15000	25000

AID funds are made available on a timely basis.

GOH counterpart is provided early in LOP.

ANNEX B

ACTION MEMORANDUM FOR THE ACTING MISSION DIRECTOR

DATE: November 3, 1989

FROM: Melissa Stephens, DF

THROUGH: Richard Whelden, DF

SUBJECT: Request for Authorization of the Municipal Development PID (522-0340)

ACTION REQUESTED: Your approval for the subject PID is requested.

BACKGROUND: The Municipal Development PID was prepared by the offices of RHUDO and DF with comments contributed by other Mission offices. A mission review of the PID was held on September 28, 1989 at which time it was requested that changes be made in the PID prior to authorization. In addition, substantial guidance for PP development was also given.

The attached PID embodies the changes proposed. Presented below are the issues identified in the PID review which have been incorporated into the PID and the Mission's guidance for PP development.

DISCUSSION: The following issues have been addressed in the PID.

1. The strategies of the political parties and the concept of decentralization have been elaborated. (Section II. A)

2. The USAID concept of decentralization and related benchmarks are further discussed in Section IV. D1. (brief scenarios have been developed and will elaborated in the PP.)

3. The focus on working with autonomous agencies has been reduced and refocused into limited on-call support. (Section IV. D2)

4. The relationship to the ESF program has been incorporated into the PID. (Section II. B)

5. The project will have a separate Democratic Initiatives component which will be more fully developed the PP. (See Sections IV. C3, IV. D4, and IV E3 for further discussion.)

6. While still defined in terms of the National, Municipal and Democratic Initiatives components, a clearer discussion of anticipated outputs has been included and the project description section deals with expected achievements and changes in practice rather than the inputs to achieve these outcomes. (Sections IV. C and D).

!Objectively be verifiable Indicators at the national level are the specific mark of Project achievement.

During intensive review, it was determined that th most effectiv way to improv democracy is to incorporat it into every project eleme See Section V.C.

18

7. The PID suggests the Ministry of Hacienda as a counterpart agency, and implementation arrangements will be discussed with Hacienda and Gobernacion during PP development.(Section V. E)

MHCP was determined to be the most appropriate counter part agency.

8. The discussion of the Municipal Development Fund has been strengthened and its purpose as a bridge to a period of increased local revenue generation has been clarified. The MDF will be developed further in the PP. (Section IV. D3d)

Section V.D.2 (f) describes the Municipal Development Support Fund.

Additional Guidance for the Project Paper is as follows:

1. During intensive review, at least three scenarios will be developed based on varying levels of policy change. These scenarios will be used to define the Mission's expectations of project achievements in different policy environments.

The climate for policy change improved with the installation of a new GOH administration. The PP is based on the stong envronment

2. The PP will examine options through which municipalities can conduct a lobbying effort. See Municipal Support Systems, Section V.D.2.(e).

3. The discussion of Democratic Initiative activities will be strengthened and treated as a separate component. The PP will identify a strategy for increasing citizen participation through grass roots level organizations.

DI is an essentia theme of all project activities. The project seeks to change practi and increase info mation and must incorporate democracy into every element of the project.

4. A more comprehensive picture of the current level of citizen participation in decision making at the local level will be presented in the PP. A description of the existing mechanisms and groups which increase citizen access to the democratic process will be included. Discussions of citizen groups are included in the Constratints and Social Soundess Analysis.

5. The PP should discuss the possible impact of project activities in the primary cities versus the smaller cities. If the larger cities are included in the project more rigid standards should be applied for their project participation, and a cap should be set on assistance which will go to the two major cities. In the smaller cities the project should consider using the Peace Corps and should discuss project activities with them during PP design.

Intermediate citi are the primary audience for the project. Tegucigal and SPS will be included on a limite basis.

6. During intensive review, the design team will examine options for providing funds from the Municipal Development Fund on a loan or grant basis. If funds are to be granted, then the fund is transitory and does not replace locally generated revenues. If loaned, interest rates should be at market rates. In addition, projects financed by the MDF should be measured against some kind of yardstick, possibly an economic analysis or financial return, so that there is some type of evaluation of the activity.

MDSF is discussed in Section V.D.2.(f

7. The proposed life of the project, five years, may be too short. The PP should consider a new life of project during its design.

The revised LOP is seven years.

8. The PP should discuss public service activities that could be considered for privatization. In this regard, the project could serve as a link to the Mission's new privatization project.

The project s decentralizat rather than p atization. H ever, munici ties will be to carry out cipal activit through the pr vate sector to the extent pos ble.

9. The monitoring and evaluation plan for the Project should include a provision to review the extent to which a Municipal Reform Law has been implemented after two years of project implementation, and the success of project activities to orient service demands from central to local officials.

10. The Office of Engineering will be involved in designing standards and procedures to ensure the environmental soundness of infrastructure activities financed by the MDF. O/ENG participated in development and review of the EA.

A special stud will be done i Year 3.

11. The level of technical assistance proposed for the activity must be fully justified in the PP in terms of the outputs. Technical assistance is an input and the PP rationale should clearly demonstrate how it will directly affect the achievement of project outputs.

See Section V.D.2.(a) and Section V.C.

12. The Initial Environmental Examination(IEE) recommends a positive threshold determination and an Environmental Assessment will be required during the PP development to develop and review environmentally sound procedures for activities to be financed by the MDF. The guidance outlined in HB 3 App.2D, states that the IEE will inlcude a threshold decision made by the officer in the originating office who signs the PID. While the guidance assumes that PIDs are approved by AID/W, and thus the IEEs are reviewed by the Bureau Environmental Officer concurrent with the Bureau review of the PID, procedures for submission of an IEE subsequent to review of the PID exist. In accordance with these procedures, the IEE for the Municipal Development Project, together with the Threshold Determination, will be forwarded to the Bureau Environmental Officer for review and action. The concept of the Municipal Development Fund and its possible environmental effects have been discussed with John Wilson, the Deputy Environmental Officer for the LAC Bureau.

The PP and PR contain a CP t the use of MDS funds which requires an EA

DELEGATION OF AUTHORITY:

TEGUCIGALPA 16657 presented a revised New Project Description and requested a delegation of authority to the Mission to authorize the PID and PP. STATE 331789 granted this authority

RECOMMENDATION: That you approve this Action Memorandum, which reflects the issues and guidance raised in the PID review, and sign the face sheet of the attached Municipal Development Project PID (522-0340).

Approved

Disapproved

Date 11/6/89

ANNEX C

05-41

SECRETARIA DE HACIENDA Y CREDITO PUBLICO

REPUBLICA DE HONDURAS

Tegucigalpa, D. C., 27 de abril de 1990 Nº. AT-67-90

RECEIVED
USAID/HONDURAS
C&R UNIT
-7 MAY 90 10 11

Señor
JOHN SAMBRAILO
Director
Agencia Internacional para el
Desarrollo (AID)
Su Oficina

Señor Director:

Como es de su conocimiento, el Plan de Gobierno tiene entre sus objetivos, la democratización en el proceso de toma de decisiones y de prestación de servicios a nivel local, fortaleciendo el municipio a través de la aplicación de la Ley de Municipalidades que actualmente se encuentra en proceso de aprobación en el Congreso Nacional.

Por otra parte, algunas municipalidades nos han manifestado su interés en tener acceso a programas de asistencia técnica y capacitación a fin de mejorar su capacidad organizativa, administrativa y de prestación de servicios.

En vista de lo anteriormente expuesto, le solicitamos analizar la posibilidad de considerar el financiamiento de un proyecto de fortalecimiento del municipio que siente las bases para institucionalizar una administración descentralizada, mejore la gestión administrativa y de prestación de servicios y brinde asistencia y capacitación permanente de desarrollo municipal.

En espera de una resolución favorable a la solicitud planteada, aprovecho la oportunidad para patentizarle las muestras de mi consideración y estima.

Atentamente.

RENE ARDON MATUTE
Ministro por Ley

BMC/amf.

OFFICE | ACTION | INFO
D | | |
DMD | | |
RLA | | |
EXO | | |
EXC/P | | |
EXC/D | | |
DP | | |
DF | | |
COUNT | | |
RD | | |
HRD | | |
HRD/P | | |
HRD/H | | |
HRD/S | | |
HRD/SP | | |
PSC | | |
LEGA | | |
RLG | | |
RHUD | | |
C&R | | |
DUE DATE 5/15
ACTION TAKEN
APPROVAL
INITIALS

8P

ANNEX D

FINAL REPORT: A SOCIAL SOUNDNESS ANALYSIS OF THE MUNICIPAL DEVELOPMENT PROJECT

Prepared by:

Liese Sherwood-Fabre, PhD
Project Director

Catherine Castañeda
Assistant Project Director

February 20, 1990

.82

ACKNOWLEDGEMENTS

We would like to acknowledge the help of the following people whose assistance and advice were crucial to the completion of this project:

Lic. Santiago David Amador

Lic. Carlota de Garcia

Lic. Roberto Cáceres

Lic. Norma Sierra

EXECUTIVE SUMMARY

In December, 1989, USAID/Honduras contracted with a group of consultants to conduct a social soundness analysis of a proposed Municipal Development Project (MDP). As part of this study, team members visited three representative sites during the month of January to examine current public service delivery and evaluate possible project results. The team visited Choluteca on January 11-12, 1990; and then separated to visit Choloma and Juticalpa during January 22-24. In each of the sites, team members interviewed key people within the community to gain a clear picture of the current influence patterns, how decisions related to public services are made, and current citizen participation within these decisions. This information was then analyzed to consider the proposed project's feasibility.

SUMMARY OF PROPOSED PROJECT

The MDP proposes to increase local citizen participation in municipal government and enhance delivery of public services. Currently, municipal governments have little responsibility or influence over most public services, although they represent the local contact point for citizen requests and complaints. The MDP proposes to provide technical assistance and training, a municipal fund and creation of a municipal development training capacity to increase municipal responsibility and capacity for public service delivery. The training and technical assistance will occur at three levels:

- Nationally, the MDP will serve as a catalyst, supporting and coordinating policy changes anticipated as part of the passage of the new municipal reform law.

- At the municipal level, the project will strengthen local governments' ability to plan and administer public services and respond to citizen needs. This effort will include training and technical assistance to selected elected and appointed officials as well as to technical personnel.

- Within the municipalities, the project will work with selected local leaders and organizations to increase their involvement in local government. The project efforts aim to involve these leaders in a dialogue with municipal officials as well as increase private sector participation.

The project also includes a municipal training program and a municipal fund to provide limited capital support to selected infrastructure projects. Through these efforts, the project will foster a more democratic environment where citizens can petition their local governments for services and hold the local governments accountable for their response.

THE SOCIAL SOUNDNESS ANALYSIS

In general, a social soundness analysis examines the sociocultural feasibility, the spread effects, and the social consequences of proposed project activities. Specifically for the MDP, the analysis focused on:

- the social situation of three representative sites selected by AID, including current population characteristics, current decision making processes, and current influence patterns over public service delivery to determine possible obstacles to project implementation and recommendations for project improvement.

- the spread effects of the project, including critical cultural and social factors which will affect the adoption of project innovations and the areas where they are likely to extend.

- which groups will benefit from the project and how, with special emphasis on such groups as women, identifying those

85

likely to benefit and the impact on the current power structure.

SUMMARY OF FINDINGS

Current Participation Patterns

- Community improvement activities usually involved:
  - the patronatos
  - local and international organizations
  - the local leader of the party controlling the central government
  - religious groups
  - the local military leaders
  - particular individuals
- Respondents rarely identified the municipality as a major source of support for community improvement projects. Local government officials explained that they lack the resources to provide such support
- Local and international organizations have become major participants and supporters in community improvement at the local level

The Newly Elected Government

- Following elections in November, 1989, the National Party took control of the central government and the vast majority of the municipalities
- The new mayors interviewed in this study (all National Party representatives) were all businessmen, and had plans to increase community participation in local government
- These plans also included using local leaders as voluntary technical advisors to the municipality
- All the mayors also assumed a great deal of support from the central government

Excluded Groups

- Certain groups tend to exclude other groups because of their nature--in particular, they try to avoid including political parties and unions

SUMMARY OF CONCLUSIONS

Factors Supporting the Project

- Citizens exhibit strong community spirit and organization needed to complete community improvement projects

- These citizen groups expressed a desire to work with the municipality if it would benefit their immediate community

- Local businessmen have financed projects in the past and some have voluntarily supplied technical assistance to the municipality

- The newly elected governments' plan to increase participation in local government aligns itself well with project objectives

Possible Obstacles to the Proposed Project

- Groups (like the patronatos) tend to work outside of the local government to complete community improvement projects. They have learned to by-pass local officials

- Local governments remain very dependent on the central government for support. They need to plan for alternative sources of assistance

- Community improvement planning has been crisis-oriented. No long-term planning framework exists

- Partisan politics may block project efforts. The new municipal reform law, however, may ameliorate much of this problem

Spread Effects

- Factors assisting diffusion

  - The current networking that exists between citizen groups

  - The support of the National Party which links many of the municipalities together

  - Local media presence, particularly radios, can spread information and public service announcements throughout the department

- Factors impeding diffusion

  - Not all citizens are organized

87

- Few sources of public information for current events (outside of one local radio station) exist

- Low literacy rates limit the type of training possible

- Few networks available between municipalities

Beneficiaries

- The first beneficiaries will be those directly receiving technical assistance and training. Project benefits, however, will reach a far greater number

- Those groups that are not organized are less likely to receive direct benefits. The less organized include: women, campesinos, outlying areas, and communities without patronatos. Although unions and political parties represent organized groups, these tend to be excluded from participating in certain activities

- The possible effects on current influence patterns include:

  - The enhancing the power of the mayor's voluntary technical advisors

  - An increase in confidence and dependence on local government as it provides and improves local public service delivery

  - Less reliance on local and international organizations by citizen groups for community improvement projects

  - A strengthening of the local party in power (primarily the National Party) because it is "able to get things done"

RECOMMENDATIONS

To enhance project success and encourage diffusion:

- Ensure organization and participation of all groups within the municipality

- Ensure that local governments coordinate with international and local organizations and the military on community projects

- Exploit local resources (patronatos, local non-profit organizations and religious groups with their own network, the mayor's volunteer technical advisors, the local media, and teachers) to increase diffusion

- Use local resources (very active patronatos, volunteer technical advisors) in the training component

The training component should include:

- Developing realistic plans and coordinating responsibilities with the central government
- Avoiding partisanship
- Developing long-range community improvement planning for community leaders

Ensuring that each municipality completes one visible collaborative project quickly

TABLE OF CONTENTS

INTRODUCTION 1
The Municipal Development Project 2
The Current Study 6

STUDY APPROACH 7
Measuring the Social Soundness Elements 8

FINDINGS 9
General Site Descriptions 9
Current Participation Patterns 15
The Newly Elected Government 18
Excluded Groups 20

CONCLUSIONS 20
Factors Supporting the MDP 20
Possible Obstacles to the Proposed Project 21
Factors Assisting Diffusion 23
Impediments to Diffusion 24
Beneficiaries 25
Effects on the Power Structure 25

RECOMMENDATIONS 26

REFERENCES 31

ANNEX 1: METHODS 32

ANNEX 2: SITE PROFILES AND FINDINGS 40
Choluteca 40
Choloma 51
Juticalpa 60

ANNEX 3: LIST OF PEOPLE CONTACTED 71

ANNEX 4: LIST OF ACRONYMS 73

90

FINAL REPORT: A SOCIAL SOUNDNESS ANALYSIS OF THE MUNICIPAL DEVELOPMENT PROJECT

INTRODUCTION

Recent studies of various legislative, fiscal, and administrative aspects of municipal governments have identified the myriad of problems facing local officials. Traditionally, local governments have served as centers of power and authority. Current trends, however, indicate they are no longer function they once did (The Urban Institute, 1988; The Urban Institute, 1989; and Instituto Centroamericano de Administración de Empresas, 1989).

Historically, municipalities controlled most basic public services. Over time, however, the central government has centralized many of the more lucrative services within their agencies or autonomous parastatals (such as water, electricity, and forests). Municipalities remain in control over the least fiscally productive services whose legislatively-fixed tariffs are out of touch with current financial needs (such as garbage collection, markets, and sewage). As a result, most municipalities have very small budgets that do not support proper service delivery.

Current budgetary procedures further exacerbate the problem. Municipalities develop their budgets on unrealistic income expectations. They then pass these on to the central government which makes its own allocations to the municipalities without truly considering the budgets received. Municipalities continually run deficits and must request subsidies from the central government to pay their debts.

Finally, human resources in the municipalities tend to be poor. Most municipal workers lack training and education, and the low pay provides little work incentive. To complicate matters, high turnover in personnel makes it difficult to justify investing in personnel training.

As a result, municipalities generally have the following characteristics:

- With most major public services under the control of centralized autonomous agencies, citizens have found service delivery unresponsive to local needs.
- While local governments still have control over the less profitable services, serious funding and management problems hamper effective delivery.
- Given their inability to obtain the services desired, local constituencies have lost faith in local officials and seek support elsewhere either from outside organizations or through channels that do not include the local government.

The Municipal Development Project

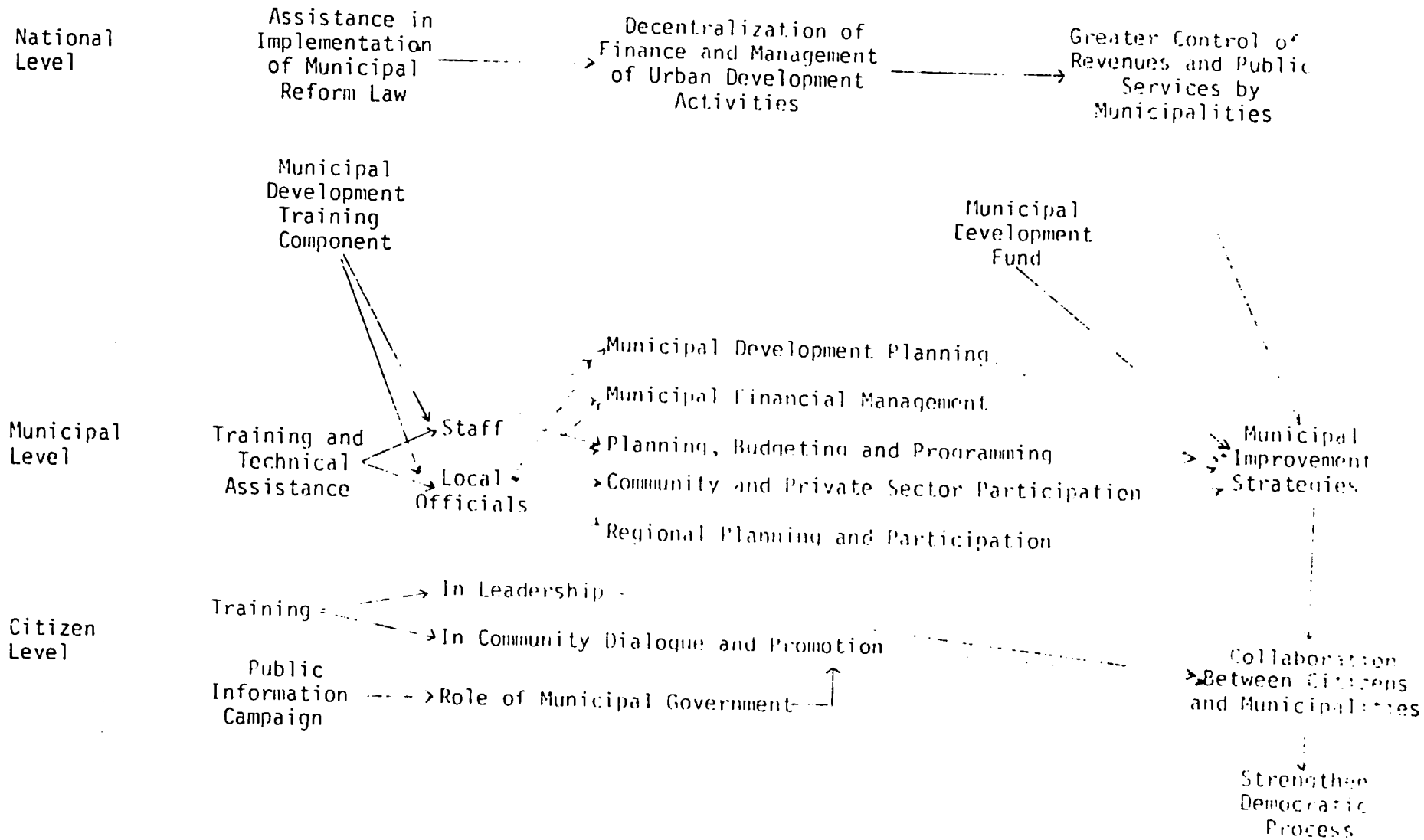
The Municipal Development Project (MDP) seeks to address these problems by enhancing local governments' capacity to plan and administer public services and respond to constituent requests. The project will include training and technical assistance, a municipal fund, and creation of a municipal development training capacity (see Exhibit I).

Training and technical assistance will occur at the national, local government and constituency levels. At the

- 92

EXHIBIT I

Model of the Municipal Development Project



national level, the MDP involves supporting and coordinating policy changes anticipated as part of the passage of the new municipal reform law. The MDP will serve as a catalyst to ensure that the changes identified in the law will occur. These policies provide greater autonomy and power to the municipal governments through:

- separate elections
- regulation and implementation of a central government system to transfer funds to municipalities
- design and promulgation of annual planning, programming, and budgeting systems for local governments
- devolution of services functions to local governments
- transfer of ejidal land to municipalities
- municipal participation in management of natural resources
- permanent capacity for research, training, and technical assistance to support municipal development
- formulating policies and regulations to strengthen support systems.

At the municipal or local government level, the concern focuses on strengthening municipal abilities to plan and administer public services and respond to citizen needs. While all municipalities will receive training, the project will target most of its technical assistance efforts in twelve to fourteen municipalities with strategic importance for national development. These efforts will focus on understanding the new

94

municipal law and the responsibility it places on municipalities, increasing abilities to plan, develop, implement, and evaluate policies related to revenue and services, and opening avenues for citizen input and responding to their needs.

The project proposes training and technical assistance to strengthen capacity in:

- financial management and revenue generation,
- land development policies, planning, and management,
- policies, strategies and program to improve public service delivery,
- municipal planning, programming, and budgeting,
- mobilization and effective utilization of citizen participation, and
- regional and pubic/private sector partnerships in development activities.

At the constituency level, the MDP will work with selected local leaders to increase their involvement in local government. This entails working with leaders of local community development groups (patronatos) as well as more formalized groups--such as the Lion's Club--to get them involved in a dialogue with municipal officials as well as increase private sector participation.

The municipal fund would provide limited capital to selected infrastructure projects developed as a result of this new dialogue. While not a permanent alternative source of funding, it would provide the needed resources to meet the expectations raised by these efforts.

95

The municipal development training portion of the project provides priority training directly aimed at the above mentioned municipality needs. The municipalities will play the primary role in planning and implementing priority courses. These efforts will establish a permanent institutional capacity for research, training and technical assistance to support long-term municipal development.

The MDP creates a stronger, more responsive local government where citizens are involved in the decision-making process. Such a situation helps to establish a healthier democratic environment with a continuous dialogue between official and constituent.

The Current Study

In December, 1989, USAID/Honduras contracted a group of consultants to complete a social soundness analysis of the proposed project. To complete this study, team members visited three of the proposed project sites in January, 1990 to examine current service delivery and possible project results. In particular, the analysis focused on:

- identifying current influential groups,
- determining how decisions related to public services currently are made,
- describing current citizen participation within these decisions, and
- analyzing the proposed project's feasibility based on the situation encountered.

This report provides a summary of the study results and analysis and recommendations for project direction.

-96

STUDY APPROACH

A social soundness analysis identifies "the compatibility of the project with the socio-cultural environment in which it is to be introduced . . . ; the likelihood that the new practices or institutions introduced among the initial project target population will be diffused among other groups . . .; and the social impact or distribution of benefits and burdens among different groups, both within the initial project population and beyond."*

For this study, USAID/Honduras selected three representative sites--Choluteca, Choloma, and Juticalpa--for an in-depth analysis of current public service delivery at the local level. The site visits mainly involved interviews with key local leaders who, because of their position, could provide insights into local administration of public services and citizen participation. (For a complete description of the methods used, see Annex 1.) Interestingly, an election had occurred in November--which required the teams to interview both current and newly elected local officials before January 25 when the new administration took power. Thus, respondents included:

1) The mayor (alcalde),
2) Other key municipal officials involved in service delivery,
3) The newly elected mayor,
4) Both political party leaders,
5) The local armed forces leader,

---

*AID Handbook 3, Annex 3F, 1982, page 1.

6) Several key citizen group leaders (including patronatos, cooperatives, social clubs, etc.), and

7) Representatives of government and non-government agencies.

The interviews in Choluteca occurred on January 11-12, 1990 and those in Choloma and Juticalpa (completed by two separate teams) occurred January 22-24, 1990. Interviews covered questions about respondents' key concerns for the municipality, their perceptions of current service delivery and their participation within the decision making process. The objective was to obtain accurate measures of the elements forming the social soundness analysis.

Measuring the Social Soundness Elements

Social feasibility. MDP efforts within the municipality require a working knowledge of different groups' current influence and participation levels to ensure project compatibility. The interviews conducted during the site visits served as the major source for this part of the analysis. The study also used basic socio-demographic data to help determine "project fit."

Diffusion of Innovation. The probability of diffusion of project effects involves the mobility of those involved in the project, patterns of authority and leadership, and the entity to be spread. For the MDP, this involves the knowledge and experience gained concerning planning and managing community improvement projects. At the municipal level, diffusion must occur to the municipalities not receiving training as well as to

municipal employees not involved in the actual training. At the citizen level, trained leaders must pass on their knowledge to others within the community so that they, too, may participate in the planning and execution of community improvement projects.

Measuring spread effects focused mainly on identifying current affiliations of those likely to receive training. People who are members of several different groups and organizations will be able to share their knowledge beyond the organizations selected for training. Examining the experiences of others in certain municipal associations further enhanced this measure.

Social Consequences and Benefit Incidence. While the initial beneficiaries of the MDP will be those who receive the training and technical assistance, these benefits and consequences will also pass on to others. If, however, specific groups receive training and technical analysis and others do not, the project could change the current power structure. To determine such consequences, the analysis considered: who will be the direct beneficiaries of the project, how the project will likely affect their relationship to others in the power structure, and what changes are likely to occur as result of the recent elections.

FINDINGS

General Site Descriptions

As stated earlier, the three sites selected illustrate the diversity within which the project will operate. Choluteca, located in the southern part of the country, represents the most

populated in the study. Choloma, located near Honduras' second largest city (San Pedro Sula), is the second largest in the study, with a rapidly growing population. Juticalpa is the smallest with a largely agricultural population. (Annex 2 provides a detailed profile and findings for each of the three sites visited.)

Overall, the department of Choluteca most reflects the national averages (see Tables 1 through 3). While a large portion of the population works in agriculture, some diversity exists within the economic community. The department of Olancho (where Juticalpa is located), on the other hand, is uncharacteristically rural, with 70% of the population involved in agriculture. Choloma is located in one of the most urbanized departments of Honduras (Cortes) where only 25% work in agriculture and 35% in financing and personal services.

Ranking the municipalities according to size of city, complexity of local government administration, and public service delivery places Choluteca as the most complex, Choloma second, and Juticalpa third. While the municipality of Juticalpa has experienced a stable, but relatively slower, growth rate, Choluteca and Choloma are growing very rapidly and face severe problems developing public services to meet new demands. Choloma has the only significant industrial base--which should provide substantial new employment opportunities but could strain municipal services even further than the are now. Choluteca does not have many new employment opportunities--which will hamper community development. Juticalpa maintains a mostly rural

100

TABLE 1

Occupational Category of Economically Active Population, Aged 10 and Over

Occupational Category	National	Choluteca	Olancho	Cortes
Professional	6.9%	5.8%	4.1%	7.6%
Manager	2.0%	1.1%	0.9%	2.7%
Office Work	2.9%	1.4%	0.8%	4.5%
Sales	6.2%	5.4%	2.7%	10.2%
Agriculture	43.4%	48.0%	70.0%	19.7%
Transportation	3.0%	2.3%	1.7%	4.3%
Artisan	11.5%	10.3%	6.0%	18.7%
Other Artisan	3.6%	3.7%	2.0%	3.6%
Laborer	8.5%	1.6%	0.3%	5.4%
Personal Services	4.1%	6.1%	4.0%	12.2%
Not Identified	4.1%	3.9%	3.1%	4.8%
New Workers	5.7%	10.6%	4.4%	6.4%
Population Total	1,393,065	89,656	77,720	230,349

Source: Dirección General de Estadística y Censos, 1988 Census

101

TABLE 2

Economic Sector of the Economically Active Population, Aged 10 and Over

Sector	National	Choluteca	Olancho	Cortes
Agriculture	43.89%	48.13%	70.24%	24.74%
Mining	0.15%	0.14%	0.11%	0.06%
Manufacturing	10.48%	9.43%	4.95%	19.17%
Electricity and Water	0.53%	0.31%	0.13%	0.86%
Construction	4.70%	4.81%	2.55%	5.19%
Commerce	8.81%	6.74%	3.67%	14.87%
Transportation	2.50%	1.54%	0.97%	4.18%
Finance	1.50%	0.55%	0.32%	2.55%
Services	17.00%	13.46%	9.61%	20.21%
Not Specified	4.76%	4.31%	3.08%	6.13%
New Workers	5.69%	10.58%	4.37%	6.39%
Population Total	1,393,065	89,656	230,349	77,720

Source: Dirección General de Estadistica y Censos, 1988 Census

107

TABLE 3

Illiteracy Rates Among the Population, Aged 10 and Over

Area	National	Choluteca	Olancho	Cortes
Total	32.0%	36.5%	40.6%	25.7%
Urban*	17.4%	23.2%	22.5%	22.2%
Rural	42.4%	41.1%	45.6%	37.1%
Population Total	2,830,279	185,940	174,567	439,431

Source: Dirección General de Estadística y Censos, 1988 Census

*Urban areas are defined as populated areas with 2000 or more inhabitants and the following characteristics: piped water service, land communication, regular maritime service, complete primary school, mail or telegraph service, and at least one of the following: electric lights, drainage system, or health center. Rural areas are all others.

103

population whose well-being depends on proper natural resource management and access to markets for sustained agricultural development.

Despite this diversity, the three municipalities share several common problems:

- a scarcity of drinking water,
- a total mismanagement of municipal wastes (including trash, sewage, etc.),
- inadequate maintenance of public properties,
- deforestation,
- housing deficits,
- inadequate sewage systems and maintenance,
- few improvements to the local public education system,
- unpaved, but heavily travelled roads in urbanized areas with inadequate shoulders and drainage, and
- Similar municipal governments characteristics:
  - dependency on the central government,
  - new mayors who are experienced businessmen,
  - no project planning skills among municipal technical personnel,
  - large deficits with BANMA (the municipal bank),
  - constituencies with low expectations for municipal services,
  - constituency distrust and frustration with local officials,
  - no explicit environmental policies beyond crisis management for water, and

- low government work force productivity.

The municipalities also share the social problems of high illiteracy rates, malnutrition of rural pre-school and school age children, and fertile land distribution favoring a few major landowners. These factors require local government attention as well as central government efforts. Choluteca and Choloma also have serious problems associated with flooding which affect the economic development of the area.

Current Participation Patterns

Traditionally, the local government served as the focal point for citizen grievances and a conduit for central government services, and some citizens still request local government officials to help them with certain problems. The site visits revealed, however, that because of small budgets and other problems as noted above (such a limited staff capacity), the municipal governments usually cannot respond to many local problems. Citizens expressed distrust and frustration at local government promises and support, and have, as a result, developed a complex set of mechanisms for achieving results that do not necessarily include the local government. Citizens, however, exhibit a great deal of community spirit and effort to solve local problems. Those involved in community improvement include the following:

Patronatos. Respondents described the patronatos, or juntas de desarrollo comunal, as fundamental for any community improvement project. These groups form at the neighborhood level

105

and can be very active. They meet as a group to elect officials and identify projects needed to improve the neighborhood. These projects have included obtaining water (both drilling a well as well as laying the pipes to each house), obtaining electricity, building a community center, building a health clinic, and building a soccer stadium.

Usually, only the lack of supplies keeps them from completing a project. While they can supply the labor, they need money to purchase materials or certain services (such as electricity). Some patronatos have raised money by holding money raising activities such as raffles, dances, etc. The groups described below, however, provide the majority of these funds.

Local and international organizations. While the number and type of these organizations varied between sites, these constituted the major source of local project funds. The patronatos constantly come to them with requests for money, supplies, food, or equipment for various projects, and their participation in these projects has been crucial. In Choluteca, where international organizations are very prevalent, groups come to these organizations first to request support and to municipality, if at all, only to supplement what they receive from others. In Juticalpa and Choloma, the international presence is less apparent and local organizations (such as the Lion's Club and Chamber of Commerce) finance more projects.

Besides serving as a source for community improvement projects, these organizations also plan and support their own

106

projects. As a result, some have a vast network of volunteers and promoters in the community that can be mobilized.

Religious Groups. While in some ways these groups could be placed with those above, they are listed separately because respondents consider the groups' leaders very influential in the community and the church traditionally has played an influential role in local communities. Both Juticalpa and Choluteca had one local priest in particular which everyone identified as a community leader who had organized community development activities of his own--although in Choluteca this organization was much more complex and developed.

The Local Leader of the Party in Power. The central government serves as a source of subsidies and services to local governments and other groups, and the local party leader acts as a local contact to this source. Leaders of patronatos can request funds from the local party leader, who would, in turn, passes the request to the Diputado (the area's representative). The Diputado then works through the central government and its ministries to obtain the funds needed. He then gives this subsidy directly to the patronato--bypassing the local government.

During the November, 1989 elections, the National Party gained control of the central government and a vast majority of the municipalities (from the Liberal Party). Consequently, local National Party leaders should hold an important position within the community for the next four years.

107

The Local Military Leaders. The military has a local presence in Choluteca and Juticalpa which provides supplies, vehicles, manpower, and expertise for community improvement projects. While those interviewed noted that they did not intervene in the local government, they had provided some needed resources to local government projects (such as planting trees in reforestation projects) and local officials sometimes sent groups to them for support. Local citizen groups will also contact the local military for support on their own projects.

The Honduran armed forces are also planning a joint project with U.S. armed forces where they will be completing some local community improvement projects selected from a list provided by mayors in each department.

Individuals. In each community visited, wealthy individuals existed which would contribute to community improvement projects or organized their own projects. In Choloma, for example, respondents always mentioned one businessman in particular who supported community improvement projects.

Other individuals would also contribute their technical skills to projects. In Choluteca, for example, the team found that many of the businessmen voluntarily provided technical expertise to the municipal corporation for different projects.

The Newly Elected Government

As noted earlier, Honduras elected a new government in November, 1989. These officials took office on January 25. This election marked a shift in power at the central government level

from the Liberal Party to the National Party. The National Party also won 80% of the municipal elections.

From our interviews with the newly elected mayors, it appears that the National Party selected its mayoral candidates with specific characteristics in mind and had instructed these candidates concerning Party philosophy and approach. All three newly elected mayors were prominent businessmen in their communities, they all had plans to increase community participation in municipal decision making, and all planned to consult with local leaders and use them as voluntary technical advisors for running the local government.

Most interesting for this study are the plans for involving citizens in municipal decision making. Each mayor had a different approach and a different level of involvement. In Choloma, the mayor-elect planned to reinstate the cabildos abiertos (a form of town meeting) and allow citizens to express their concerns to the municipal corporation. In Choluteca, the new mayor planned to include leaders of patronatos in deciding budget priorities. In Juticalpa, the plan involved using promoters to organize individuals and explain their rights and obligations toward the municipal corporation.

Basic to these plans, however, is assumed support from the central government. Because all three mayors represent the National Party, they expressed assurance that they would receive a great deal of support from the central government (noting that President-elect Callejas had promised it) to complete a variety of projects.

Excluded Groups

Despite the number of organizations that exist in these communities, some groups lack representation and others are excluded from certain activities. The teams actively sought to interview organizations specifically for women, campesinos, and those in the outlying areas, and found very few examples. In Juticalpa, for example, the team found only two women's organizations. In Choluteca, no women's groups existed outside of those organized by various churches. Nowhere did a strong campesino organization exist--beyond specific cooperatives--and none of the respondents noted the campesinos as an important force in their municipality.

Other organized groups did not participate in certain activities. For example, although political parties might be petitioned for community project support, the patronatos did not want them involved in their internal affairs. No one noted wanting to work with the unions. One mayor specifically stated that he avoided involvement with unions.

CONCLUSIONS

Factors Supporting the MDP

The three sites visits identified several factors which support project success. One of the most important factors involves the strong sense of community spirit and organization that already exists in these communities. As described above, communities have organized themselves into patronatos, social clubs, and philanthropic organizations that all complete

community improvement projects. These groups have learned to be self-reliant and can conceive and accomplish some extensive projects without local government assistance.

Furthermore, despite past frustrations and distrust of local officials, the groups interviewed did not object to collaborating with the municipality, if the project would benefit their community.

This community support extends also to local businessmen who have financed projects in the past--particularly in Choloma--and have voluntarily supplied technical assistance to the municipality. Their contribution will serve as a further asset to the MDP.

Finally, the newly elected governments' plan for increasing participation in local government aligns itself well with project objectives. All of the newly elected mayors have plans to increase citizen participation in the municipal corporation's decisions. These plans can serve as a starting point for further training and technical assistance in this area.

Possible Obstacles to the Proposed Project

Paradoxically, some of the same factors that will support project success may also serve to impede it: in particular, the networking that has occurred between the patronatos and the international and local organizations to complete community improvement projects. Because they have learned to distrust local officials' promises of project support, patronatos and other groups conceive and complete projects totally outside of

the municipal government, depend on the support of other groups (such as international organizations and the military) to supply what they need. Rather than being a conduit of support, the local government is completely bypassed--even for certain subsidies from the central government. For project success, the local government must become a collaborative member from the project planning stage and serve as a partner in obtaining funds.

Working in cooperation with these groups will help local governments overcome another major problem facing the project--the dependence of local governments on the central government. Everyone--from the mayor-elect to people in the local market--expressed assurance that some project would be completed because President-elect Callejas had promised it. The new mayors are assuming a great deal of support that may not exist. Unless they plan now for alternative sources of assistance, they will not be able to do any more than the past government and will lose citizen respect as well.

Another major factor that may impede project success involves the type of project planning and participation that has occurred in the past--which has been described as crisis-oriented. No community interviewed had a long-range community improvement framework within which they worked. Most patronatos interviewed appeared to form and remain active because of some local problem or need. Once they solve the problem, or are blocked from achieving their goal (unable to find funds, etc.), the organization loses momentum and becomes dormant.

Finally, partisan politics can effectively limit certain project efforts. Many of the respondents in the National Party local governments complained about the lack of support from the Liberal Party central government. They explained that they could not finance local projects because the central government refused to give them the subsidies they needed to operate. Even when patronatos obtained subsidies for community projects, the central government by-passed the local officials. The refusal to work with or support certain officials or representatives because of political affiliation hinders democratic ideals.

Factors Assisting Diffusion

The spread effects of the project depend on the networks that exist between and within municipalities and promote communication of new ideas and techniques. Currently, several different networks exist in these communities that should assist such communication. Many of the patronato leaders, for example, know of each other; and in some communities, such as Juticalpa, friendships between members of the different social clubs (such as the Lion's Club, Chamber of Commerce, etc.) have created mutual support networks. Finally, many of the non-profit organizations and religious groups have their own networks of promoters and volunteers in communities that can all assist in diffusion.

Beyond the immediate community, diffusion can occur through political party ties and local media. As described above, the National Party appears to have developed a support base for their

113

mayors. This base and the connections it creates among the municipalities (80% of the local governments represent the National Party), should foster the spread of innovative ideas and techniques.

In Juticalpa and Choluteca, and, soon, in Choloma, local radio stations operate and inform citizens. These stations broadcast not only within the municipality, but throughout the Department. They serve as a further means of spreading information.

Impediments to Diffusion

Several factors exist, however, that, unless addressed, will limit diffusion within the municipalities. First, although patronatos exist in many areas, they are not all currently active and some areas have none. Furthermore, few local public information sources exist--which restricts the information available concerning local events. Low literacy rates also limit the types of training possible for some groups. The project must make a concerted effort through local officials to reach and organize those less-connected and in a manner they can understand to ensure maximum diffusion.

While diffusion within municipalities among organized groups appears highly probable, diffusion between municipalities seems less certain. The team had difficulties finding any active municipal associations. For example, in the department of Choluteca, many of the National Party municipalities formed an association because they received little support from the Liberal

114

Party-controlled central government. The central government, however, blocked their efforts to gain support from some international organizations; and the association dissolved. Similarly, in the department of Cortes, the team tried to identify and interview representatives of the Cortes municipal association, but could not find any one who knew about it. Subsequently, the team did learn that USAID/Honduras has continuing contact with this association and that it is active in the region.

Beneficiaries

While the first beneficiaries of the MDP would be those that directly receive training or technical assistance as part of the project, the project effects are anticipated to reach a far greater number. Direct project beneficiaries, however, could possibly exclude those groups with little organization or position in the community. These groups include: women, farm workers (campesinos), areas without a functioning patronato, the outlying areas that are still part of the municipality (aldeas and caserios), and groups which few people wish to include because of their nature--in particular, party representatives and unions.

Effects on the Power Structure

The project will likely increase the power of certain beneficiaries. The project needs to focus particular concern on the volunteer technical advisors which all the new mayors plan to use. Given their positions as community leaders and their role

115

in the local government, they are likely candidates to receive training under the project. This training could possibly further enhance their power, and given their position in the local government, they could begin to control local politics--even though they are not elected officials.

The project will also increase local government power. Currently, constituents do not respect the municipality because of past problems. If the municipality shows citizens that it is able to provide--and improve--service delivery, confidence and dependence on local government should increase.

At the same time, if citizens begin to depend on municipal governments, they may not seek as much support from outside sources. Local and international organizations will be free to use their resources in other areas.

The project could also possibly strengthen the National Party at the expense of the Liberal Party. The National Party recently won control of the central government and many of the municipalities. This allows National Party representatives to work through both the local as well as the central government to obtain subsidies for community improvement projects. If, because of the MDP, the local government completes projects, it could be interpreted as the power of the National Party.

RECOMMENDATIONS

While the MDP will find a relatively receptive environment with the municipalities represented in this study, several

116

efforts will enhance the project's success and encourage greater diffusion:

Ensure organization and participation of all groups within the municipality.

As noted in several points of this report, various groups lack representation or are excluded from particular activities. Not all groups can be direct beneficiaries of project training. For a true democracy to exist, however, local government officials must consider their needs and desires into account when planning local projects. These officials need to understand and make a concerted effort to reach out to and/or organize those not currently represented by some organization. These include the areas without patronatos, women, campesinos, and groups such as political parties and unions.

As a corollary to this recommendation, the project should also:

Ensure that local governments coordinate with international and local organizations and the military on community projects.

Currently, many groups outside local government support community improvement projects without coordination or consultation with local officials. While this evolved from the lack of local government support, it reinforces current local government impotence. For the local government to gain greater responsibility within the community, it must include these groups during its project planning stage and coordinate efforts, and these groups should consult with the local government to avoid

117

conflicts or duplication. This requires a continuous dialogue between these entities.

Exploit local resources to increase diffusion.

Several groups provide natural networks that will assist project spread effects. These include: the patronatos which represent many neighborhoods (up to 1500 people), local non-profit organizations and religious groups who have their own networks of promoters and volunteers that work in various communities, the mayor's volunteer technical advisors that represent specific economic sub-groups in the municipalities, the local media which can broadcast interviews with municipal officials and public service announcements, and the teachers which represent a highly organized group that exist in each community.

As a corollary to this recommendation, the project should also:

Use local resources in the training component.

Several groups within local communities could be used to help organize and train other groups. These include patronatos with a successful track record, the technical advisors who are willing to voluntarily work in local affairs, business leaders, and non-profit and religious groups that are experienced in organizing, mobilizing and training local citizens.

118

The project's training component should include the following aspects:

Developing realistic plans and coordinating responsibilities with the central government.

Local governments currently exhibit an inertia related to public services while they wait for support from the central government. The municipalities need to plan and act on projects with the assumption that such support may never come.

At the same time, given their current fiscal situation, they will never be able to supply all services without central government support in some areas (such as health, education, etc.). The local governments must use realistic budget and support expectations to coordinate and share responsibilities with central government agencies.

Avoiding partisanship.

Several respondents identified partisanship as a major problem in community improvement. Some municipalities explained they never received requested subsidies because, as members of the National Party, the central government had boycotted them. To avoid unintentionally favoring one party over the other and perpetuating this problem, the project should stress consulting with all parties in the decision making process and selecting community improvement projects irrespective of the party membership. The new law will also help to ameliorate this problem. Under the municipal reform law, central government transfers will be calculated based on several factors such as population--not on party membership.

At the same time, because the project plans to include existing municipal associations in its efforts and some of these formed along party lines, care must be taken to ensure the association includes all municipalities and not reinforce the problem.

Developing long-range community improvement planning for community leaders.

Patronatos' current crisis-oriented responses to community problems does not encourage continuous community participation. Once the crisis is over, or efforts blocked, the groups tend to dissolve until another crisis. If the groups formed a longer range view that involves planning beyond the next crisis, these groups could collaborate more effectively with each other and with the local government. These plans could be presented to the municipality and incorporated into its planning process.

Finally, the project should consider:

Ensuring that each municipality completes one visible collaborative project quickly.

The project will overcome the frustration and distrust that citizens now hold toward the local government by showing that a change has occurred and that the municipality does have some resources and desire to work with them. The project, however, needs to ensure that the National Party does not receive all the credit.

REFERENCES

Instituto Centroamericano de Administracion de Empresas, 1989
Informe Preliminar de la Investigacion Participativa de Necesidades de Capacitacion y Asistencia Ténica de las Municipalidades de Honduras.

The Urban Institute, COFINSA, IBAM, 1988
Informe Final: Reforma de la Ley de Municipalidades.

The Urban Institute, 1989
Honduras Shelter and Urban Development Sector Assessment

-121

ANNEX 1
METHODS

This analysis focuses on the probable success of the Municipal Development Project (MDP) based on the current decision making processes within the three selected sites. To gain an accurate image of how these decisions occur, teams interviewed those involved in the process. Respondents included the elected and appointed officials (both the current and the newly elected) as well as persons involved in trying to influence municipal decisions and obtain services.

Interview Focus

Each interview team involved two people, of which at least one was Honduran, and interviews were open-ended and unstructured. Interviewers used guides to provide a basis for directing the interviews and to ensure that certain topics were covered. (Exhibit 2 provides a copy of these guides.) A Honduran sociologist reviewed these guides to ensure relevancy and accuracy in the Honduran context. AID/RHUDO then reviewed the guides to ensure coverage of specific issues.

Following the interview the interview team would expand their notes and extract specific information regarding:

- Local problems and solutions
- Current decision making processes
- The role of citizens in these processes
- Receptivity to MDP elements

-122-

Where any discrepancies or missing information occurred, the interviewer contacted the respondent shortly after for further information.

Respondents

Because the study focus involved municipal operations, each team interviewed the current mayor as well as newly elected officials to determine their views concerning the operation of public services. Through these officials as well as through contacts with knowledgeable people, the teams also identified pressure groups. This method of "snowballing" identified those recognized as local leaders and provided a greater understanding of citizen input, the current level of citizen involvement, and possible participant/project compatibility.

Finally, because of their influence within the decision making process, we interviewed local party leaders to determine their views on public services and their role within the decision making process.

Limits on Information

The use of key informant interviews as used in this analysis provides limited, but insightful information. Key informants have access to specific aspects of the decision making process shared by only a few. Without their information, the description of the process would be superficial and second-hand. At the same time, the study did not use a scientifically selected sample of all municipalities or all those officials within such municipalities.

Nor did the study include a scientifically selected sample of citizens to get their views of the municipality and its service delivery. Rather, respondents represented those who were actively involved in the community and familiar with community problems and opinions.

As such, the information collected does have specific limitations.

- It should not be considered as representative of <u>all</u> communities within the country. It can, however, be viewed as illustrative of the types of decision making processes likely to be encountered in those communities selected for the MDP.
- The validity of the findings depends on the validity of the responses given by the informants. It is possible that someone could attempt to provide misleading information. To attempt to avoid this, the study included various key people to triangulate information. Where discrepancies occurred, the teams tried to clarify the situation. Furthermore, the teams stressed the confidentiality of interviews to ensure openness.

This information provides a concerted effort based on accepted social science practices to describe the situation facing the MDP.

EXHIBIT II

Interview Guides

Introducción:

De vez en cuando, AID contracta estudios de la cultura Hondureña para entender mejor como se funcionan varios aspectos de la sociedad. No hace mucho, nos contractó para estudiar los servicios al nivel municipal. Somos un equipo de consultores. Junto con AID, escogimos tres cuidades que son representantes de varios aspectos de las municipalidades Hondureñas para estudiar más profundo como brindan los servicios. (Los tres son Choluteca, Choloma, y Juticalpa). El objetivo de esta entrevista es poder identificar claramente como los funcionarios municipales hacen sus decisiones sobre el uso de los recursos para los obras y servicios. Sabemos que estas decisiones son dificiles porque hay pocos recursos y tienen que decidir como van a dividirlos.

Vamos a entregar a AID esta información para usos como guiar sus politicos, etc.

La información que nos da es privada. No vamos a identificar quien dijo que en nuestro informe.

Funcionarios Actuales

1. Cual es su puesto y describa sus responsabilidades.

2. Según su experiencia, cuales son los mayores problemas para este municipio? Y para la municipalidad? (Sondea por la prioridad de los problemas y especificar los de los servicios. Por ejemplo, cobertura, mantenimiento, administracion, manejo financiero, o personal)

   A su jucio, cuales son los opciones para solucionar estos?

3. Cuales son los servicios públicos que esta municipalidad brinda?
   (Sondea para estos y cual institución tiene responsabilidad: agua, dranaje, alcantrilla, pavimentación, aceo, electricidad, etc.)

4. Puede describir su papel (individuo y del municipio) en decisiones sobre estos servicios?

5. Le gustaria tener más poder en decisiones sobre servicios en general? Por qué? ó Por qué no?

   Si tuviera más poder, que haria Ud. primero, segundo, etc.?

6. Que factores considera Ud. para hacer una decisión sobre un servicio?
   (Sondea: Algo más? Que importancia da Ud. a su imagen frente de la comunidad en estas decisiones?)

7. Que organizaciones, instituciones, grupos, o individuos considera Ud. que habria que tomar en cuenta para un proceso de desarrollo municipal y participacion comunitaria?

   De estos, hay algunos que Ud. considera "lideres?"

8. Que organizaciones o instituciones fuera del gobierno participan en estas decisiones?
   Cuales?
   Se incluyen grupos de ciudadanos?
   Quien?
   Como?

9. Puede darnos ejemplos recientes de esta influencia?
   Cual?
   Quien?
   Como?

10. Es la rotación de personal un problema para este municipio? (Por que? Que tipo de personal? A donde van?)

11. Enumere las organizaciones a las que Ud. pertence que tengan un papel o influencia en el desarrollo municipal?

Partidos
(Y Otros Grupos Organizados)

1. Puede describir su puesto y sus responsabilidades dentro (organización)?

2. Puede darnos una breve historia de (su organización)?

3. De su punto de vista, cuales son los problemas mayores para su municipio? Y para la municipalidad?

   A su jucio, cuales son los opciones para solucionar estos?

4. Para Ud., en el caso de gestionar bienes o servicios para la comunidad, que importancia o papel le concede a los funcionarios municipales?

5. Historicamente, que ha sido el rol del partido (o su grupo) y los activistas politicos en el desarrollo de servicios para el municipio?

6. Puede describir su relación con la municipalidad y de la comunidad?

7. Si Ud. tiene un problema con un servicio, con quien habla? (Alguien más?)

8. Que organizaciones, instituciones, grupos, o individuos considera Ud. que habria que tomar en cuenta para un proceso de desarrollo municipal y participación comunitaria?

   De estos, hay algunos que Ud. considera "lideres?"

[Para los partidos:

Describe su relación con los patronatos.]

9. Recibe muchas peticiones de personas para ayudarles a gestionar servicios?
   Quien
   Cuales servicios
   Como

10. Puede darnos unos ejemplos recientes?

11. Enumere las organizaciones a las que Ud. pertence que tengan un papel o influencia en el desarrollo municipal?

12. Hay unas personas influyentes con quienes debemos consultar sobre como se hacen decisiones en general?

Futuros Funcionarios

1. Cual es su puesto y describe sus responsabilidades en el nuevo gobierno?

2. De su punto de vista, cuales son los mayores problemas para este municipio? Y para la municipalidad?

   A su jucio, cuales son los opciones para solucionar estos?

3. Que piensa será su papel en las decisiones sobre los servicios municipales?

4. Le gustaria tener más poder en decisiones sobre servicios en general? Por qué? ó Por qué no?

   Si tuviera más poder, que haria Ud. primero, segundo, etc.?

5. A su jucio que factores le condicionarán para tomar una decisión sobre un servicio o obra?

6. Que organizaciones, instituciones, grupos, o individuos considera Ud. que habría que tomar en cuenta para un proceso de desarrollo municipal y participación comunitaria?

   De estos, hay algunos que Ud. considera "lideres?"

7. Hasta ahorita, ha recibido presión para ayudarles a gestionar servicios?

   De quien? (Sondea - Alguien más?)

9. Hay unas personas influyentes con quienes debemos consultar sobre como se hacen estas decisiones?

10. Enumere las organizaciones a las que Ud. pertence que tengan un papel o influencia en el desarrollo municipal?

Ciudadanos
(Y Lideres de organizaciones)

1. Puede describir su participacion en su comunidad?

2. De su punto de vista, cuales son los mayores problemas para este municipio? Y para la municipalidad?

   A su jucio, cuales son los opciones para solucionar estos?

3. Si quiere algo o quiere cambiar algo en su comunidad, con quienes habla? -- Y en qué orden?

   (Sondea: Alguien más?)

4. Como decide que hacer cuando necesita algo para su comunidad?

5. Puede darnos un ejemplo donde trato de obtener o cambiar un servicio o revisan unas obras?

6. Prefiere hacerlo solo, o trata de obtener la ayuda de otros? Por que? Con quien?

7. De su punto de vista, cual ha sido la participación comunitaria en la toma de decisiones de la municipalidad?

8. Cuales son las organizaciones, insituciones, grupos, o individuos de este municipio mas activas y que mejor han gestionado y ejecutado proyectos de servicios?

   De estos, hay algunos que Ud. considera "lideres?"

9. Hay unas personas influyentes con quienes debemos consultar sobre como se hacen decisiones en general?

11. Enumere las organizaciones a las que Ud. pertence que tengan un papel o influencia en el desarrollo municipal?

[Para Patronatos:

Puede describir su relación con los partidos?

Puede decribir los recursos que tiene su patronato? (el número de gente, sus habilidades, etc.) y como la gente contribuye a una obra?

Qué está preparado hacer para (ciudad)? (Que puede darle or hacer para su ciudad?)

Qué necesita ver en la municipalidad para trabajar con ella?]

128

ANNEX 2
SITE PROFILES AND FINDINGS

CHOLUTECA

Major Features

The Municipality of Choluteca represents the largest municipality in the southern region of Honduras with a territorial extension of 1,032.6 Km^2. It shares its municipal boundaries with six smaller municipalities: Perspire, Orocuina, Apacilagua, el Corpus, Santa Ana de Yusguare, Namasigue, San Lorenzo and Marcovia. Choluteca also serves as the Departmental seat.

The land comprising most of this municipality is relatively flat because it pertains to the valley of the Choluteca River watershed. The region is characteristic of the humid sub tropical forest associated with warm climates. The dominant vegetation has been that associated with the broad leaf forest. Unplanned human activity in the region, however, has seriously degraded and reduced the forests.

The climate could be described as tropical rainy with a dry season: the period from November to May defines the dry season and June to October experiences torrential rains--but not on a daily basis. Precipitation, however, is more scarce than in other regions of the country.

The Municipality of Choluteca possesses variable edafological conditions. Overuse and erosion have thinned much of the area's fertile soil layers. A few major landowners dedicated to agricultural and cattle production for export possess the better remaining soils. Peasant farmers and a few of the poorer cooperatives use the rest of the rural land for subsistence farming.

Land use studies prepared in 1974 by CATASTRO (the national cadastre service) demonstrated that the large landowners possess the land most appropriate for agriculture. Even the Agricultural Census of 1974 prepared by the Ministry of Natural Resources concludes that most of the land in this municipality is not appropriate for agricultural activities.

Water Situation

Water is a crucial resource for maintaining and improving economic production in this municipality; but as the population has grown, access to water has become more and more limited. SANAA provides limited, rationed service to few portions of the city of Choluteca. Several entire communities as well as neighborhoods, institutions and individuals have resorted to well installations to meet their water needs. Agricultural users must obtain irrigation water from superficial sources by pumping,

principally from the Choluteca River. In general, water quality for all uses is poor. Ground water presents contamination by minerals and in the south, salt water incursions occur--especially after stormy weather. Bacteriological monitoring of well water by CESCCO (the Center for Studies on Contamination Control) of the Ministry of Public Health display many cases of contamination. The National Survey on Health and Nutrition conducted by the Ministry of Public Health in 1987 described drinking water conditions as grossly inadequate in this region. Even the quality of irrigation waters from the Choluteca River is far from ideal, presenting raw municipal, industrial and agricultural (pesticides and fertilizers) contamination.

A well-publicized proposal for a major irrigation system has raised great expectations among the population as the solution to solve the water problems. To date, however, the central government has yet to make a commitment to the project because of its already precarious foreign debt situation.

Population Characteristics

The population of the municipality is 88,812 (54,481 urban, 34,331 rural) according to the 1988 census conducted by SECPLAN (the planning ministry) and includes 25 aldeas and 247 caserios. Surprisingly, the population density of this municipality is among the highest in the country at approximately 86 persons per square kilometer. This demographic feature reflects this area's proximity to two neighboring countries (Nicaragua and El Salvador) experiencing internal conflict for more than a decade which has promoted the movement of displaced people into Honduras. In addition, the city of Choluteca serves as the center of the extensive commercial activity between the three countries.

Population pressure on all public resources and services has reached critical levels in all sectors. Any sectorial planning that occurs is necessarily based on crisis management and no serious effort at long term planning exists. Certainly, no success at intersectorial planning has occurred--even though the Ley de Planificacion of 1986 (the planning law) decrees the creation of a Departmental Planning Authority that has representation of all major sectors.

Education Characteristics

The public education system requires more classrooms, teachers, furniture, equipment, supplies and improved quality. The level of education of the population is very low when compared to the rest of the country. Serious drought conditions further exacerbate the whole sector. The drought has meant reduced productivity and income of rural families whose economic options are limited and who would, even otherwise, live in precarious conditions. Migration as well as health and nutrition problems in school age youth do not provide an appropriate environment for learning. The National Health and Nutrition

Survey of 1987 concluded that 40% of the children under the age of 5 years are afflicted with malnutrition in the Department of Choluteca.

Housing Situation

Choluteca is also experiencing the highest housing deficit ever. A rapidly increasing percentage of the population is inhabiting grossly inadequate living quarters. The residential waste removal service services only the older section of the city of Choluteca and the system is in urgent need of repairs and improvements. While latrines have been installed in many areas, the efforts carried out lag seriously behind the demand or need for latrines, particularly in the marginal urban areas where the health risks of uncontrolled fecal disposition are higher.

Health Situation

The health service sector requires more professional medical, dental, nursing and para-medical attention, more hospital beds and supplies as well as adequate stores of medicines. Very little attention has been paid to serious occupational health problems of the working population of the southern region and should be a consideration in economic development planning. More official attention paid to preventive medicine efforts would likely reduce the pressure on existing health services.

Community water projects are examples of such efforts, and many institutions are involved with such in the municipality of Choluteca. Even though SANAA should exercise coordination and supervision of this sector, it is understaffed for this responsibility. CARE, CARITAS, MODICA, CORASUR, BID, the San Jose Obrero Association and the joint Honduran-American armed forces, and World Vision have all been active in the installation of wells, latrines and modest irrigation projects. The Basic Sanitation Division of the Public Health Ministry has constructed (in the Department of Choluteca) a total of 33 water projects and perforated 1,345 wells to answer, in part, the need for water. Yet, no one has conducted a study to determine the long term impact of so many wells on the ground water supply. Despite all this assistance related to water and wastes, no coordinated effort exists to solve the present or future problems of drinking water supplies, much less those related to waste management.

In addition, the drainage system for eliminating runoff from rain is grossly inadequate and poorly maintained. This contributes to localized flooding conditions even when rainfall is not extensive because the system that exists is clogged with litter and other debris or because no system exists. The latter occurs in virtually all areas outside of the paved sector of the city of Choluteca. Great concern over this problem in the marginal neighborhoods of the city exists because strong currents

132

are known to wash away the modest homes and belongings of inhabitants.

Economic Situation

Commercial interests in this municipality are managing, and the agricultural sector devoted to the production of meat and crops for export is gradually expanding. Irrigation, however, is critical to expansion and water sources are scarce. CORASUR, originally established by the National Agrarian Institute (INA), is now a fully independent organization doing well at assisting cooperatives in organizing themselves to improve production.

While not exactly located in the Choluteca municipality, the shrimp farming industry is having some economic impact through jobs and related commerce.

Municipal Fiscal Situation

Despite all this economic activity, the municipality cannot keep pace with the service demands of this growing population. Two specific loan projects from the Autonomous Municipal Bank (BANMA) control Choluteca's financial condition. The first loan financed the construction of a public marketplace in December of 1976 and totalled 1,389,796.00 Lempiras. The city obtained a second loan to construct a major bus terminal for a total of 653,000.00 Lempiras in September of 1977. On two occasions (March, 1983 and May, 1985), BANMA has renegotiated the total loan package with additional loans totalling 3,240,282.00 Lempiras. With added interests, the total municipal debt totalled 5,255,900.63 Lempiras in July, 1989.

At present, the municipality should be paying BANMA 42,000.00 Lempiras a month. Since little effort has been made to comply with these conditions, BANMA has been considering intervening in the administration of the fiscal affairs of this municipality. To date, political implications of this action have prevented the bank from doing so.

A recent fiscal analysis of the Municipal Government of Choluteca reports that it is extremely difficult to determine the exact costs of the various municipal services offered (see Table 4) because accounting records are unreliable. The same study classified standard municipal income to find that rental income from the marketplace and the bus terminal (33%), from tax on commercial establishments (22%) and services (10%) were the most important. It also revealed that the Municipality of Choluteca has received substantial assistance in the form of subsidies from the central government in recent years (1984-7). The study explains that 60% of municipal costs for the fiscal years 1987-88 were destined to pay the salaries of some 250 public functionaries. The precarious fiscal situation apparently has occurred because of an excess of salaried personnel, fixed taxes

137

and tariffs for services far below their real costs and little or no effort to recuperate benefits from public investments.

134

TABLE 4

SERVICES PROVIDED BY THE MUNICIPALITIES

Service	Choluteca	Juticalpa	Choloma
I. Urban Services			
1. Urban Street Construction and Maintenance	X (1)	X (1)	X (1)
2. Potable Water	-	X (2)	X
3. Sewage Drainage	X	X	X
4. Rainfall Drainage	-	X	-
5. Garbage Collection	X	X	X
6. Garbage Treatment	X	X	-
7. Urban Street Cleaning	X	X	X
8. Public Lighting	-	-	-
9. Land Use Zoning/Planning	X	X	X
II. Public Services			
1. Parks and Recreation	X	X	X
2. Cemeteries	X	X	X
3. Slaughterhouses	X	X	X
4. Markets	X	X	X
5. Libraries	-	X	-
6. Bus Terminal	X	-	-
III. Social Services			
1. School Construction	X (3)	X (3)	X (3)
2. Sports and Culture	-	-	X
IV. Public Security			
1. Police	-	-	-
2. Fire Department	-	-	X

(1) This work is normally completed in conjunction with the Secretary for Transportation and Public Works (SECOPT) under a co-financing arrangement.

(2) The national water authority (SANAA) is currently constructing a new water system for Juticalpa (financed by the Interamerican Development Bank) which it will then administer.

(3) Municipal participation in primary education involves paying some teachers' salaries, cleaning and security, and maintenance and construction of buildings.

Source: Municipal budgets of Choluteca, Juticalpa, and Choloma

175

SUMMARY OF SITE FINDINGS

Municipality

- Fiscally incapable of managing their own affairs or helping others
  - 6 million lempira debt
  - Little machinery or resources to assist in projects
  - Local officials complained that as a National Party local government, unable to receive subsidies from the central government during the recent administration
- Does hold some power--the mayor has blocked projects in the past
- Basically viewed as useless by constituency
  - Considered dishonest by many
  - Viewed as not having resources to help or carry out public works projects
  - Viewed as very troublesome to involve (it took the Asociación de San Jose Obrero seven trips to get some gravel for a project)
  - Does not consult with or involve ordinary citizens (but does sometimes use people for technical assistance on a voluntary basis)
- Noted that personnel turnover is not a problem because the workers are unionized

Newly Elected Officials

- The new mayor is a business man and plans to run the town as a business
- He plans to involve citizen groups in planning projects
- He would like technical assistance for planning and executing projects, supervising to ensure quality
- At the same time, very dependent on Callejas

936

Major Forces in Community

- Patronatos (or Juntas de Desarrollo Comunal)
  - The basic building block. They have been described as the major force without which little can be done
  - Extremely organized in Choluteca, with a registry of all patronatos available and a single contact point within the government
  - While organized within each community, apparently little organization or interaction between them
  - No capacity to plan projects--they just know what they want
- Formal Organizations (see list attached)
  - Major providers of support to community and groups
  - Municipality often by-passed for these groups
  - Usually supply materials or food (or sometime job opportunities) to members of the patronatos. May also supply financial support for larger projects
- Liberal Party
  - Receives some petitions for support for a project, but help would be limited to party members
  - Will make a petition to the municipality for them
  - Will also go to the Diputado to help them obtain direct subsidies for projects
- National Party
  - Until recent election, has not had much power or impact because Liberal party has controlled the central government
- Military Leader
  - Municipality will often send the leaders of the patronatos to him
  - Will complete the project if resources available (for example, the Corps of Engineers was available for one water project), or provide logistical support in most cases

137

- Will also serve as intermediary to parastatals and other if required

- Parastatals

  - Can be petitioned directly. Have examples of cases where communities went directly to SANAA and ENEE, having obtained the money necessary for a service

- Individuals

  - Some philanthropic individuals exist who work in the community

  - Several professionals are involved in community work and voluntarily assist municipality in planning projects (engineers, economists, and other businessmen)

Major Types of Projects Requested

- Building a community center or "centro de oración"
- Building a school
- Obtaining water (with "pozos" primarily)
- Sewerage (but few have been able to obtain this)
- Paving or maintaining roads
- Obtaining electricity

Major Problems

- Lack of potable water (no only that some do not have access, but also lack of supply)
- Lack of a sewer system. It is estimated that only 15-20% have sewerage
- The fiscal insolvency of the local government and little control over the money that they collect
- Lack of employment opportunities
- The poor conditions of the schools and problems with qualified teachers
- Municipality's lack of machinery
- Partisan politics
- Poor garbage collection

138

- Poor road maintenance
- Poor quality of local officials

LIST OF ORGANIZATIONS ACTIVE IN CHOLUTECA

Canadian Embassy
CARITAS
CARE
ASEPADE
CEDEN
CO-HAAT
CADERH
Asociación de San Jose Obrero
Cooperatives
CORASUR
Belgian Embassy
Club de Leones
Club Rotario
Camara de Comercio
Camara Junior
MODICA
COLPROSUMAH
UNC
ANACH
FECORAH
PTR
COSUDE
CEE

140

CHOLOMA

Major Features

The growing city of Choloma is located in the Department of Cortes only 19 Km southeast of San Pedro Sula, a city well known for its industrial activity. The municipality of Choloma is moderately sized, with a territorial extension of 471.1 Km^2 and shares its boundaries with Puerto Cortes, San Pedro Sula , El Progreso, and Omoa. Although not on the coast, Choloma is very close to Honduras' most important port facility in Puerto Cortes, making it attractive to local as well as international investors in industry.

This municipality lies in the valley of the Ulua and Chamelecon River watersheds--two of the most extensive and economically important river systems of the country. Its flat, but hilly, territory leads into the Merendon mountain range. Tropical dry forest vegetation characterizes these lowlands, but the coastal climate means the hills of Choloma experience humidity and rain and have a varied and lush vegetation. It has a moderately rainy climate with a short dry season.

The Municipality of Choloma comprises some of the most extensively fertile soils in Honduras--as the United Fruit Company determined at the beginning of the 1900s when it invested in extensive banana plantations here. Since the United Fruit Company pulled out of this area, several agricultural cooperatives and independent growers have maintained these plantations with enormous profits from exportation. These rich alluvial soils are the product of centuries of lowland flooding by the major river systems, which are presently the object of flood control efforts by regional authorities. During the past decade, concern has grown over economic losses suffered by industrial and agricultural sectors as well as local residents from regular yearly flooding.

Population Characteristics

The population of this municipality is 66,802 (39,054 urban, 27,748 rural) according to the 1988 census conducted by SECPLAN and represents 10.1% of the total population of the Department of Cortes. The population density is approximately 142 inhabitants per square kilometer and is expanding rapidly because the area attracts immigrants from other departments looking for employment opportunities. There are a total of 44 aldeas and 116 caserios in this municipality.

Education Characteristics

High adult illiteracy limits occupational opportunities for many--including migrant newcomers. The elementary schools are in very poor condition, and in the rural areas, access is difficult because schools are widely dispersed. The public school system

141

has not expanded to meet the needs of the growing population and improvements tend to be more physical in nature (block fence building and classrooms). Schools need floors, desks, chairs, windows and screens, as well as appropriate and adequate didactic materials.

The yearly lowland flooding has seriously affected rural, elementary children. For families with little or no income, subsistence crops provide the only food source. Flooding destroys this source, and malnutrition in children results--affecting their ability to learn.

Because Choloma is the site of a new industrial manufacturing duty free zone, the need for laborers and more skilled workers should expand. A poorly educated working population, however, will not attract many industries and salaries will remain steady, but low.

Housing and Basic Services

Choloma is experiencing a housing deficit--but even more alarming are the conditions of most housing, particularly in the rural areas, where most families use only rudimentary building materials.

In the urban area, few neighborhoods with services exist, and those that do have services are growing weekly as more people move into the area. While older neighborhoods have a potable water distribution system, weak water pressure results in poor service. The municipality has tried recently to improve the drinking water and sewage distribution systems. Presently, these severely need repair and expansion.

SANAA (the water authority) has not provided adequate service to this municipality and the local government has had to develop various water services. SANAA and the Public Health Ministry have installed wells for water but have not provided the water pumps or pipes necessary for distribution.

Municipal garbage collection covers only 50% of the urbanized area of Choloma. The city dumps this garbage at a site on the bank of the Choloma River--so it is eventually washed into the local waterways. No system exists for collecting the rest of the garbage.

The sewage system, limited only to parts of the urbanized community, regularly backs up into homes when it rains because it cannot handle the runoff. The municipality recently invested in system improvements in the town's paved areas. Broken pipes dump raw sewage into the river. The rest of the municipality relies on latrines or nothing.

The drainage system throughout the municipality--in both the urban and rural areas--cannot handle runoff. The United Fruit

Company left several barge canals which also provided drainage for seasonal rains. No one, however, has maintained these canals, and sedimentation has occurred, limiting volume retention during and following a storm.

Health Situation

While the population of Choloma is growing in size and density, community services necessary to maintain a healthy community have not kept pace. Because the area provides laborers as well as office and manufacturing workers, a healthy environment is important for economic productivity.

Childhood health problems reflect malnutrition as well as several water borne diseases.

No public hospital operates in Choloma, but several rural health clinics exist as well as some private physicians. The public clinics have few supplies and residents complain about the medical capacity of professionals.

Little attention has been paid to the serious health conditions and risks of the worker population.

Economic Situation

The fertile soils and activity related to the duty free zone or industrial park contribute to the development of an economic base and its speculation. The banana crop that comes out of the "Pantano" region of Choloma represents some of the very best in the world. Cattle ranching also occurs. Economic growth is expected to increase as industries install various manufacturing plants in the Duty Free Industrial Zone of Choloma. Presently, construction has grown in importance as installation of the Duty Free Zone has progressed.

Municipal Fiscal Situation

Four major loans to this municipality have expanded its debt, and the government must cut budgets in order to meet debt requirements. While Choloma has made a serious effort to pay its debt to BANMA, it has been deficient. The municipality has a balance of 363,399.04 Lempiras on an original loan of 437,007.00 Lempiras for a public marketplace. Two electrification projects have a total of 40,299.83 Lempiras due, while the most recent project (the Municipal Palace Project) now has 160,660.29 Lempiras due. The total loan debt to BANMA is for 564,359.16 Lempiras. At present, the municipality should be making a monthly payment to BANMA for 7,603.91 Lempiras.

A recent fiscal analysis of the Municipality of Choloma revealed that municipal income has steadily increased since 1983. This reflects improved collection on several taxes on services,

commerce and property. Choloma has also received several government subsidies in recent years.

While the fiscal outlook for Choloma does not appear as miserable as for some other municipalities, it is certainly not good. Even though many people expect the municipality to benefit from the industrial park through worker taxes, little concern exists over municipal capacity to respond to greater demand for community services occurring from rapid population increase.

SUMMARY OF FINDINGS

Municipality

- Way decisions are made within the municipality
  - The corporation meets every 15 days (the first and fifteenth of each month)
  - During the meeting, they analyze the requests they have received since the last meeting and determine whether they are able or interested in responding favorably to the request
  - Often, the mayor will assign someone to negotiate with those requesting help to determine what the municipality will provide (usually certain materials or vehicles) and what the community will provide (usually manpower)
- Every year on the fifteenth of September, the mayor holds a "cabildo abierto" where she hands out awards to distinguished citizens and informs the community about what the local government has done this year
- The corporation has been able to supply a lot of cement blocks to various community projects (and schools) because mayor owns a factory that makes them
- Perceptions within the community
  - The corporation makes decision for their own benefit or for political reasons
  - They do not consult with the community
  - The only way to get anything is by applying pressure and keep applying it until they give it to you to "get you off their backs."
  - The corporation has never tried to address some of the most pressing problems within the community (such as flooding)
  - The municipality is full of promises that are never kept

Newly Elected Officials

- New mayor is a businessman
- Plan to form a corps of advisors who are skilled, prestigious, and respectable with a will to serve their community

145

- Plan to work with the various ministries (as well as the central government) to resolve their major problems

- Plan to hold "cabildos abiertos" with the citizens to have them participate in the decision making process

Major Forces in the Community

- Patronatos

  - Some are extremely strong and well organized

  - Have used some very strong tactics (such as taking over major highways) to put pressure on the government to obtain their goals. (For example, the release of a priest and the new water pump promised by President Azcona)

  - Are not politically based. They prefer to stay away from partisanship

  - Communicate between patronatos, but no formal organization exists

  - Good skills in soliciting support for projects developed

  - Weak project evaluation and planning skills

- Local Organizations

  - Help supply materials for projects

  - Provide services to community (such a medical brigades)

  - Some (like Horizontes de la Amistad) have contacts within the ministries and central government to help move project requests

  - Some are well organized within communities--with a network of promoters and volunteers that can be tapped

- Liberal Party

  - Would like to see more participation through "cabildos abiertos" every three months

  - An internal division within the party has made it difficult for them to operate in Choloma

- National Party

  - The new mayor is also the president of the local committee.

146

- Plans not to favor one party over another in solving problems

o Individuals

- Several businessmen, and one in particular, are known for their support of community projects. One individual was noted as a leader by all those interviewed and was identified as someone who would supply what was needed to complete a project.

Major Projects Noted

o Obtaining water (through digging wells or putting in pumps or tubing)

o Building community centers

o Building health clinics

o Building or improving schools

Major Problems Noted

o Flooding. Whenever it rains, the rivers overflow and flood the area. The drainage system exacerbates the problem because it becomes clogged and backs up into homes and streets. Old drainage canals have not been dredged and contribute to the flooding.

o The quantity of water. The current system was designed to supply a much smaller number of housing units, it is antiquated and in need of repair, and has very low pressure.

o Sewerage

- Most homes do not have it
- The current tubing is small and tends to back up when it rains
- It is contaminating the nearby rivers

o A local sugar factory contaminates the river so much that during the dry season, its pollutants kill all the life in the river

o Little or non-existent garbage collection and street cleaning. Collected municipal garbage is dumped on the Choloma River bank. Those areas without garbage collection leave their garbage in abandoned fields and parks or recreation areas.

o Poor road maintenance and paving

o Few good health services available

141

- Municipal workers unskilled and dishonest
- Poor communication lines between groups and individuals
- Very limited telephone services
- Schools in poor condition or non-existent
- Malnutrition among children
- Adult illiteracy
- When the river crests, it spreads garbage everywhere
- There is no municipal waste dump site

148

ORGANIZATIONS ACTIVE IN CHOLOMA

The Corps of Firemen*
The Red Cross**
Lions Club
Red Cross
CARITAS
Horizontes de la Amistad
Aldeas SOS
CARE
Fuente de Acción Popular para el Desarrollo de Choloma

Important during floods.

-149

JUTICALPA

Major Features

The Municipality of Juticalpa also serves as the site of the regional government of the Department of Olancho, the largest department in Honduras. Juticalpa, founded in 1774, was the first municipality named as such in the history of Honduras. Located in the eastern central part of the country, it covers 3,284.9 Km^2 or 13.5% of the total territory of the department. It is the second largest municipality in the department, exceeded only by Catacamas, and has a total of 61 aldeas and 368 caserios.

The land comprising most of this municipality is hilly but includes a fairly extensive portion of the Azacualpa mountain area as well as some flat area, mostly in the valley of the Guayape River watershed. The region is characteristic of the dry tropical and sub - tropical forests associated with warm climates. The dominant vegetation includes broad leaf forest as well as mixed (broad leaf with pine) forest. Unplanned human activities, however, have extensively modified the vegetation cover throughout most of the municipality--the only exception being in the higher elevations.

Juticalpa's dry months occur from June to October, with a rainy period extending from February to March.

The better agricultural soils occur in the Guayape Valley, which lies 16 Km to the north of Juticalpa--where the major land use is cattle ranching on pastures which have been improved extensively during the past decade. Most of these better, alluvial soils, belong to the major landowners. The rest of the municipality consists of thick clay soils which expand when wet and crack when dry. While the natural and most appropriate use of these soils would involve wood production, people have already cleared the forests for hardwoods and pine, and independent farmers and a growing number of agricultural cooperatives now occupy the land. Farmers also use the soils for cultivating coffee.

Population Characteristics

The population of the Municipality of Juticalpa is 73,823 (19,622 urban and 54,201 rural) according to the 1988 census conducted by SECPLAN. This represents 26% of the population of the total Department of Olancho and the largest rural population nationwide. The population density of the municipality is 22.5 inhabitants per square kilometer--as compared to that of 11.7 for the Department of Olancho (based on the 1988 census by SECPLAN). Since 1974, the municipal population has nearly doubled but has not been affected greatly by immigration from neighboring countries or other regions of the country. Migration out of this municipality is lower than other regions of the country. This

relative stability of the population may account for its major rural component.

Educational Situation

A higher than average illiteracy rate characterizes both the urban and rural population (see Table 3) and reflects serious deficiencies in the public education system of this municipality. The dispersed rural population with a low income per capita makes it very difficult to comply with the Law of Public Education which calls for compulsory education of children from age 7 to 15. The limited employment opportunities of the rural population require that children in this age group contribute to rural family income. Childhood malnutrition also hampers rural education.

Here, as in many other rural areas of the country, the school system needs to both physical expansion as well as strategic improvements to meet this sector's particular needs. The system must also address the problem of teacher absenteeism. Teachers face limited opportunities for continued education as well as low salaries. According to a study conducted by the University of Idaho in collaboration with COHDEFOR and AID in preparation for the Olancho Forestry Project, Olancho teachers lack didactic supplies and must depend on the radio for interesting class material.

Housing and Basic Services

Particularly in rural areas, most families live in very poor quality housing. According to the 1974 census, 85% of all homes in the Department of Olancho were made of bahareque (a mud-clay mixture), reflecting the rural nature of the population. Limited access to water, latrines, electricity or other basic services that promote development further exacerbate living conditions for the rural.

In the most recent decade, several of the country's autonomous institutions have expanded their services in Juticalpa. The national electric company (ENEE) has extended service slightly as part of El Cajor Hidroelectric Project's rural electrification program, but it is lagging very far behind the demand. The national university (UNAH) has developed a university degree program through tutorials in Juticalpa. The agricultural marketing institute (IHMA) has been developing a rural silos program in the region which will be beneficial to grain farmers. While the municipal government currently manages the water service, the national water service (SANAA) is constructing a new water system, which the municipality will then manage.

Juticalpa has a new, but limited waste water system that must be expanded. Municipal garbage and raw sewage ends up in abandoned areas or the river. The limited drainage system for

runoff from rains is poorly maintained and the system cannot handle particularly heavy rains--which contributes to street damage.

Health Situation

Health care services have slowly improved over the most recent decade, but remain poor for the majority of the municipal population. Rural health clinics lack sufficient trained personnel to meet the demand, and reliance on the community health volunteers (such as midwives) remains high. In the town of Juticalpa, the Public Health Ministry, in association with the municipality, operates a regional hospital whose general condition has deteriorated. The Government of Japan is building a new hospital for the area in Juticalpa. Japan will supply all equipment and installations and plans to train Honduran personnel, in some cases with courses in Japan.

Economic Situation

Agriculture provides the single most important economic activity in the Municipality of Juticalpa. Most of the population work in this sector (see Tables 1 and 2). The greatest income comes from cattle production--with wood and coffee also being of significant importance. Cattle production provides meat both for export and local markets as well as milk, milk products and leather for national consumption. Because these activities often require substantial investment, major landowners generate most of this income. Most of the farms in this municipality comprise less than 5 hectares of land while a very few farms have more than 50 hectares of land.

Agricultural products, in order of importance are corn, coffee, cotton, beans, rice, sorghum and tobacco. The traditional agricultural practice of slash and burn before planting is gradually giving way to more appropriate and cost effective technology in the region of Juticalpa.

Juticalpa is famous for its wood products, particularly for its mahogany, oak, laurel and San Juan trees, among other broad leaf as well as pine species. Unfortunately, only recently has any serious effort been undertaken to manage these rich forests, and only a few remnants remain in this municipality.

Municipal Fiscal Situation

The municipal government's capacity to provide public services necessary for development does not reflect the economic activity and particular prosperity of some population sectors. SECPLAN has defined this municipality' relative growth as one of the lowest. Particular concern has focused on the municipal government's antiquated cadastre service. It is believed that

the service has not registered a great many properties and has undervalued all properties.

The municipality is not paying two major loans as well as an extension of credit regularly, compounding the municipal debt. A loan for the public marketplace, originally for 177,769.62 Lempiras has risen to a debt of 225,239.82 Lempiras; an extension of credit for 42,448.00 Lempiras has increased to a debt of 73,738.48 Lempiras; and the most recent loan of 492,908.63 Lempiras for a sewage system has nearly doubled to a debt of 822,746.88 Lempiras. The total municipal debt to BANMA amounts to 1,121,725.18 Lempiras.

A recent fiscal analysis of the Municipal Government of Juticalpa revealed that municipal income steadily declined from the year 1984 to 1987 at a rate of -1.4%. While normal income from taxes and rentals improved slightly during this period, capital income, including past due taxes as well as central government subsidies, declined.

Because municipal income generated from the projects which were financed by BANMA does not cover even 30% of the cost, the Bank legally intervened in the municipality's financial management.

153

SUMMARY OF FINDINGS

Municipality

- Mayor recognized as the one with the power in the local government
  - People go to him for help with local community projects (such as schools and water)
  - Most requests come in January and February when school is about to start
  - For requests over 500 Lps., the mayor must receive approval from the corporation. For requests below that amount, he can decide himself
  - The corporation will purchase supplies or provide other support for a project, but will not supply cash.
  - Mayor will usually approve less than the amount of supplies requested because people are "smart" and request more than they need and with less supplies, they will take better care of them
  - The mayors were recently requested to supply the military with a list of priority projects for a joint US/Honduran project related to community improvement
- Municipality not viewed favorably by constituents
  - Mayor described as unqualified and barely able to read or write
  - Municipality described as full of "paracaidistas"--people on the payroll who do not work
  - Mayor described as one who makes promises that he does not keep
  - Cadastre described as a disaster: poor record keeping, unqualified people, and very behind the assessments that should be done
  - Described as unable to maintain services, such as the local hospital (it has no sheets and few medicines) and traffic lights (which were donated by the Chamber of Commerce and no longer function)
- Personnel turnover not considered a problem here because the workers are unionized

154

Newly Elected Mayor

- Plans to consult with community leaders (for technical advice)
- Plans to meet regularly with the municipal corporation and plan projects with them
- Plans to involve citizens in projects through the patronatos (using "honorable" people to form patronatos where they do not exist), but does not appear to have plans to consult them about what should be done
- Plans to inform citizens about how the municipality uses their taxes
- Plans to evaluate personnel and remove the "paracaidistas"
- Appears dependent on Callejas

Major Forces in Community

- Patronatos
  - Appear to be the least organized of the three sites, but some actively develop community-based improvement projects
  - Communication does exist between patronatos, but no formal organization exists
  - Tend to be project-related. They form to accomplish some community improvement project. They become dormant once the project terminates
  - Not necessarily community-based. One patronato formed to build a stadium. Legally, only "grupos jurídicos" can collaborate with the local government. If a group wishes to accomplish something, they must form a patronato.
  - Tend to be apolitical
- Local Groups
  - Includes the following: Lions Club, Rotary Club, Chamber of Commerce, Junior Chamber of Commerce, and a local group of women called "Damas Voluntarias"
  - Very active here and complete a lot of projects
  - Some collaboration between groups (the Lions Club contributed to the Pediatric Clinic built by the "Damas Voluntarias")

- Part of the collaboration is because many are members of more than one group

- Provide some funds or materials to patronatos to complete projects (especially related to constructing or improving schools)

- The new mayor is a member of the Chamber of Commerce and friend of many of the leaders of these organizations. Many of these leaders have stated that they plan to serve as technical advisors to the new mayor

o Parish Church

- Has own community organizations that complete community projects (about 300 members)

- Often receives requests for help. Try to help once the need is verified

- Collaborates with municipality on some projects (such as the annual fair), but contact is limited

o Liberal Party

- Originally formed the patronatos in Juticalpa, but have since lost their influence in these groups

- Will receive requests for assistance, which the party will take to the Diputado for transmission to the proper ministry. The ministry provides a subsidy to the patronato through the Diputado. The Diputado usually gives the subsidy to the patronato in <u>his</u> name, to increase his own prestige in the community.

- Not very strong in Juticalpa. Instead of using the local committee to work in the last campaign, the national organization used outsiders to run the campaign.

o National Party

- Collaborates with the "fuerzas vivas" (local organizations, patronatos, etc.) in projects

- But, does not involve itself within the patronatos

- Plans to use social promoters to go to the citizens and teach them their rights and duties to the municipality

- Part of the advisory group to the new mayor

- Military Leader
  - Stressed that this is a democratic country and as such, does not get involved in the local government
  - It will, however, provide vehicles or labor for a project when requested
  - Will also help teachers or patronatos, when requested, with professional or technical personnel, laborers, or vehicles
  - There is also a major project planned with the US and Honduran Armed Forces to complete community improvement projects in each Department. These projects were selected by the mayor in each municipality
- Parastatals
  - Currently, only ENEE operates here, but SANAA has a project for a new water system planned
  - To make a request to ENEE, have to travel to Tegucigalpa because the local office will not help
- Individuals
  - There is a group (which represents both parties and the local social organizations) of men very active in the community who plan to serve as advisors to the new mayor
- International Organizations
  - No offices found here. People have to take their request to the office in Tegucigalpa
  - Do support some projects. For example, the Japanese are financing the construction of a new hospital, and the Canadians supported a new pediatric clinic and an electrification project for one patronato.
  - Never mentioned as an influential group in Juticalpa

<u>Major projects</u>

- Building or repairing a school
- Getting water or electricity
- Constructing a soccer stadium
- Creating a fire department

Major Problems

- The quality and quantity of the water is poor*
- Sewerage
  - Some homes do not have any
  - The current system is antiquated and does not work properly
  - No treatment of the raw sewerage exists. The current system dumps it into an area near the river which has contaminated the river and created various health problems
- The public slaughterhouses are unsanitary and probably contaminate the meat
- Poor street cleaning and garbage pickup. When this team visited Juticalpa, the only garbage truck was broken and no garbage had been collected for several days
- Problems with electricity
  - Power peaks and wanes constantly
  - The week before the team visited, the whole town had been without electricity for five days due to a mechanical problem. Because the water pumps use electricity, the town had been without water as well.
- Overemployment in the local government. One respondent reported that 25% of the work force were "paracaidistas."
- Local government employees are unskilled
- The cadastre department is disorganized and is not collecting the funds it should
- The local government does not maintain the services it has
- Few roads are paved and their condition is poor
- Communities lack schools or the schools are in poor condition

*SANAA has a project planned to create a new water system. The current system was built 40 years ago and is administered by the local government. People pay five lempiras a month for the service.

ORGANIZATIONS ACTIVE IN JUTICALPA

Lions Club
Rotary Club
Chamber of Commerce
Junior Chamber of Commerce
"Damas Voluntarias" (Local group)
The Catholic Church
INA
SECOPT
Embassy of Japan
Embassy of Canada
Local Parish Church

159'

REFERENCES

Castañeda, C. y Alonzo, R.D., 1990.
Desastres Naturales y Zonas de Riesgo en Honduaras: Condiciones y Opciones para su Prevención y Mitigación. Documento en preparación, Universidad Nacional Autónoma de Honduras.

Castañeda, C. y Amador, S., 1990.
Una Politica Ambiental para el Desarrollo Sostenido de las Municipalidades de Honduras. Documento en preparación, Universidad Nacional Autónoma de Honduras.

Fiallos, C., 1983.
Los Municipios de Honduras. Universidad Nacional Autónoma de Honduras: Editorial Universitaria.

SECPLAN, 1989.
Estudio de Caso de la Zona Sur. Programa de Gestión Ambiental. Dirección General de Planificación Territorial. Proyecto AID No. DHR-5438-C-00-6054-00.

SECPLAN, 1990.
Censo Nacional de Población y Vivienda. Dirección General de Estadística y Censo.

Secretaria de Salud Pública, 1989.
Encuesta Nacional de Salud y Nutrición. Dirección General de Salud.

160

ANNEX 3

LIST OF PEOPLE CONTACTED DURING PROJECT

Tegucigalpa

Kevin Sanderson, AID
Margaret Kromhout, AID
Harry Jager, AID
Eddy Perez, Cooperative Housing Foundation
Eluisa Martinez, FOPRIDE
Gladys Gomez, Direccion General de Estadistica y Censos
Esther de Galo
Soila Alvarez
Rodolfo Gravez, Instituto para el Desarrollo Hondureño

Choluteca

Padre Alejandro Lopez, Asociación de San Jose Obrero
Luis Marcías, Asociasión de San Jose Obrero
Wilson Berrios, Public Relations, Alcaldía
Orlando Aquilera, Regidor, Alcaldía
Elizabeth Dubon de Pinel
Ricardo Galo Marenco, President, Comite Local, Partido Liberal
Bienvenido Osequera Oporto, Fiscal, Patronato
Roger Guillen, President, Comite Local, Partido Nacional
Ramon Rodriquez, Representative, Regional Office, SECPLAN
Ramon Betancourt, Manager, Local Office, Central Bank
Omar Ponce, CORASUR
Pierre Maton, CORASUR
Pedro Martin, Regidor-elect, Former Mayoral Candidate
Julian Portillo, President, COLPROSUMAH

Choloma

Jorge Alberto Cordona, CARITAS
Domingo Navarro Gonzales, President, Patronato
Alicia Victoria Milla, Viuda de Yanez, Current Mayor
Gustavo Torres Recina, Mayor-elect and President, Comite Local, National Party
Jose Contren, Current Regidor
Dr. Rony Castellanso, President Lions Club
Juana Mata Baca, Regidor-elect
Ada Aleman, Horizonte de Amistad
Francisca Funy, Horizonte de Amistad
Dolores Campos, Aldeas SOS
Sabos Costellon, President, Comite Local, Partido Liberal
Salvador Guerra, President, Patronato

Juticalpa

Miguel Barahona, Mayor
Armando Montes, Mayor-elect
Cruz Humberto Montes, Fiscal, PRIGMA

161

Victor Rubi Zapata, Owner, Radio Juticalpa
Colonel Jose Armando Rivera, 115th Battalion
Mario Daccarett, Asociación de Ganaderos
Rene Delgado, President, Comite Local, Partido Nacional
Jorge Sanchez, President, Chamber of Commerce
Alberto Valladares, President, Lions Club
Saul Peralta, President, Patronato
Nicolas Irias, Fiscal Secretary, Comite Local, Partido Liberal
Fray Guillermo, Local Parish

ANNEX 4

LIST OF ACRONYMS

AID: Agency for International Development
ANACH: Asociasión Nacional de Campesino Honduras
ASEPADE: Asesores Para el Desarrollo
BID: Interamerican Development Bank
CADERH: Centro Asesor para el Desarrollo de los Recursos Humanos de Honduras
CARITAS: Episcopal Church Charity Organization
CATIE: Centro Agronomico Tropical de Investigación y Enseñanza
CEDEN: Centro de Desarrollo Nacional
CEE: European Economic Community
COHDEFOR: Corporación Hondureña de Dearrollo Forestal
CO-HAAT: Cooperativa Hondurena-Alemania para Alimentos para Trabajo
COLPROSUMAH: Colegio de Profesores de Educación Superior de Honduras
CORASUR: Consolidación de la Reforma Agraria en la Región Sur
COSUDE: Cooperación Suiza para el Desarrollo
ENEE: National Electrical Service
FECORAH: Federación de Cooperativas para la Reforma Agraria
FOPRIDEH: Federación de Organizaciones Privadas para el Desarrollo de Honduras
INA: Instituto Nacional Agrario
MDP: Municipal Development Project
MODICA: Japanese Development/Technical Assistance Program
PRICMA: Primer Colegio del Magisterio de Honduras
PTR: Programa de Tecnologias Rurales
SANAA: National Water Service
SECOPT: National Transporation Service
SECPLAN: Secretary of Planning, Coordination and Budget
UNC: Unión Nacional de Campesino

163'

PROJECT TA AND TRAINING STRATEGY

TABLE OF CONTENTS

INTRODUCTION

I. CONTEXT FOR STRATEGY DEVELOPMENT

A. Urbanization and National Development
1. Demographic Trends and Urbanization
2. The Regional Pattern of Economic Development

B. The Urban and Municipal Systems
1. Political Division
2. Basic Characteristics of the Municipalities
3. The Urban System
4. Municipal Support Systems

C. Identification of Potential Program Targets
1. Basic Considerations
2. Review of Potential Regional and Urban Targets
3. Training and Technical Assistance Needs

II. STRATEGIC GUIDELINES FOR PROJECT IMPLEMENTATION

A. Basic Approach
1. Strategic Objectives
2. Basic Principles and Approaches

a. Formulation and Implementation of Mutually Reinforcing National and Local Policy and Institutional Reforms.

b. Strategic Selection and Programming of Municipal Interventions

c. Development of Municipal Development Training Capacity

d. Strengthening the Democratic Process

e. Provision of Complementary Capital Financing

B. Technical Implementation Guidelines

1. Design and Implementation of Technical Assistance for Municipalities.
a. Objectives
b. Required Activities

2. Design and Implementation of Training for Municipalities.
   a. Objectives
   b. Required Activities

III. PROJECT ORGANIZATION AND MANAGEMENT

A. Management Streams of Works

1. National Policy Formulation and Execution
2. Training Program and Systems Development
3. Municipal Technical Assistance
4. MDP Management, Coordination and Support

B. Organization

1. Organizational Arrangements
   a. The National Level
   b. The Municipal Level

165

INTRODUCTION

Urbanization in Honduras is more than a demographic phenomenon. It is the result of complex social and economic changes which reflect the transition from a dual economy composed of large export-oriented, traditional crop plantations surrounded by a hinterland of subsistance forms to a more sophisticated agriculture processing and service economy. As a consequence the importance of urban centers in Honduras is increasing and future social and economic development is becoming dependent upon the ability of urban centers to perform crucial production and basic service functions.

The municipalities of already rapidly growing secondary urban centers will need to play a key role in that process. However, the local government sector needs strengthening in almost every respect and policy and institutional targets will need to be set selectively, and with a recognition that practical decentralization is the work of a decade. Sustained efforts to increase the effective participation of the local citizens and beneficiary target groups in local development activities must be an essential part of that process.

Project technical assistance and training support for the implementation of required changes at the constituency, municipal and national levels must be carefully staged and targeted. The formulation and execution of mutually reinforcing national and local policy and institutional reforms, and the strengthening of municipal support systems and democratic processes are among the essential issues. The strategic organization and management of the project in a manner which enhances sustainability is considered critical. For this reason, this paper reviews the general context of municipalities in Honduras and provides strategic guidelines for project implementation.

I. CONTEXT FOR STRATEGY DEVELOPMENT

A. URBANIZATION AND NATIONAL DEVELOPMENT 1/

1. Demographic Trends and Urbanization

The population of Honduras reached 4.377 million in 1988 and the country continues to record high levels of population growth. The 1988 census indicates an average annual growth rate of 3.6 percent for the period 1974-88 (up from an average of 2.8 annually during 1950-74).

Since 1961, the average annual population growth rate of urban areas has exceeded 5.0 percent. The level of urbanization in the country has risen from 23.1 percent in 1961 to 31.4 percent in 1974 to 38.3 percent in 1988. In absolute terms, the number of persons residing in urban areas has increased fourfold, from 435,000 in 1961 to 1.75 million in 1988. Population growth in rural areas, which fell to 1.8 percent in 1961-74, has increased during the recent census period to 2.6 percent.

On a regional basis, population growth has been strongest in the Center, North, and East; all of these regions have growth rates above the national average (see Table 1). In the Center and North, population growth is led by urban populations which make up over half the total population of these regions and are growing at more than 5 percent annually. Within the urban sector, rates of population growth are the highest among cities with more than 20,000 inhabitants located along the Tegucigalpa-San Pedro Sula axis. These cities (Tegucigalpa, Comayagua, Siguatepeque, El Progreso, Choloma, and San Pedro Sula) all grew at average annual rates of more than 5.0 percent during 1974-88.

1/ The analysis contained in this section is abstracted from the Urban Institute's Honduras Shelter and Urban Development Sector Assessment, May 1989. The 1988 census data cited is based on preliminary results provided by the National Office of the Census in late 1988.

Table 1

Regional Population Distribution 1974-88

('000s)

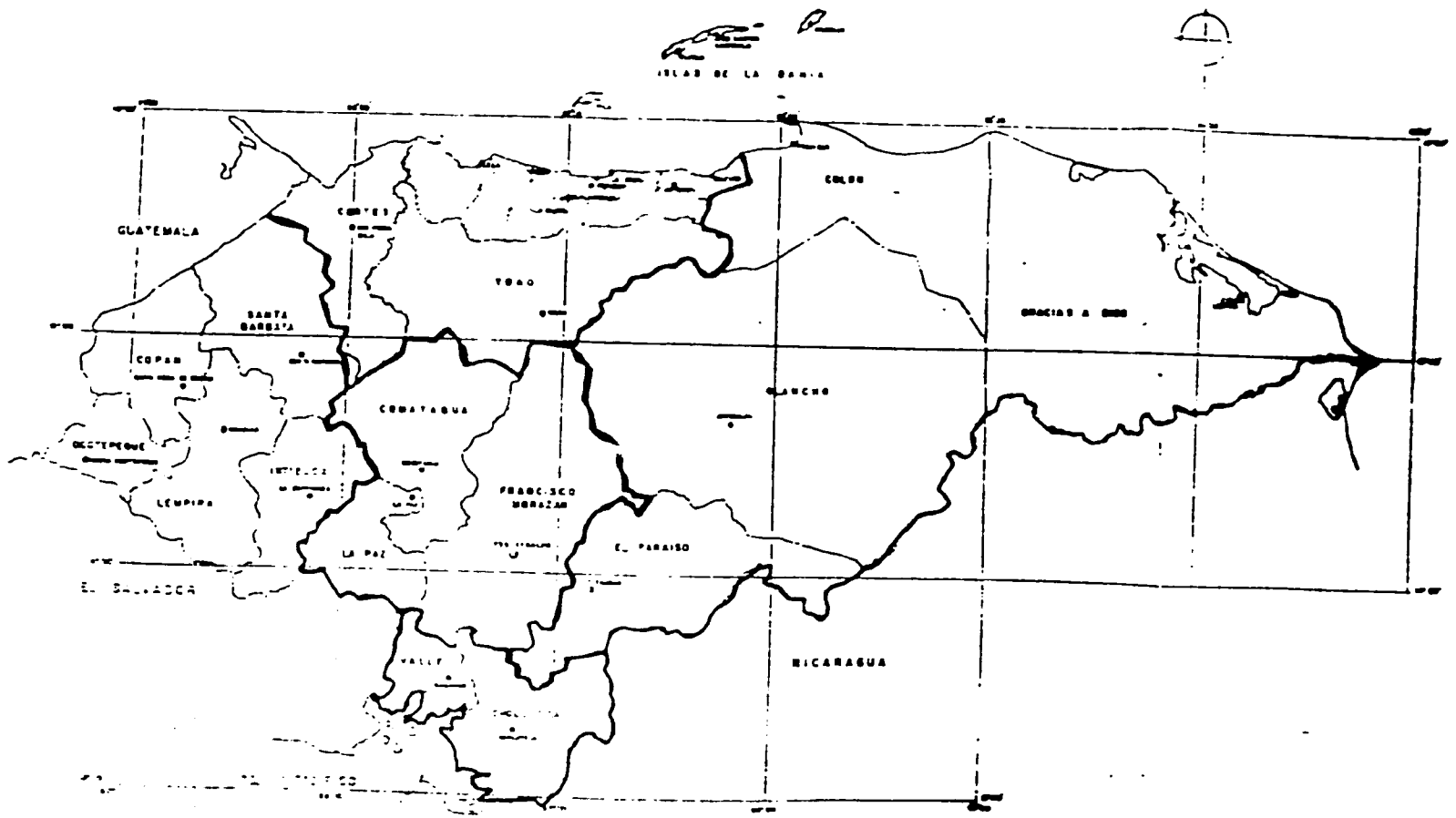
Region 2/	1974 Total	1974 Percent Urban	1988 Total	1988 Percent Urban	Avg. Annual Grow (%) Total	Avg. Annual Grow (%) Urban	Avg. Annual Grow (%) Rural
Center	656.3	51.6	1,124.4	59.9	4.0	5.2	2.6
North	726.1	43.0	1,233.4	50.3	3.9	5.0	2.9
South	285.2	18.7	413.1	32.7	2.7	4.4.	2.2
East	390.7	14.1	717.8	19.1	4.4	6.7	4.0
West	598.6	11.2	870.1	15.4	2.7	5.0	2.4
TOTAL	2,656.9	31.1	4,376.8	38.3	3.6	5.2	2.8

Source: SECPLAN. Censo Nacional de Población y Vivienda, 1974 and 1988. Urban Institute Analysis. (1988 Census data reflects preliminary results).

In the East, both urban and rural populations are growing faster than the national averages-both because of development in the Aguan River Valley and the flow of migrants across the border from Nicaragua. Smaller cities, such as Juticalpa and Catacamas in Olancho and Tocoa in Colon, have been growing at more than 4.5 percent annually. Both Danlí and El Paraiso in El Paraiso show high rates of population increase, but this is strongly influenced by the flow of refugees from the Nicaraguan border area.

The South and West regions show rates of population growth in both urban and rural sectors that are well below the national average; it is likely these areas are experiencing net out-migration to other regions with more dynamic economic prospects. Only Choluteca in the South region shows substantial growth, averaging 5.3 percent annually during 1974-88.

2/ For purposes of analysis, Honduras was divided into five regions: Center (departments of Comayagua, Francisco Morazán, and La Paz); North (Atlántida, Cortés, and Yoro); South (Choluteca and Valle); East (Colón, El Paraíso, Gracias a Dios, and Olancho); and West (Copán, Intibucá, Lempira, Ocotepeque, and Santa Bárbara).


ISLAS DE LA BAHIA
GUATEMALA
CORTES
COLON
YORO
GRACIAS A DIOS
SANTA BARBARA
COPAN
COMAYAGUA
OLANCHO
OCOTEPEQUE
INTIBUCA
LEMPIRA
FRANCISCO MORAZAN
LA PAZ
EL PARAISO
EL SALVADOR
VALLE
NICARAGUA

2. The Regional Pattern of Economic Development 3/

In general, the Center and North regions presented the highest level of development, with the East, South, and West regions (in that order) showing lower levels of development. Conversations with planners at SECPLAN indicate that while the Tegucigalpa-San Pedro Sula axis will continue to have the strongest concentrations of economic activity, the highest rates of economic growth will be found outside this area. The Aguan Valley in the East region and areas in the interior of Olancho are expected to be the primary focal point of growth over the coming decade, followed by increasing activity along the eastern part of the north coast.

The Center and North regions, dominated by Tegucigalpa and San Pedro Sula, are the most highly urbanized with 60 percent and 50 percent, respectively, of their populations living in urban areas. The three other regions all show 1988 urbanization levels below 25 percent.

Employment patterns across the regions point to a similar division of functions between the regions. Urban employment in the Center region is concentrated in the service sector, especially government. In the North, employment in industry is much higher than elsewhere, though the share of the labor force working in industry has declined during the 1980s because of weak aggregate growth. The three other regions show higher levels of employment related to agriculture and natural resources. Furthermore, employment in the East, South, and West is also much more likely to be with small firms and be nonsalaried (both indicators of lower levels of economic development).

Finally, average urban incomes in 1986 were highest in the Center at Lps.867 per month. Urban incomes in the North averaged 87 percent of those in the Center, in the East, South, and West incomes averaged 64 percent, 50 percent, and 62 percent, respectively. The Center region showed 53 percent of its urban households with incomes of less than Lps.600 per month, while in the North poverty 59 percent of urban households were so classified. Approximately 70 percent of urban households in the West and in the South had incomes of less than Lps.600 per month

3/ Measures of Honduran economic development output are not available at regional or departmental levels. Therefore, the Urban Institute analysis relied on other indicators such as urbanization, employment, and income available in SECPLAN's 1987/88 Work Force Survey Study for conclusions on regional development.

170

B. THE URBAN AND MUNICIPAL SYSTEMS 4/

1. Political Divisions

In accordance with Art. 294 of the Constitution, Honduras is divided in departments administered by a Governor named by the President. These are divided into autonomous municipalities. Each municipality is further divided into aldeas (villages) and caserios (settlements). The Congress is responsible for the creation of departments while the President, through the Ministry of Government and the Governors, is responsible for the creation of municipalities.

At the present time Honduras has 18 Departments and 289 municipalities, as shown in Table 2.

2. Basic Characteristics of the Municipalities

Table 3 shows the distribution of urban and rural municipalities for 1974 and 1988. 5/ During the period substantial growth in the number of urban municipalities took place. Despite this fact, 185 of the 289 existing municipalities have less than 2,000 inhabitants and are classified as rural.

61 percent of all municipalities are located in the Center and West regions whose Departments contain some of the oldest settlements as well as limited natural resources. The North region contains the highest proportion of urban municipalities in the country with an estimated 73% of all municipalities classified as urban.

Table 4 shows the composition of municipalities by population range for 1974 and 1988. A significant growth of municipalities of between 10,000 and 80,000 inhabitants occurred during the period. These municipalities now absorb more than half of the country's population, while in 1974 they contained only 32%. At the same time, the demographic participation of municipalities with a population range of 80,000 to 300,000 inhabitants (as a percentage of total population) decreased from 20 to 13 percent. With the incorporation of San Pedro Sula, municipalities with over 300,000 inhabitants increased over 300% in population, although their percentage of participation in total country population increased by only 7 points.

4/ The analysis contained in this section is abstracted from INCAE's Investigación Participativa de Necesidades de Capacitación y Asistencia Técnica de las Municipalidades en Honduras, July 1989.

5/ The national census establishes three classifications for population centers: urban centers consisting of groupings of more than 2,000 persons; villages (aldeas) consisting of at least 100 persons and having a school; settlements (caseríos), - with less than 100 persons. Not all municipal seats (cabecera municipal) have sufficient population to be considered urban centers. In 1988, 185 of 289 municipalities had less than 2,000 inhabitants and are classsified as rural.

Table 2

Political Division of Honduras

DEPARTMENT (DEPARTAMENTO)	DEPARTMENT SEAT (CABECERA)	MUNICIPALITIES (MUNICIPIOS)	VILLAGES (ALDEAS)	SMALL SETTLEMENT (CASERIOS)
Atlántida	La Ceiba	7	176	525
Colón	Trujillo	10	110	392
Comayagua	Comayagua	21	177	1,229
Copán	Santa Rosa	23	291	897
Cortés	San Pedro Sula	12	269	761
Choluteca	Choluteca	16	162	1,827
El Paraiso	Yuscarán	19	186	1,807
Francisco Morazán	Tegucigalpa	28	235	2,300
Gracias a Dios	Puerto Lempira	2	62	177
Intibucá	La Esperanza	16	104	910
Islas de la Bahía	Roatán	4	20	92
La Paz	La Paz	19	91	956
Lempira	Gracias	27	255	1,800
Ocotepeque	Ocotepeque	16	94	704
Olancho	Juticalpa	22	243	2,026
Santa Bárbara	Santa Bárbara	27	312	1,428
Valle	Nacaome	9	77	595
Yoro	Yoro	11	237	1,303
TOTAL 18		289	3,072	19,756

Source: SECPLAN. Censo Nacional de Población y Vivienda. Preliminary Results. 1988.

Elaboration by INCAE.

Classification of Urban and Rural Municipalities by Region/Department 1974 - 1988

Region	Department	Municipalities - 1977						Municipalities - 1988					
		Urban	(%)	Rural	(%)	Total	(%)	Urban	(%)	Rural	(%)	Total	(%)
CENTER													
	Francisco Morazán	5		22		28		12		16		28	
	Comayagua	6		13		19		9		12		21	
	La Paz	2		17		19		2		17		19	
	Sub-Total	13	(20)	52	(80)	65	(100)	23	(33)	45	(67)	68	(100)
NORTH													
	Islas de la Bahía	0		4		4		2		2		4	
	Cortés	7		4		11		10		2		12	
	Atlántida	2		5		7		4		3		7	
	Yoro	6		5		11		8		3		11	
	Sub-Total	15	(45)	18	(55)	33	(100)	24	(71)	10	(29)	34	(100)
SOUTH													
	Choluteca	4		12		16		4		12		16	
	Valle	4		5		9		4		5		9	
	Sub-Total	8	(32)	17	(68)	25	(100)	8	(32)	17	(68)	25	(100)
EAST													
	Gracias a Dios	0		2		2		0		2		2	
	Colón	5		5		10		6		4		10	
	Olancho	4		18		22		7		15		22	
	El Paraíso	2		16		18		5		14		19	
	Sub-Total	11	(21)	41	(79)	52	(100)	18	(34)	35	(66)	53	(100)
WEST													
	Santa Bárbara	7		19		26		14		13		27	
	Copán	7		16		23		10		13		23	
	Intibucá	3		13		16		3		13		16	
	Lempira	1		26		27		2		25		27	
	Ocotepeque	1		15		16		2		14		16	
	Sub-Total	19	(18)	89	(82)	108	(100)	31	(28)	78	(72)	109	(100)
	TOTAL + (%)	66	(23)	217	(77)	283	(100)	104	(36)	185	(64)	289	(100)

Source: SECPLAN: Censo Nacional de Población y Vivienda - 1974 & 1988.

Table 4

Municipalities by Population Range - 1974 & 88

Population Range	1974				1988			
	No.	(%)	Population	(%)	No.	(%)	Population	(
Less than 10,000 6/	216	(75.7)	961,198	(36)	193	(66.8)	536,851	(1
10,000 - 80,000	64	(23.0)	855,353	(32)	90	(31.1)	2,345,515	(5
80,000 - 300,000	3	(1.0)	535,010	(20)	4	(1.4)	578,802	(1
Over 300,000	1	(0.3)	35,387	(12)	2	(0.7)	915,671	(2
TOTAL	284	(100.0)	2,656,948	(100)	289	(100.0)	4,376,839	(10

Source: SECPLAN. Censo Nacional de Población y Vivienda - 1974 & 1988.
Elaboration: INCAE. (Municipal totals include rural and urban population).

3. The Urban System

Tables 5 and 6 present the distribution of the urban population by type of city for 1974 and 1988, respectively. The urban structure of Honduras is characterized by its dispersion and polarization. Of 289 municipalities, 185 are rural and 50% of their population lives in villages (aldeas) and small settlements (caseríos). Of 104 urban centers, the two largest contain 49% of the urban population and 19% of the total population. At the other extreme, the 72 smallest urban centers contain only 9.8% of the total population while 14 intermediate or secondary cities also absorb about 9.8%.

During the period 1974 to 1988, intermediary cities (15,000-100,000 inhabitants) experienced a dramatic rate of growth, increasing in number, population and as a percentage of the urban population. In effect, while six intermediary cities existed in 1974, in 1988 the figure was 14. In terms of urban participation, one fourth of the urban population now lives in these centers as opposed to only 18.4% in 1974.

While the data analyzed indicates the continued dominance of the two primary cities (Tegucigalpa and San Pedro Sula), it also demonstrates the growing importance of secondary cities' growth in relation to rural and agricultural development.

6/ This lower size range was used since 10,000 inhabitants is the minimum population required for the constituion of a new municipality under the proposed municipal reform law.

Table 5

Urban Population Distribution by Type of City
1974

Type of City	No.	Population	Percentage Total	Percentage Urban
Primary (+ 100,000 Habit.)	2	394,885	14.7	47.7
Intermediary I (30,000 - 100,000)	1	38,788	1.3	4.6
Intermediary II (15,000 - 30,000)	5	115,070	4.3	13.8
Small Towns (7,500 - 15,000)	8	80,942	3.0	9.7
Basic Urban Centers (2,000 - 7,500)	49	204,715	7.7	24.6
TOTAL	65	834,400	31.0	100.0

Table 6

Urban Population Distribution by Type of City
1988

Type of City	No.	Population	Percentage Total	Percentage Urban
Primary (+ 100,000 Habit.)	2	830,965	19.0	49.7
Intermediary I (30,000 - 100,000)	6	247,334	5.6	14.8
Intermediary II (15,000 - 30,000)	8	178,068	4.1	10.6
Small Towns (7,500 - 15,000)	16	153,620	3.5	9.1
Basic Urban Centers (2,000 - 7,500)	72	262,603	9.8	15.8
TOTAL	104	1,672,590	38.0	100.0

Source: SECPLAN. Censo Nacional de Población y Vivienda. Preliminary Results. 1988.

Classification and Elaboration by INCAE.

C. IDENTIFICATION OF POTENTIAL PROGRAM TARGETS

1. Basic Considerations

The urban pattern which has emerged in Honduras is largely one of concentration mainly along a development corridor running from La Ceiba on the north coast westward through Tela and Puerto Cortés, then south through San Pedro Sula, Siguatepeque, and Comayagua to Tegucigalpa and Choluteca near the border with Nicaragua. These cities contain the majority of the nation's industry, commercial, banking and agro-processing activity and they service the most productive agricultural hinterland.

Table 7 provides summary data on the growth rates and financial capacity of 48 important urban municipalities by region and department. The immediate consequence of the dispersion and polarization of the municipal system is the fact that many middle-sized municipalities do not as yet have sufficient economic base to provide the most elemental services to their population. On the other hand, during the 1974-1980 period the rapid growth of secondary cities and smaller towns (supporting rural/agricultural development) suggests that Honduras is presented with some very positive opportunities with respect to the future distribution of population and the evolution of the national urban settlement system in support of national economic development.

Long-term sustained growth cannot take place without broad-based growth in economic activity. The municipalities of already rapidly growing secondary urban centers will need to play a key role in that process. However, the local government sector needs strengthening in almost every respect and policy and institutional targets will need to be set selectively, and with a recognition that practical decentralization is the work of a decade. Sustained efforts to increase the effective participation of the local community and beneficiary target groups in local development activities must be an essential part of that process. Training and technical assistance support for the implementation of required changes must be carefully staged and targeted. The following key principles and approaches are proposed to guide the process of identifying project targets, setting intervention priorities and staging training and technical assistance efforts.

Table 7
Urban Growth and Municipal Financial Capacity

Region	Department/City	Urban Population (000s) 1974	Urban Population (000s) 1988	Growth Rate (%)	MUNICIPAL FINANCIAL CAPACITY IN 1986 — Income Levels (L. millions) c/ +2.0	+1.0	+0.5	+0.2	+0.[illegible]	-0.1	Investment Levels (L.000s) d/ 200-500	100-200	40-100	20 - 40
CENTER	FRANCISCO MORAZAN													
	Tegucigalpa	273.9	551.6	5.1	x						x			
	Talanga	4.9	8.9							x				
	COMAYAGUA													
	Comayagua	15.9	36.4	6.1			x						x	
	Siguatepeque	12.5	27.2	5.7			x					x		
	LA PAZ													
	La Paz	6.8	11.0	3.5					x					
	Marcala	3.2	5.4							x			x	
NORTH	CORTES													
	San Pedro Sula	151.0	279.4	4.5 a/	x						x			
	Choloma	9.2	38.3	10.8				x						
	Puerto Cortés	25.8	31.4	1.4		x						x		
	La Lima	n.a.	27.7	n.a. b/			x					x		
	Villanueva	6.3	12.0	4.6			x					x		
	Omoa	1.3	1.7						x					
	Potrerillos	5.4	8.9							x				
	ATLANTIDA													
	La Ceiba	38.8	68.3	4.1	x						x			
	Tela	19.1	23.3	1.5		x								
	Esparta	.7	.9						x			x		x
	ISLAS													
	Guanaja	1.9	2.0					x						
	Roatán	1.9	3.8					x						
	YORO													
	Yoro	4.4	9.2					x						
	El Progreso	28.1	55.5	5.0		x					x			
	Morazán	4.4	7.5						x					x
	Santa Rita	5.3	9.6							x				x
	Olanchito	7.4	13.6	4.4			x						x	

Region	Department/City	Urban Population (000s) 1974	Urban Population (000s) 1988	Growth Rate (%)	MUNICIPAL FINANCIAL CAPACITY IN 1986 — Income Levels (L. millions) c/ +2.0	+1.0	+0.5	+0.2	+0.1	-0.1	Investment Levels (L.000s) d/ 200-500	100-200	40-100	20 - 40
SOUTH	CHOLUTECA													
	Choluteca	26.2	53.8	5.3		x					x			
	Marcovia	.9		1.7					x					x
	San Marcos de Colón	4.4	18.1						x				x	
	VALLE													
	Nacaome	6.2	9.8					x						
	San Lorenzo	9.5	15.3	3.5				x						
EAST	COLON													
	Trujillo	3.9	5.5							x				x
	Sonaguera	2.3	4.5						x					x
	Tocoa	2.8	13.8	12.1				x						x
	Sabá	2.8	4.9							x				x
	OLANCHO													
	Juticalpa	10.1	20.0	5.0				x					x	
	Catacamas	9.1	17.4	4.7				x						x
	GRACIAS A DIOS													
	EL PARAISO													
	Danlí	10.8	28.1	7.0						x				
	El Paraíso	6.7	13.0	4.8				x						
WEST	COPAN													
	Santa Rosa de Copán	12.4	19.2	3.2			x						x	
	Copán Ruinas	2.3	4.2						x					
	La Florida								x					x
	El Paraíso	3.2	4.5					x						
	Nueva Arcadia	5.0	8.9						x					
	Trinidad	1.6	1.9						x				x	
	INTIBUCA													
	Intibucá	3.2	7.3						x					
	La Esperanza	2.1	3.9							x				

Region	Department/City	Urban Population (000s) 1974	Urban Population (000s) 1988	Growth Rate (%)	MUNICIPAL FINANCIAL CAPACITY IN 1986 — Income Levels (L. millions) c/ +2.0	+1.0	+0.5	+0.2	+0.1	-0.1	Investment Levels (L.000s) d/ 200-500	100-200	40-100	20 - 40
	LEMPIRA	-	-	-										
	OCOTEPEQUE	-	-	-										
	SANTA BARBARA													
	Santa Bárbara	5.9	9.9											
	Las Vegas		7.3					x						
	Quimistán	1.8	2.4							x				x
	San Luis	2.2	3.4						x					
									x				x	

a/ Excludes La Lima in 1988; growth including La LIma is 5.2 percent.

b/ Made independent from San Pedro Sula in 1981.

c/ DAATM, Ministerio de Gobernación, Liquidación de Presupuestos. 1986.

d/ SECPLAN, Diagnóstico Administrativo de los Gobiernos Departamentales de HOnduras. November 1986.

/cmn

(11/14/89)

179.

a. Selection of Municipal Targets

The continuing scarcity of capital resources for investment and recurrent expenses over the medium-term will require an emphasis on efficient allocation and use of resources in support of national development. The selection and prioritization of municipal targets under the project should reflect this fact through the identification and priority support for:

i. regions and urban centers of strategic economic development potential for both industry and agricultural development.

ii. municipalities which demonstrate the greatest development potential and which offer structural conditions which would permit some degree of permanence in the technical, administrative and financial organization and systems over the longer-term.

In this regard, the preliminary evaluation and prioritization of municipal should be largely quantitative in nature in order to establish the potential project universe and to provide the essential basis for the development of a staged and systematic intervention strategy. The factors to be reviewed at this stage include:

- Regional Economic Development Potential

- Articulation of the Urban System: the relation between other urban centers and the potential development of mutually supportive sub-systems;

- Complexity of the Urban Structure of the Municipality: measured by growth during the period of 1974-1988 and an urban population of at least 7,500 inhabitants.

- Municipal Financial Capacity: related to recent municipal income and investments levels.

Final selection of municipalities and targeting of technical assistance should be based on individual reconnaissance surveys and include assessments of the opportunities to broaden community participation and to develop public/private partnerships in support of local development activities.

b. **Municipal Support Systems**

The administrative and financial weaknesses apparent in many Honduran municipalities directly reflects both the limited existing capacity and the current constraints placed on the development of municipal support systems.

The general situation is as follows:

i. Restrictions on Mutual Self-Help

Some Honduran municipalities--most conspicuously San Pedro Sula--do have administrative expertise in project administration, planning, accounting, and other areas of local government. It would be logical for this expertise to be shared with smaller municipalities that lack it. Likewise, basic capital equipment that is too expensive for one community to purchase on its own, can be economical if shared among several.

Honduran law is now being interpreted so as to prevent mutual self-help. For example, it is difficult for one municipality to help another when a water pump breaks down, or to lend personnel or construction equipment to another municipality. The law of the "Contraloría" prohibits all expenditures made outside a municipality's territory, unless there is formal action by both municipal corporations and approval by the Departmental Council.

Similarly, current regulations are now being interpreted as restricting the organization of municipal associations at the regional and departamental levels. The experience of the municipalities in the Department of Cortés provides a significant example.

The Municipal Association of Cortés was organized with a common fund, overseen by mayors in the department. The fund was to be used to give accounting and auditing help to small municipalities, and to help improve cadastral controls. However, the association requires personería jurídica to operate. The Dirección General de Asesoría y Asistencia Técnica Municipal (DGAATM) of the Ministerio de Gobernación has refused to approve the association's application for legal status, and even has gone so far as to request from the government a legal ruling against the application, on the grounds that local

municipal associations would compete with the national municipal association. The application of the Municipal Association of Cortes for personería jurídica has now languished without action since August 1987. This situation reflects the inefficiencies inflicted on municipalities by monopolistic constraints on their freedom of action.

ii. Technical Assistance and Training Support

The INCAE investigation of municipal training and technical assistance needs included an assessment of installed institutional capacity to respond to the demand, and covered the principal government and non-governmental development institutions and private sector consultant services firms.

The actual supply of TA and Training support to the municipalities was characterized as scarce, dispersed and uncoordinated. Of twelve potential support institutions (See Table 8) only four (BANMA, DEC, DGU and DGAATM) are actually developing activities with local governments and then only on an occasional basis. They provide an extremely limited amount of assistance and training each year;-largely targeted on unrelated themes and topics and mostly in an uncoordinated fashion. Scarce financial and human resources as well as their roles as centralized institutions were judged as seriously limiting their potential to effectively respond to municipal needs in a systematic and timely manner.

2. Review of Potential Regional and Urban Targets

This section presents a preliminary assessment of potential regional/urban targets.

The Center Region

Tegucigalpa, Comayagua and Siguatepeque are the major urban centers of the Center Region, which, according to a 1986 work force survey, contains 45 percent of national urban employment. Tegucigalpa, the nation's capital and largest city, accounts for 41 percent of the national work force. The city's service sector is the largest source of employment, accounting for 76 percent of total local employment. However, Tegucigalpa only accounts for 21 percent of national industrial output and production is primarily for the local market, not for national consumption. Both Comayagua and Siguatepeque are important as service and agro-processing centers for surrounding agricultural producers.

182

Table 8

National Institutions Evaluated as Potential TA and Training Support Resources

*	AMHON	Asociación de Municipalidades de Honduras.
*	BANMA	Banco Municipal Autónomo de Honduras.
*	COHDEFOR	Corporación Hondureña de Desarrollo Forestal.
*	DECN	Dirección Ejecutiva del Catastro Nacional.
*	D.G.A.A.T.M.	Dirección de Asesoría y Asistencia Técnica Municipal. Ministerio de Gobernación y Justicia.
*	D.G.U.	Dirección General de Urbanismo. Ministerio de Obras Públicas y Transportes.
*	ENEE	Empresa Nacional de Energía Eléctrica.
*	FOHPREI	Fondo Hondureño de Preinversión.
*	INFOP	Instituto Nacional de Formación Profesional.
*	SANAA	Servicio Autónomo Nacional de Acueductos y Alcantarillados.
*	SECPLAN	Secretaría de Planificación, Coordinación y Presupuesto.
*	UNAH	Universidad Nacional Autónomo de Honduras.

* Investigación Participativa de Necesidades de Capacitación y Asistencia Técnica de las Municipalidades de Honduras, INCAE (1989).

The three cities contain over 90 percent of the Region's urban population. All are growing at over 5.0 percent per year and have high financial capacity relative to their urban centers. All are of substantial importance to regional and national development. Potential program targets in the Center Region are therefore:

Primary Centers	Secondary Centers I	Secondary Centers II	Minor Centers I
Tegucigalpa	Comayagua	Siguatepeque	Talanga *

The North Region

The North Region has the highest grade of relative urbanization in the country. The Region also contains the core of the country's industrial and agricultural sectors. The region is endowed with good access to transport (land, sea, and air) and extensive areas of high quality agricultural land. Plentiful subterranean water supplies support both urban and agricultural demands. However, growth has not been evenly distributed throughout the region. While San Pedro Sula and it environs and areas in the Aguan Valley have grown rapidly, the coastal areas and seaports (Puerto Cortés, Tela, and La Ceiba) have not.

The Department of Cortés, with ten of its twelve municipalities classified as urban, is at the forefront of national urban and economic growth. San Pedro Sula has the largest concentration of industrial production in Honduras: the city accounts for 52 percent of all industrial establishments and 62 percent of national industrial production. Twenty-eight percent of the city's work force is employed in the secondary sector; this industrial work force represents 32 percent of the national total.

Choloma, Puerto Cortés, La Lima and Villanueva all play key support roles in the region's development. All have relatively high levels of income and investment budgets. With the exception of Puerto Cortés (which is physically constrained), all are growing rapidly. In addition, the Department's municipalities have independently organized their own municipal association in order to jointly address common development problems.

Existing financial capacity is low.

Given the above, consideration should be given to targeting the Department and its municipalities for intensive support under the new project.

Atlántida is the second most urbanized department, with 40 percent of its population living in four municipalities. Tela, the second largest urban municipality, is growing

slowly and its future economic growth potential limited, -primarily related to small scale services and national tourism. The main economic activity in La Ceiba, which has been growing at about 4.4 percent per year, is agro-processing. The Standard Fruit Company which employs two-thirds of the workers in the industry has cut back its operations in the area and is moving its central operations to Puerto Castilla in the Colón Department. La Ceiba has not yet become strongly linked with the development of the Aguan Valley, but newly constructed roads linking the two offer potential for such linkage, - as recommended by SECPLAN.

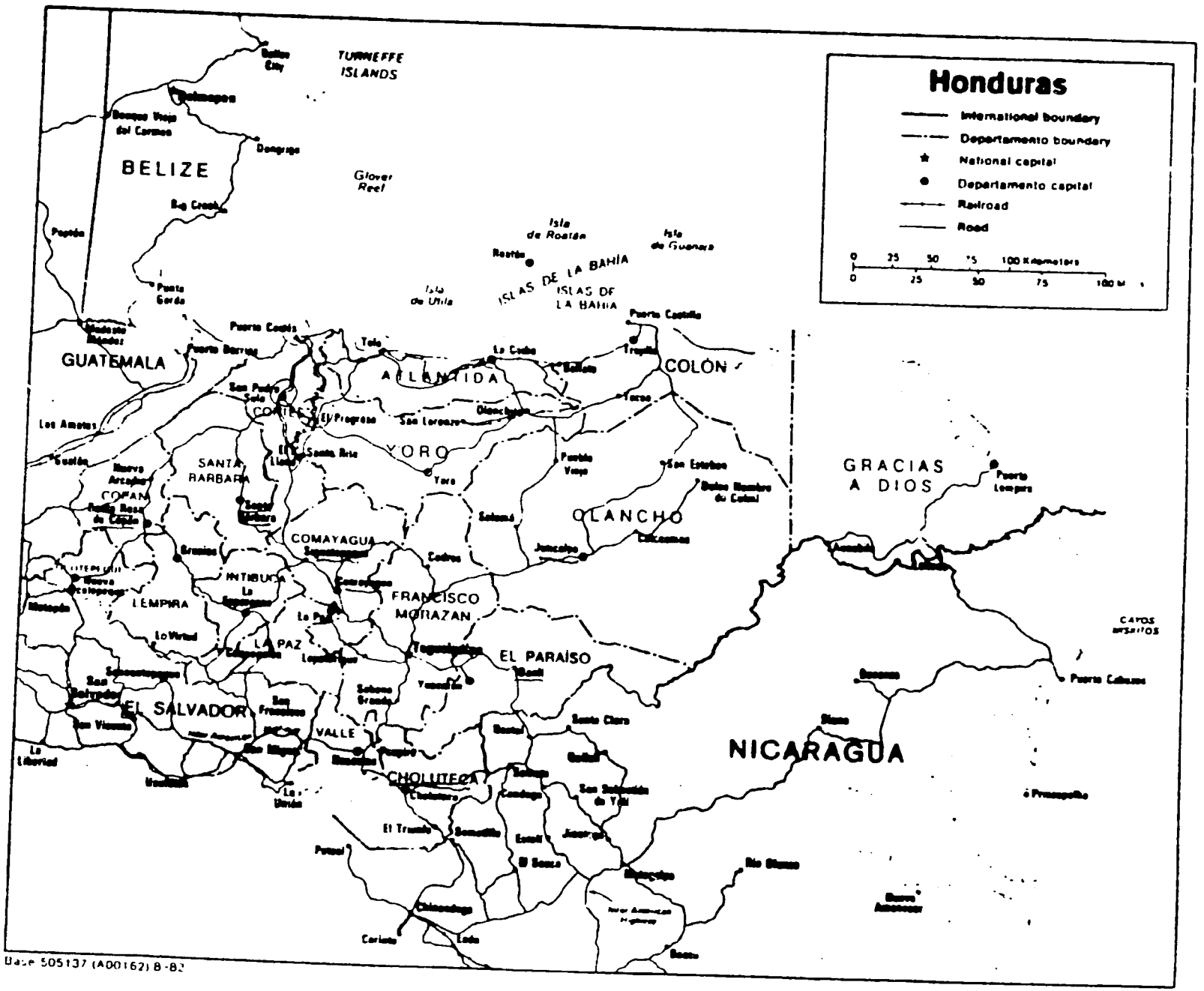
Yoro has eleven urban municipalities and 32 percent of the Department's population lives in urban areas. El Progreso (the country's fourth largest city) is growing at 5.0 percent per year, while the next four cities (Yoro, Morazán, Santa Rita and Olanchito) are growing at between 4 and 6 percent. Financial capacity varies substantially between cities.

In summary, the urban centers and systems in the North Region, a key economic development area, offer a strong base for intensive program support for both individual municipalities and municipal support systems.

Primary Centers	Secondary Centers I	Secondary Centers II	Minor Centers
San Pedro Sula	Puerto Cortés Choloma El Progreso La Ceiba	La Lima Tela	Villanueva Olanchito Morazán * Yoro Santa Rita *

* Existing financial capacity is very low.

185


Honduras
International boundary
Departamento boundary
National capital
Departamento capital
Railroad
Road
0 25 50 75 100 Kilometers
0 25 50 75 100 M
TURNEFFE ISLANDS
Glover Reef
BELIZE
GUATEMALA
Isla de Roatán
Isla de Guanaja
ISLAS DE LA BAHÍA
Isla de Utila
ATLÁNTIDA
COLÓN
GRACIAS A DIOS
CORTÉS
YORO
SANTA BARBARA
COPÁN
COMAYAGUA
OLANCHO
INTIBUCÁ
LEMPIRA
FRANCISCO MORAZÁN
LA PAZ
EL PARAÍSO
EL SALVADOR
VALLE
CHOLUTECA
NICARAGUA
CAYOS ARSILLOS
Base 505137 (A00162) 8-82

186

The East Region

This area is rich in good agricultural land (mainly in the Aguan Valley in the north and the interior of Olancho department) and has strong economic potential particularly for increasing output of nontraditional export crops. These areas are expected to have the highest rates of economic growth over the next decade. Highway construction linking the Aguan Valley with the ports at La Ceiba and Puerto Castilla will enhance prospects. It is also speculated that port facilities at Trujillo will need to be developed.

In the interior of Olancho, agricultural land is being brought into production; the department has the highest rural population growth rate in the country (4.3 percent annually during 1974-88). Construction of highways linking Tegucigalpa with the East region and northeastern coast through Juticalpa and Catacamas should also help maintain the high levels of population growth in the department and support increased regional contribution to national economic development.

The following urban centers are considered potential targets for the program, if not initially, over the medium term:

Primary Centers	Secondary Centers I	Secondary Centers II	Minor Centers
-	-	Catacamas Juticalpa	Tocoa Trujillo

South Region

Economic activity in the South region is based primarily on agriculture, the port of San Lorenzo on the Pacific Coast, and the regional center of Choluteca. Major agricultural products of the region have traditionally included cattle, cotton, cereals, and sugarcane. However, cattle production is currently experiencing a downswing and traditional crops are being replaced by more lucrative exports crops such as melons and cashew nuts, which will be enhanced by irrigation. A shrimp industry operates out of the coastal areas.

The city of Choluteca acts as a regional service center. Commercial and agricultural activities employ 36 percent of the urban work force in the department. The proportion of workers employed in industry and services is below the national average. While the southern region displays the lowest level of total population growth (mainly because its

137

rural population has been growing slowly), Choluteca's growth has remained strong at 5.3 percent per year during 1974-88. The potential targets include:

Primary Centers	Secondary Centers I	Secondary Centers II	Minor Centers
-	Choluteca	Danlí San Lorenzo	Nacaome

The West Region

This region is predominantly rural and focused on small-scale agricultural activities. Urban areas made up only 15 percent of the population in 1988; the largest city in the region, Santa Rosa de Copán, has only 19,200 inhabitants. Activities in these centers are geared mainly towards agricultural and services. Only 19 percent of the urban labor force works in industry. The region is the home of El Mochito mine (recently closed and reopened) which produces zinc, lead, and silver. The potential targets include:

Primary Centers	Secondary Centers I	Secondary Centers II	Minor Centers
		Santa Rosa	N. Arcadia Sta. Bárbara

3. **Priority Training and Technical Assistance Needs.**

Table 9 summarizes the priority areas identified for municipal training and technical assistance by the municipalities consulted in the INCAE investigation 4/, and provides an indicative categorization of the types of requirements for each area identified for action.

The municipalities consulted, 46 in total (see Table 7), identified financial administration and management as the highest priority including budgeting, revenue and tax plans, and related improvements in cadaster systems in support of revenue generation and development planning.

188

Table 9

Priority Areas for Municipal Training and Technical Assistance

PRINCIPAL AREA/BASIC ACTIONS	BASIC REQUIREMENTS FOR SUCCESS
A. FINANCIAL ADMINISTRATION	
1. Municipal Budgeting	o Plan/Schedule for taxes and fees. o Investment plan coordinated with development plan. o Financial analysis and forward planning.
2. Tax Collection	o Specialized personnel. o Community promotion. o Improve services. o Billing system. o Collection plan.
3. Approval of Plans	o Updating of cadaster. o Institutional Assessment.
B. PLANNING OF MUNICIPAL DEVELOPMENT	
1. Development Policies and Strategies	o Upgrade organizational structure. o Assess resources. o Develop short and medium-term strategy. o Promote participation of community leaders.
2. Urban Development Plan	o Urban assessment and strategy development. o Urban development regulations. o Update/modernize cadaster. o Promotion/consensus of community leaders. o Inter-governmental coordination.
3. Economic Development Plan	o Social-economic assessment. o Specialized personnel. o Budget/Equipment. o Participation of community leaders.

PRINCIPAL AREA/BASIC ACTIONS	BASIC REQUIREMENTS FOR SUCCESS
C. PROVISION OF BASIC SERVICES	
1. Preparation of Plans/Strategies	o Identification of needs. o Socio-economic studies. o Plan formulation/preparation. o Promotion of financial resources.
2. Execution of Public Works	o Executing units. o Implementation plans. o Monitoring and control of works.
3. Tariff Rate Setting and Collection	o Affordability studies. o Economic consultancy. o Promotion plan. o Billing systems. o Collection and cost recovery.
D. LEGISLATION, REGULATIONS AND CONTROL	
1. Plan/Schedule for Taxes and Fees (Plan de Arbitrios)	o Affordability assessments. o Legal and economic advise. o Plan for disemination and promotion.
2. Passage of Ordenances to Guide and Control	o Urban development plan. o Plan/Schedule for taxes and fees. o Technical and legal advise.
3. Creation of Decentralized Enterprises and Units	o Feasibility studies. o Legislation. o Financial analysis. o Assessment of human and material resources.
E. COMMUNITY ORGANIZATION	
1. Promotion of Patronatos and Special Purpose Organizations	o Community dialogue and promotion. o Leadership training. o Organizational strengthening and role definition/development (patronatos, committees, etc.).

PRINCIPAL AREA/BASIC ACTIONS	BASIC REQUIREMENTS FOR SUCCESS
2. Approval and Implementation of Plans and Strategies	o Identification of needs. o Assessment of existing plans. o Formulation of budgets. o Identification of financial resources. o Plan/Strategy approval and execution.
3. Coordination	o Supervision and control. o Evaluation and adjustment.
4. Promotion of Intra-Municipal Associations and Support Systems	
E. CONSERVATION OF NATURAL RESOURCES	
1. Forest Control/Watershed Management	o Control of cutting and burning. o Formulation and application of sanctions and fines.
2. Control of Concessions to Export Resources	
3. Disaster Prevention	o Preventive works. o Crop adjustments.

Source: Investigación Participativa de Necesidades de Capacitación y Asistencia Técnica de las Municipalidades en Honduras, INCAE (1989).

II. RECOMMENDED STRATEGIC GUIDELINES FOR PROJECT IMPLEMENTATION

The 1990-94 Government Plan proposed by the newly elected national administration states that the changes imply a process of democratization. Most sectors of the plan speak of the need for increased involvement of citizens in government actions. The section on Institutional Policy mentions the need to establish permanent mechanis' to resolve demands of those affected by government actions. The section on Municipal Reform wants to encourage, strengthen and increase community participation in the solution of problems.

The project is seen as highly responsive to the objective of the Government Plan to strengthen the democratic process in Honduras. The proposed implementation strategy envisions that this aspect of democratization will be incorporated into every project activity.

A. PROPOSED BASIC APPROACH

1. Strategic Objective

The proposed basic objective of the implementation strategy is to provide technical assistance and training to improve the capacity of selected municipalities and to set the essential policy and institutional base which will be required at the national and local levels to strengthen the capacities of municipalities on a sustainable basis longer-term.

2. Basic Principles and Approaches

The provision of technical assistance and training to achieve sustainable impacts through interventions at the national and local levels will be a difficult and demanding undertaking and require a clarity of purposes and strategies from the outset of project activities and throughout the five year period. The implementation strategy is targeted on a "bottom-up" development process rather than concentrating on changing the national public sector institutional infrastructure. Changes at the national level should be pursued on a selective basis as needed to strengthen the transfer of decision making and resources to local governments. The following basic principles and approaches should underlie all work done on this project.

a. Formulation and Implementation of Mutually Reinforcing National and Local Policy and Institutional Reforms.

The establishment of mutually reinforcing policy and institutional development agendas at the national and local level is considered essential to sustainable efforts to strengthen municipal capacity and related democratic processes.

192

Three areas are of priority concern to the project: 1) municipal management and finance; 2) urban land, infrastructure and service provision; and, 3) sustainable municipal support systems and democratic processes.

The complementary national and local level agendas recommended for each are briefly described below, together with a brief description of the nature and role of technical assistance and training support proposed in each case.

i. Municipal Management and Finance

National level objectives should be targeted on improving central-local fiscal relations, as follows:

- adopt and implement a formula based revenue sharing program to reinforce fiscal responsibility and encourage local revenue generation;

- Design, promulgate and execute improved systems for annual planning, programming and budgeting of local development activities by the municipalities.

The recommended local level objectives are:

- to increase the capacity of participating municipalities to generate and administer revenues, including; - assessing municipal revenues, formulation and execution of municipal revenue augmentation, and investment planning, programming and budgeting.

Project training and technical assistance to support the formulation and execution of the complementary policy and institutional agendas at both levels is recommended. At the national level short-term technical assistance should support the Dirección General de Asesoría y Asistencia Técnica Municipal (DGAATM) in the Ministry of Government in planning and implementing the transfer system as required.

The national planning agency, SECPLAN and DGAATM in the Ministry of Government should also be key recipients of technical assistance support related to the definition and publication of the new budgetary system to be used by the municipalities. The project should support development of a complementary data base and information system at the national level in order to permit the collection and systematization of municipal information (i.e. budgets, service coverage, etc.) for purposes of analysis, projection and comparison of municipal performance.

Project sponsored orientation seminars and panel discussions should be programmed to facilitate national-municipal policy dialogue and consensus building on required changes (See 2.c., below). The municipalities would play a key role in this process (See 2.d., below). It is also recommended that both short and long-term technical assistance support be provided (See II.B.1) to stimulate, promote and support the strengthening of municipal management and finance in participating municipalities. Teams of municipal level officials should receive intensive training courses in municipal financial management and annual planning and budgeting.

ii. Urban Land, Infrastructure and Services Provision

Proposed project objectives at the national level are targeted to support the formulation and execution of policies, strategies and plans to:

- devolve urban services functions and responsibilities to select the municipalities;
- transfer ejidal lands and their management to the municipalities;
- increase municipal participation in the management of national resources.

The recommended complementary local level objectives of technical assistance services are to assist targeted municipalities to:

- identify and implement strategies to improve the delivery of public services, including the planning, programming and packaging of annual investments;
- improve urban land use planning and development policies, systems and procedures;
- maximize the effective participation of local citizens in the formulation and execution of policies, plans, and programs.

The project should concentrate on national level devolution initiatives related to water and sanitation and roads, and project technical assistance should support studies to determine the services and responsibilities to be transferred and the municipalities that will receive them. Key participant institutions include: SECPLAN, SANAA, SECOPT and selected municipalities. The

194'

Instituto Nacional Agrario (INA) should be assisted to transfer ejidal lands and their management responsibilities to the municipalities, while technical assistance at the municipal level supports improved land planning and management. Technical assistance to the Ministry of Natural Resources will similarly assist in identifying and promoting potential opportunities for increasing municipal participation in management of national resources at the local level.

iii. **Sustainable Municipal Support Systems and Democratic Processes.**

Project sustainability will also depend on complementary national and local level policy and institutional reforms related to municipal support systems and democratic processes. The following priority objectives are proposed:

- formulate and execute policies; strategies and plans for the organization and management of research, training and technical assistance to support municipal development long-term;

- formulate and execute strategies, policies and regulations to strengthen municipal support systems, including municipal associations, private sector support and community participation at the local level.

Sections c. and d. below, describe the basic approaches proposed to meet these objectives. At the national level efforts should be directed to eliminating existing impediments while establishing a policy and regulatory environment which supports and facilitates the achievement of these objectives by the municipalities.

b. **Strategic Selection and Programming of Municipal Interventions.**

In order to set the firm basis for a sustainable municipal development effort, the municipal level intervention strategy will need to balance the demands for short-term coverage (numbers of participating municipalities) and longer-term policy, institutional and management capacity building and adaptation. Three discrete types of assistance are proposed:

i. **Broad Training Program Coverage** 6/

Training program activities can dramatically expand the coverage of Municipalities under the program. All 289 municipalities should benefit from orientation seminars on the Municipal Law and related legislation and regulations governing municipal roles, functions and responsibilities. The 104 urban municipalities (population of over 2,000 inhabitants) should also receive the training courses on the promotion of community participation. The 32 municipalities with populations of over 7,500 would receive panel discussions, orientation seminars, courses on the promotion of community participation and should also benefit from a series of seminars, workshops and training courses on: 1) strategic municipal development planning 2) municipal financial management and, 3) municipal planning, programming and budgeting.

Each of these courses should be tailored to the specific needs of different sized cities, as follows:

Primary Cities:	greater than 100,000
Intermediary Cities I:	30,000 - 100,000 inhabitants
Intermediary Cities II:	15,000 - 30,000 inhabitants
Small Towns:	7,500 - 15,000 inhabitants

ii. **Priority intensive TA support to clusters of cities in selected regions of strategic economic development potential.**

In selected regions more intensive and integrated project assistance should be provided in order to improve the efficiency and effectiveness of both individual municipalities and intra-municipal cooperation in support of urban and regional development activities. The purpose is to support the formulation, promotion and execution of policy, institutional and management reforms related to:

a) development activities of individual cities of different sizes, within the region;

6/ The specific training seminars/courses mentioned in this section are described in further detail in Section II.B.2, Design and Implementation of Training for Municipalities.

140

b) collective identification and resolution of common development problems at the regional or sub-regional level;

c) the strengthening of municipal support systems (associations, intra-municipal cooperation, public/private sector partnerships, etc.) within the region.

Technical assistance to individual cities would be targeted to support the objectives and activities specified in Section II.B.1,- Design and Implementation of Technical Assistance for Municipalities. Common regional problems (i.e.- environmental, services, revenue structures, etc.) to be addressed with project TA should be identified jointly with participating municipalities at project start-up.

The purpose of project efforts to strengthen municipal support systems in selected regions is to provide the experience and in-sights required, while simultaneously stimulating municipal support for the expansion of such activities on a national basis over the medium and longer-term.

The recommended targets are the North Coast and North East regions. The Departments and cities include;

Stage 1: Years 1-5 of Project

CORTES:
San Pedro Sula (Limited Support)
Choloma
Puerto Cortés
La Lima
Villa Nueva

YORO:
El Progreso

ATLANTIDA:
La Ceiba

Stage 2: Years 3-5 of Project

OLANCHO:
Juticalpa
Catacamas

COLON:
Tocoa

191

iii. **Selective TA support for Individual Municipalities Distributed Throughout the Country.**

Starting in the second year of the project, selective technical assistance should begin to be provided, on a phased basis, to a limited number of cities throughout the country whose rate of urbanization, contribution to regional economic growth, basic resource levels and demonstrated interest merits their participation. The recommended cities are:

Tegucigalpa (limited assistance) Choluteca
Comayagua
Siguatepeque

c. **Development of Municipal Development Training Capacity**

The lack of municipal capacity, the lack of trained personnel to formulate and execute urban policies and programs is one of the major constraints to the efficiency and effectiveness of local development activities. The scale of municipal development training and education required is enormous, yet Honduras does not have the institutional training capacity in place to provide systematic, timely, and relevant training to municipalities.

Therefore, the project's training strategy should be to plan and implement priority training seminars/courses/ and related technical assistance in a manner which sets the essential basis for the effective institutionalization of the capacity to organize and manage a sustained municipal development training and technical assistance program in Honduras over the long-term.

It is further proposed that the municipalities themselves ultimately support a training institution designed and established to meet their needs. Such an institution would be consistent with the philosophy of the project,- decentralization and addressing needs from the bottom-up. For that purpose, it is recommended that a training contractor be employed to work with participating municipalities to plan and implement a staged work program to meet both short and longer-term objectives as follows:

1) develop and provide training to meet priority needs;

2) prepare manuals containing training curriculum/materials, guidelines for trainers, training aids and evaluation criteria for each priority course, -in a form suitable for future use and adaptation;

3) prepare a strategy and plan for the staged development of courses, trainers, policies and institutions required to meet long-term training needs;

4) identify, recruit and train a basic cadre of Honduran Trainers; and,

5) identify, evaluate and recommend permanent institutional arrangements for municipal technical assistance and training.

The basic approaches to training program/system development are briefly described below:

1. **Curriculum and Training Materials Development**

Curriculum and training materials development should reflect the human resource shortages of the municipalities and the nature of the planning and management systems it is designed to support. Curriculum and training materials should be:

- based on appropriate methodologies and frameworks which permit coordinated and structured development to meet the needs of different municipal target groups progressively over time.

- practical and designed to help participants to perform more effectively the tasks in which they are presently engaged;

- directly related to Honduras' systems and procedures (existing or incipient) for the planning and management of development activities by the municipalities,- introducing new techniques and procedures to improve the quality of decisions as appropriate;

- based on Honduran materials and case studies whenever possible.

ii. **Training Seminar/Course Implementation**

The training program should be specifically targeted to training as opposed to education, particularly in order to respond to the urgent need to improve the policies/strategies of the municipalities and the performance of municipal units and individuals assigned the responsibilities for policy implementation at the technical, administrative and financial management levels. As part of the concern for practicality:

- All course work should be conducted in Spanish.

- Durations of classroom training activity should be minimized; practical on-the-job application maximized.

- To the maximum feasible extent participants should be trained in teams which reflect their roles and relationships within their respective municipalities, rather than as individual members of unstructured classes.

- Core syllabus and course designs should be standardized, with participatory training techniques used to allow trainees to practice skills introduced in a structured, controlled and easy to monitor manner.

iii. **Development of Trainers**

The proposed approach to training, -- namely, practical and participatory -- will require substantial capacity on the part of trainers/instructors. This will require a carefully staged approach to the development of trainers/instructors. In order to respond, the contractor should:

- provide expert trainers to meet immediate project training needs;

- develop a phased strategy and plan for the development of Honduran trainers to meet both medium and longer-term needs, including the preparation of curriculum and training materials for a Training of Trainers Course;

- prepare/train a basic cadre of Honduran trainers as part of a first stage work program to implement the strategy and plan.

d. Strengthening the Democratic Process

Technical assistance and training resources should support the democratic process and citizen participation on two interrelated levels: community/municipal and municipal/national government.

At the **community-municipal level**, local project assessments and decisions should involve citizens directly; proposed changes in municipal policies, systems and procedures (i.e. new budgeting systems, hearingS on development decisions, etc.) would explicitly provide the opportunity for citizen input and feedback; local election mechanisms to be developed should seek maximize the more equitable distribution of accountability; and community leadership and organizations should be oriented and trained to increase their effective participation in local development activity.

At the **municipal-national level**, efforts should be directed to: 1) increasing the effective participation of municipalities in representing local needs and in decision-making which affects local development; and, 2) identifying and promoting the formulation and implementation of policies, systems and procedures required to support municipal development on a sustainable basis longer-term.

Individual participating municipalities receiving direct technical assistance should be the primary actors in the formulation of required strategies, policies, plans and programs at the **community-municipal level**. Given the current weaknesses of national municipal support systems, it is recommended that the Municipal Association of Cortés should serve as counterpart for **municipal-national level** project activities.

The Association has already proven itself to be an effective A.I.D. counterpart, by assisting and supporting the planning and implementation of the A.I.D. financed study of the Municipal Reform Law, as well as through its collaboration in the assessment of municipal training and technical assistance needs.

The Association, with a small staff and budget financed under the project should collaborate with project technical assistance and training contractors in the three areas: Policy and Strategy Analysis and Planning. Policy Dialogue and Consensus-Building; and, Strengthening of Municipal Support Systems.

i. **Policy and Strategy Analysis and Planning**

The Association should serve as a primary advisor and interlocutor for the following projected-related activities:

a. monitoring and evaluating national decentralization policy, strategy and systems development;

b. formulation and execution of policies, strategies and plans for municipal development research, technical assistance and training;

c. analysis, formulation and execution of policies, strategies and programs for intra-municipal cooperation and support in the Cortés Department.

ii. **Policy Dialogue and Consensus Building**

The Association should serve as an initial catalyst for efforts to establish a greater understanding of decentralization issues and other issues affecting municipal-local development, through three types of activities;

a. Seminars, Conferences and Publications to: increase municipal participation in and understanding of policy and procedural developments which affect central-local government relationships and citizen and municipal participation in local development activities; establish a more open and systematic dialogue among national and municipal authorities;

b. Inter-Governmental Relations through policy dialogues and lobbying efforts directed at the executive and legislative arms of government;

c. Public relations and education efforts to increase public understanding of the importance of decentralization and democratization efforts to national development.

iii. **Strengthening of Municipal Support Systems**

The Association should assist in the formulation and implementation of policies, strategies and plans to stimulate, encourage and facilitate citizen participation, intra-municipal support, and local public/private sector partnerships in local development activities.

e. **Provision of Complementary Capital Financing**

The modification of central government fiscal assistance to municipalities in order to reinforce fiscal responsibility and stimulate local level revenue generation efforts is a priority element of the MDP national policy agenda described in 2.a., above. Regular transfer payments will allow municipalities to plan and budget more effectively and to capitalize the revenue stream if they want, by earmarking it as security for commercial bank borrowing. This latter aspect is particularly important, since the current domestic capital financing system for municipalities is virtually non-functional. BANMA's inability (and lack of positive perspective) to perform its functions as the sector's financial intermediary and the fact that municipal governments are very poor credit risks are at the root of this failure.

The achievement of sustainable improvements in municipal performance, including revenue generation and financial management, is an essential element of the Municipal Development Program (See Sections A.2.a., B.1., and B.2.), In financial management, the purpose is to begin to build municipal financial capacity and creditworthiness, - thereby enabling municipalities to borrow from the private finance system for their investment plans to provide urban infrastructure, services and facilities.

i. Objectives

It is proposed that a self-liquidating Municipal Development Fund (MDF) be established for the purposes of leveraging improvements in municipal performance and financing eligible and priority investment opportunities until increased local revenues can be generated and capital finance systems for the municipal sector can be stabilized. The specific objectives of the MDF include the following project related objectives:

a) to provide a source of long-term finance for municipal governments to expand urban infrastructure and its maintenance in a period of constrained central government resources;

b) to stimulate and support increases in municipal revenue generation and improvements in financial management;

c) to encourage municipal governments to focus on the objectives of the basic needs, equity and efficiency in urban development (and on improvements to local revenue generating enterprises);

d) to stimulate municipal governments to plan, prepare and implement integrated urban development programs incorporating central and local government funds into multi-year budgets;

e) to test and evaluate mechanisms for mobilizing international and national/local finance for municipal development on a sustainable basis longer-term.

ii. **Municipal Development Fund (MDF) Design Criteria**

Short-term technical assistance should be provided during the first six-months of project implementation to further specify the nature and scope of the MDF and to design its technical, administrative and financial management structure, policies, and procedures in order to establish operations by year two. The following preliminary criteria are proposed to guide this work:

a) **Eligible Municipalities**: MDF would be used exclusively to reinforce the project policy and institutional development agenda in each target municipality with MDF loans/grants/guarantees conditioned on achievement of USAID/Municipality policy agenda objectives and agreements. (See B.1. Design and Implementation of TA for Municipalities).

b) **Eligible Activities**: MDF would finance,

- operating capital for feasibility studies (including technical design) and basic equipment required to improve management productivity;

- eligible bankable infrastructure and urban services projects to be constructed by the private sector, including water and sanitation, solid waste collection and disposal, street paving, sidewalks and gutters, etc.

c) **MDF Lending Principles**: The cost of MDF financial resources should be competitive with that used by other donors for municipal "development" lending. Interest rates and loan conditions would be differentiated based on project type and municipal credit-worthiness, with the MDF interest rate structure reviewed on an annual basis to avoid decapitalization. Participating municipalities would provide a minimum counterpart of 15 percent of total project costs (in cash or in-kind). All capital projects would need to demonstrate their financial viability on terms of full recovery of capital, operating and maintenance costs; perhaps with central government transfers put up as credit guaranty against municipal loans.

d) MDF Administrative and Financial Mechanisms: MDF resources would be channeled through private banks, with liquidity deposits and guaranty mechanisms leveraging their participation in, and counterpart contribution to, the MDF. A credit committee composed of AID/participating banks/GOH would function to establish eligibility criteria, set and update MDF financial terms and conditions, and publicize and promote MDF objectives and purposes. Approval of loan operations would be the sole responsibility of the individual participating banks at the local level. Repayment risk associated with municipal loans would be reduced by encouraging local governments to use transfers to guaranty loan repayment and, perhaps by the use of part of available MDF funds to insure MDF loans against default.

iii. Financial Requirements

Based on HG-008 experience with municipal capital assistance for similar activities*, it is proposed that $15.0 million in local currency resources be allocated for MDF purposes.

* An estimated $20 million will have been disbursed for urban upgrading projects in 6 municipalities over the four-year period 1987-91.

B. TECHNICAL IMPLEMENTATION GUIDELINES

1. Design and Implementation of Technical Assistance for Municipalities

a. Proposed Objectives

The principal proposed objectives of technical assistance services are to assist targeted municipalities to:

i. Identify and implement strategies to improve the delivery of public services, including the planning, programming and packaging of annual investments;

ii. Improve urban land use planning and development policies, systems and procedures;

iii. Increase municipal capacity to generate and administer revenues, including: assessing municipal revenues (existing and potential); developing municipal revenue augmentation programs and investment planning, programming and budgeting (annual and medium-term);

iv. Strengthen municipal staff capacity and its performance, including: intensive initial training and technical assistance to local staff in target cities, as well as the preparation of recommendations for municipal staff development and management.

b. Recommended Activities

It is recommended that a technical assistance contractor, in collaboration with assigned municipal staff, should carry out three main streams of activity: *

i. Reconnaissance surveys.
ii. Preparation of municipal policies, strategies and investment programs; and
iii. Sustained support

These are briefly discussed below;

i. **Reconnaissance Survey**

A brief reconnaissance survey carried out in target municipalities should review the current situation and broad areas of concern, identify the major opportunities which should be further analyzed and

* Contractor expertise should include: municipal financial management, urban land/infrastructure planning, and community development/ organization. It is recommended that the team include three to four resident experts, complemented by short-term technical assistance.

developed during the work and recommend appropriate levels of TA which would be required. It would serve to raise key questions requiring local government decision so that the dialogue around these issues and alternatives can be built into negotiation of a Memorandum of Understanding (MOU) between U.S.A.I.D. and the municipality concerning the work to be undertaken and the responsibilities and commitments of each party and the technical assistance team. The reconnaissance survey will be a quick but comprehensive review of the physical, social, economic, financial, administrative, and legislative aspects of all main streams of work. Maximum community involvement in the review should be promoted.

ii. **Preparation of Municipal Policies, Strategies and Investment Programs**

The preparation of Municipal Policies, Strategies and Investment Programs should be based on the MOU and is a major stream of work which would be carried out in three stages by an integrated consultant/municipal team.

The urban analysis (Stage 1) provides the basis for the identification of key issues, strategic plan formulation (Stage 2), and the preparation of an action plan and program (Stage 3).

Stage 1: Urban Analysis

Economic, Social and Physical

The following analysis should be prepared in statistical and mapped formats:

-- Urban and regional economic trends and potentials.

-- Population and income growth characteristics and 10-year projections.

-- Review/inventory of existing urban infrastructure and services.

-- Identification of key infrastructure related to health, safety, economic efficiency and productivity.

-- Identification of potential target groups (individuals, households, business, etc.) and their locations related to major environmental problems and infrastructure deficiencies

-- Identification of existing growth trends and land use requirements

-- Identification of roles and functions of key national government agencies, patronatos, commercial interests and voluntary associations in the local decision-making process.

Municipal Finance

A review of past trends (5 years) in municipal finance should include:

-- Central government transfers to the city

-- Local revenues by source

-- Project finance investments by various sources, and capital and recurrent expenditures by purpose

-- City debt obligations

The potential for improvement will be evaluated, including

-- Existing tax sources

-- New potential tax sources

Municipal Administration:

A review of staffing and skill levels in key municipal departments and a review of performance (efficiency/productivity) should cover the key existing municipal functions.

The potential for improvement should be evaluated including:

-- Upgrading of existing staff capacity through training and TA;

-- New staffing requirements at minimum acceptable levels;

-- Opportunities for private sector support and increased community participation.

Stage 2: Strategic Plan Formulation

Strategic Plan formulation will be based on the data analysis and discussions carried out in each city during the urban analysis stage.

Identification of Key Issues and Problems

Work should be focused on joint identification of the key priority issues facing each city, with respect to,

-- urban land, service and other deficiencies facing city residents and businesses

-- city management and finance

-- the extent of citizen participation in municipal activities, (patronatos, private sector associations, etc.)

-- other city-specific areas of concern

Formulation of Alternative Strategies

The key issues and problems identified for each city should be discussed with city, private sector leadership and GOH officials and USAID. Based on the guidance received, existing and alternative strategies (at low cost minimum standards) should be formulated for addressing at least the following:

-- level and priority of services in existing compared to expansion areas of the city

-- alternative growth directions and generalized land use and development strategies with rough cost implications for each

-- expenditure balance between improved maintenance versus new capital investment

-- balance/priorities for capital investment requirements among key subsectors, together with a rough outline of a five year investment program

-- key actions needed to improve city revenues and municipal financial management

-- priority actions needed to improve constituent participation and to mobilize and effectively utilize private sector support in the local development process.

Stage 3: Action Plan and Program

Based on the analysis and discussions held during the first two stages, the technical assistance team, in collaboration with participating local staff, should prepare an Action Plan and Program for each city in the form of a proposal to be discussed with the Mayor and the City Corporation, USAID, and relevant GOH agencies. This proposal would include:

Preparation of Finance Policies and Programs

Estimates of yearly municipal income and central government transfers, by source, together with a program of policies and actions required by the city to achieve it would be prepared. This will include actions to improve city tax sources and user charges, collection and the division of expenditures into anticipated administration and maintenance, and capital investment and debt service requirements.

Preparation of 3-5 Year Rolling Investment Program

As appropriate, a 3-5 year rolling investment program would be prepared in multiple sectors that can be financed within reasonable expectation of budget and credit constraints and implementation capacity. This would provide the framework for annual budget preparatory work for each municipality and include justification of sectoral components and the identification of existing component work status and follow-up requirements.

Prepare Municipal Administration Plan and Program

An action plan and program for the municipal administration would be prepared to improve existing levels of capital infrastructure, maintenance and urban administration. This would include the identification of the organizational responsibilities and priority staffing required by the city as well as the identification of mechanisms to stimulate and strengthen the integral participation of the private and community sector where relevant.

In general, the role of the technical assistance team should be to support the preparation by the local staff of a sectorally integrated urban investment program for each target city. While the work would include the preparation and elaboration of an action program, it is expected that the preliminary and detailed engineering required for appraisal by GOH and international financing agencies would be undertaken as a subsequent and separate assignment from this work.

iii. Sustained Support

The ability of the individual city concerned to take responsibility for the various tasks should determine the degree of assistance and involvement of the technical assistance team in each case, as well as follow-up support requirements during the project period.

The TA team would also: 1) provide technical inputs and prepare manuals on the basic aspects of municipal analysis and planning for use by municipal staff and private contractors; and, 2) provide inputs into and advise on national policy agenda and systems and procedures development.

On-the-Job training of local staff and discussion workshops with preparation teams in other cities should form part of the TA work program.

2. Design and Implementation of Training for Municipalities

The results of INCAE's Investigación Participativa de Necesidades de Capacitacion y Asistencia Técnica de las Municipalidades (July 1989), provide the essential inputs for training program design.

a. Proposed Objectives

The principle proposed objectives of the training services to be provided under the project are to:

i. **Prepare training curriculum, training course designs and training materials for priority training events and implement the same as follows:**

Panel Discussions will serve to brief municipal officials (and others) on the Municipal Development Project and its components and to solicit and organize their effective participation in the process of formulating and executing related policy, institutional and management reforms required to meet both immediate and longer-term decentralization and democratization objectives.

An estimated 12 Panel Discussions of 1-3 days duration would be implemented during the project period.

Orientation Courses are aimed at senior officials and policy makers at the municipal and national levels and will serve to orient participants on the existing legal and regulatory structure governing municipal actions and to analyze the legal, institutional and management structure required for effective decentralization and municipal development, as well as respective local and national roles and responsibilities.

An estimated 10 orientation courses of 1-2 days duration would be implemented.

Strategic Municipal Development Planning Courses are directed at improving municipal policy, institutional and management capacities through strategy and administrative systems development and training for local policy makers and senior administrators.

Six Courses of 3-5 days duration would be implemented.

Promotion of Community Participation Courses should be targeted on municipal officials and community groups and directed to the identification and analysis of opportunities for promoting the effective and efficient participation of patronatos and other special purpose organizations in municipal activities. This would include techniques for community dialogue, promotion, and leadership training.

15 Courses of 3-5 days duration would be implemented.

Municipal Financial Management Courses are targeted on improving the capacity of municipal officials and staff to generate and administer revenues; including revenue and expenditure analysis, policy & strategy formulation, actualization and modernization of cadaster and tax systems, and municipal planning and budgeting.

5 Courses of 1-2 weeks duration would be implemented.

Annual Planning, Programming and Budgeting (APPBS) Courses would be carried out in conjunction with the new Municipal System and Procedures for Annual Planning, Programming and Budgeting to be developed under the project, and would prepare responsible municipal level officials and staff to utilize the same.

5 Courses of 1-2 weeks duration would be implemented.

Project Identification, Preparation and Implementation Courses: are targeted on improving the capacity of municipalities to formulate and execute priority urban development projects in conjunction with the private sector; community promotion and participation, cost recovery systems, and private sector contracting are among the key issues to be addressed.

Two Courses of one week duration would be implemented.

212

ii. **Prepare manuals and guides containing training curriculum/materials, guidelines for trainers, training aids, and evaluation criteria for each priority core training seminar/course,-in a form suitable for future use and adaptation.**

Training packages for each training course should be designed to be used nationwide to meet the immediate training requirements of municipalities of varying size and capability. The planned end of project result should be a library of priority training programs available to municipalities and constituencies nationwide, with appropriate manuals and equipment, and finally, a cadre of local trainers skilled in conducting training exercises.

iii. **Prepare a medium to long-term strategy and functional plan for the implementation of research, training and technical assistance to support municipal development at sustainable levels in coordination with the Project TA contractor(s) and in close association with participating municipalities; identifying policy, institutional, management, and financial requirements related to:**

- Curriculum and Training Materials Development.
- Development of Trainers;
- Administrative Organization and Financial Management.

iv. **Identify recruit and train a basic Cadre of 40 Honduran Trainers.**

b. **Recommended Activities**

A contractor should be selected to undertake training responsibilities under the project. The following main streams of activities to be carried out are briefly described below.

i. **Reconnaissance Survey**

A reconnaissance Survey should be undertaken immediately on the start-up of work. The survey would review project objectives, municipal status and experience and ascertain the basic training issues and

217

broad alternative of concern; would identify the major opportunities which should be developed during the work and raise the key questions requiring local/municipal and central government decision so that the dialogue around these issues and alternatives can start early for feedback into the work at appropriate times.

Based on the reconnaissance survey, a comprehensive work program should be established based on the working situation found at the outset of the project. The work program should explicitly identify and integrate the tasks required to produce project training seminar/course outputs with the process and activities required to ensure long-term sustainability of municipal development training. It would introduce all staff (counterparts, local and international consultants) to the approaches and methodologies to be used and would serve to integrate participating municipalities, the consultant and government staff into task force teams with assigned responsibilities and schedules.

ii. **Curriculum and Training Materials Development**

The curriculum and training materials development process should include:

- Policy decisions taken with municipal counterparts about priority target audiences to be trained;

- Development of a medium term strategic framework for coordinated and structured curriculum development to meet training needs, related to priority courses and target groups;

- Design of training programs (and the course choices implied);

- Writing or assembling of syllabus/curriculum materials (and the research, information systems required);

- The conversion of substantive papers obtained from various sources into structured training units. (This implies the selection of appropriate training methods and the development of learning materials and audio-visual aids relevant to the teaching methods used);

214

- Monitoring of course implementation to assess the success of the materials in the classroom or in a field training environment;

- Evaluation of the impact of a course on trainees and on the work of their institutions after the course is completed;

- Periodic adjustments to course materials based on changing circumstances and the results of monitoring and evaluation.

These activities should be focussed on two basic interrelated elements of the process:

a. the development of the content of priority course materials and the preparation of training manuals and guidelines for future use by trainers;

b. the formulation, recommendation and preliminary development of those technical support systems required to inform the writing of curriculum materials and to convert them into effective training units. These systems will support not only curriculum development, but other aspects of the training process, including:

   - Information/library systems

   - Research, including training needs identification, course monitoring and evaluation;

   - Training materials development.

iii. Implementation of Training Events

It is recommended that the Contractor be responsible for implementing 55 in-country training events, providing an estimated 8,150 person-days of training for 2,040 participants. Table 10 shows the estimated annual level of efforts disaggregated by the type of training to be provided.

In addition, the Contractor should be responsible for identifying municipal training needs which cannot be provided in-country by the project in a timely manner and recommending relevant participant training and on-the-job training in third-countries or the United States to meet such needs. Potential areas include municipal management, personnel management and internal staff development programs, management of urban services, etc.

215

iv. Development of Trainers

The Contractor should be expected to provide expert training capacity to implement the menu of courses outlined in Table 10, while simultaneously: a) developing a phased strategy and plan for the development of Honduran Trainers to meet medium and longer-term needs; and, b) training a cadre of 40 Honduran trainers.

a. Trainer Development Strategy and Plan

The strategy and plan will include:

- criteria and procedures for selecting trainers;
- identification of potential sources of part-time or full-time trainers from within the government (municipalities, national agencies) or from external sources (universities, and others); the evaluation and selection of preferred alternative, and a recruitment strategy/plan;
- a implementation strategy and plan for the development of trainer skills to meet both immediate and longer-term needs.

b. Training of Trainers

Within the context of the above strategy, the Contractor should:

- develop basic curriculum and training materials for a Training of Trainers (TOT) course;
- train a core group of at least 40 Honduran trainers.

Table 10

In-Country Training Event Outputs
Estimated Annual Level of Effort 1/

TRAINING EVENTS		FY91	FY92	FY93	FY94	FY95	FY96	TOTAL ESTIMATED LEVEL OF EFFORT		
Type	Estimated Duration (Days)							No. Events	No. Participants	Person-Days of Training
Orientation	(2)	2	3	2	2	1		10	600	1,200
Community Participation	(5)	1	2	4	4	4		15	400	2,000
Panel Discussions	(3)	2	2	2	3	2	1	12	500	1,500
Municipal Development Planning	(5)		1	2	2	1		6	160	750
Municipal Financial Management	(10)			2	2	1		5	160	1,200
Annual Planning and Budgeting	(10)			2	2	1		5	160	1,200
Project Preparation and Management	(5)			1	1			2	60	300
TOTALS		5	8	15	16	10	1	55	2,040	8,150

1/ In addition to training events, project efforts will produce the following institutional development outputs:

1. Strategic Framework for Curriculum Development (FY91).
2. Training Manuals/Guidelines for Trainers for the above seven core courses (FY92-FY95).
3. Strategy and Plan for Municipal Research, Training and Technical Assistance (FY91,- in final; FY94 in draft).
4. Training of Trainers (TOT) Curriculum/Training Materials Package (FY92).
5. 40 Honduran Trainers Trained in three TOT Courses (FY93-FY95).

III. PROJECT ORGANIZATION AND MANAGEMENT

Project sustainability depends on changing conditions and priorities within Honduras, factors over which USAID has limited control and influence. This reality and the current constraints and weaknesses of the national and municipal policy and institutional environment make taking long-term results into account an even more complex and difficult task than it normally is. In order to effectively support the achievement of project goals and objectives, project organization and management systems should provide a flexible and participative framework for adjusting project development strategies and processes to changes in and evolution of the policy and institutional environment.

The project's proposed organization and management structure and systems therefore reflect the project's strategy and environment and are designed to enhance sustainability by facilitating strategic management of required bureaucratic reorientation. Strategic management of the project implies a process of design, testing and adjustment of structural relationships, information flows, performance evaluation systems and the processes of rewards and sanctions. The reorientation of existing bureaucracies will involve not only a readiness to accept new structures, systems and processes, but also a willingness to change old ways,- both of which will be required for effective decentralization and empowerment of Honduran municipalities and their constituents.

The following sections briefly describe the project organization and management structure and systems proposed for those purposes.

A. MANAGEMENT STREAMS OF WORK

It is recommended that the project be organized into three interrelated "horizontal" management streams of work: 1) National Policy Formulation and Execution; 2) Training Program and Systems Development; and, 3) Municipal Technical Assistance. A fourth "vertical" management stream, Municipal Development Policy (MDP) Management, Coordination and Support, is directed towards integrative management of project and national policy and institutional development.

These four management streams (See Chart I) are briefly discussed below:

1. National Policy Formulation and Execution

National Policy Formulation and Execution is proposed as the main management stream of work at the national level and should include support to USAID/Honduras and the President's Commission on Municipal Development in reviewing the new

Chart 1

MDP ORGANIZATION AND MANAGEMENT

Policy Instruments	Management Streams of Work	Management Instruments
PROJECT POLICY COORDINATING COMMITTEE	MDP MANAGEMENT, COORDINATION AND SUPPORT	PROJECT TECHNICAL SECRETARIAT
PRESIDENT'S COMMISSION MUNICIPAL DEVELOPMENT/ MINISTRIES	NATIONAL POLICY FORMULATION AND EXECUTION	U.S. INSTITUTIONAL CONTRACTOR/LOCAL SUB-CONTRACTORS
MUNICIPAL ASSOCIATION OF CORTES/MUNICIPALITIES	TRAINING PROGRAM AND SYSTEMS DEVELOPMENT	CENTRAL AMERICAN INSTITUTE FOR ENTERPRISE DEVELOPMENT (INCAE)
MUNICIPALITIES	MUNICIPAL TECHNICAL ASSISTANCE	U.S. INSTITUTIONAL CONTRACTOR/LOCAL SUB-CONTRACTORS
MUNICIPAL ASSOCIATION OF CORTES/MUNICIPALITIES/CITIZENS AND COMMUNITY GROUPS	STRENGTHENING THE DEMOCRATIC PROCESS	INTERNATIONAL CITY MANAGERS ASSOCIATION (ICMA)

Municipal Reform Law, establishing priorities for national policy work (See II.A.2.a.) and the sequencing of related-technical assistance support for policy and regulatory systems development and execution, including planning and coordination with responsible GOH agencies and institutions. Work would also include presentation and review of resultant recommendations for policy and systems development with USAID/GOH, the municipalities, key private sector groups, other project contractors, and, as approved, implementation support and monitoring. A U.S. institutional contractor, under the overall direction of USAID/Honduras and in collaboration with the President's Commission, should be responsible for the technical, administrative and financial management of this stream of work.

2. Training Program and Systems Development

Training Program and Systems Development is purposed as the second management stream of activity and includes the planning, implementation and coordination of all activities described in Section II.B.2,- Design and Implementation of Training for Municipalities.

It is recommended that INCAE, under Cooperative Agreement USAID/Honduras, be responsible for managing this work in close collaboration with GOH and the municipalities. The Municipal Association of Cortés is recommended as counterpart for this stream of work (See II A.d).

3. Municipal Technical Assistance

The design and implementation of technical assistance for municipalities is proposed as the third management stream of work and includes the technical, administrative and financial management of the activities described in II.B.1. A U.S. institutional contractor should be responsible for this work, under the overall supervision of USAID/Honduras. The contractor would provide sustained and short-term international expert support, and contract national institutional and individual professional support as required. Targeted municipalities should serve as local counterparts to the Contractor.

4. MDP Management, Coordination and Support

USAID/Honduras should be directly responsible for the **MDP Management, Coordination and Support** stream of work, coordinating the same with the President's Commission, the Municipal Association of Cortés and, as required, with participating national agencies and municipalities.

-230

Work would include overall management supervision of:

- the technical, administrative and financial management of the project contractors responsible for the three management streams of work described previously;

- integrated national and local policy and institutional development related to both short and longer-term municipal needs and emerging capacity and potential.

Emphasis should be given to promoting, monitoring and coordinating interorganizational cooperation related to: national decentralization/municipal development policy formulation and execution; political support; institutional and human resource development; community participation and democratic processes; and, joint planning and review of project activities.

Particular priority should be given to promoting and facilitating a substantial measure of autonomy at the local level. Inducing autonomy and democratic processes will require innovative approaches to financing, improving institutional performance, development of municipal support systems and participation of beneficiary groups, etc.. As priority opportunities for policy or institutional changes to stimulate and support such initiatives emerge, and as specific capacity and potential is identified, these should be incorporated through adjustments to the project development strategy and process. The Municipalities, directly and through their intermediary - the Municipal Association of Cortés, should be primary actors in this process.

RHUDO/CA will manage the process for the Mission, and a USAID Direct Hire and two PSCs should be assigned to RHUDO/CA for that purpose. The International City Managers Association (ICMA) would provide technical assistance support to both RHUDO/CA and the Municipal Association of Cortés to support the project development and adaptation process. ICMA would also organize and manage related U.S. and T.C. participant training.

B. ORGANIZATION

1. Organizational Arrangements

There are two levels of interaction to be considered in terms of reporting, coordination, policy-making and implementation management.

a. **The National Level**

The key recommended elements of the national level policy making and management structure include:

i. **Project Policy Coordination Committee**

A Project Policy Coordinating Committee should be responsible for reviewing policy and institutional development in each of the three horizontal management streams of project work, ensuring coordination and integration of these efforts, and recommending revisions of the broader policy, institutional and financial structure required for strengthening decentralization, municipal development and democratic processes in Honduras. The Committee would be composed of:

- General Coordinator,- President's Commission for Municipal Development.
- Director, -RHUDO/CA - USAID
- President, - Municipal Association of Cortés
- Three Municipal Representatives

A Project Technical Secretariat would prepare periodic analysis and recommendations on project progress and policy and institutional development for consideration of the Committee.

The Technical Secretariat should be composed of the USAID Project Manager, the three Contractors' Chiefs of Party, and the Executive Secretary of the Municipal Association of Cortés.

ii. **Municipal Association of Cortés**

The Municipal Association of Cortés should have primary responsibility for managing policy decisions concerning the work and recommendations developed in the project for: 1) Training Program and Systems Development (II.B.2); and, 2) Strengthening Democratic institutions (II.A.2.d). Technical guidance and management of work would be the

CONTENIDO

INTRODUCCION

CHOLUTECA

I. GENERALIDADES
II. COMPORTAMIENTO DE LOS INGRESOS Y SUS FUENTES MAS IMPORTANTES
  1. Ingresos Corrientes
  2. Ingresos de Capital
III. COMPORTAMIENTO DE LOS EGRESOS Y SUS CATEGORIAS MAS IMPORTANTES
IV. SERVICIOS PUBLICOS MUNICIPALES
  1. Estructura Organizativa
  2. Instrumentos Administrativos Básicos
  3. Morosidad
  4. Formulación del Presupuesto
  5. Personal
VI. CONCLUSIONES

JUTICALPA

I. GENERALIDADES
II. COMPORTAMIENTO DE LOS INGRESOS Y SUS FUENTES MAS IMPORTANTES
  1. Ingresos Corrientes
  2. Ingresos de Capital
III. COMPORTAMIENTO DE LOS EGRESOS Y SUS CATEGORIAS MAS IMPORTANTES
IV. SERVICIOS PUBLICOS MUNICIPALES
V. ALGUNOS ASPECTOS ADMINISTRATIVOS
  1. Estructura Organizativa
  2. Formulación del Presupuesto
  3. Personal
VI. CONCLUSIONES

CHOLOMA

I. GENERALIDADES

II. COMPORTAMIENTO DE LOS INGRESOS Y SUS FUENTES MAS IMPORTANTES

1. Ingresos Corrientes

2. Ingresos de Capital

III. COMPORTAMIENTO DE LOS EGRESOS Y SUS CATEGORIAS MAS IMPORTANTES

IV. SERVICIOS PUBLICOS MUNICIPALES

V. ALGUNOS ASPECTOS ADMINISTRATIVOS

1. Estructura Organizativa

2. Formulación del Presupuesto

3. Personal

VI. CONCLUSIONES

Cuadros:

No. 1 Municipalidad de Choluteca - Clasificación de los Ingresos Ejecutados (Periodo 1984-1987)

No. 2 Servicios que Prestan las Municipalidades de Choluteca, Choloma y Juticalpa.

No. 3 Municipalidad de Juticalpa, Clasificación de los Ingresos Ejecutados (Periodo 1984-1987).

No. 4 Indices y Datos Comparativos de las Municipalidades de Choluteca, Choloma y Juticalpa.

Mapa: Ubicación Geográfica de Choluteca, Choloma y Juticalpa.

INTRODUCCION

Como municipalidades representativas se escogieron las de Choluteca, Choloma y Juticalpa en consideración a su población urbana, ubicación geográfica y presupuesto municipal (ver mapa).

El análisis comprendió las áreas: a) financiera/tributaria, b) servicos y la participación de la comunidad organizada en estos, y c) administrativa. Para cada una de las áreas y municipalidades estudiadas se plantean conclusiones y, para finalizar se enuncian conclusiones de caracter general.

Las fuentes de información fueron las mismas para cada una de las municipalidades: presupuestos municipales y entrevistas con el personal clave (Alcalde, Síndico, Tesorero, Contador, Catastro, Secretario y encargado de servicios públicos).

CHOLUTECA

I. GENERALIDADES

Choluteca con una extensión de 1,032 kms.^{2}, es la cabecera del Departamento que lleva su mismo nombre, ubicada en la región sur del país. Cuenta con una población de 87,889 habitantes, (61% urbana y 39% rural) dedicada principalmente a actividades de agricultura, ganadería y comercio y recientemente al cultivo del camarón. La tasa de crecimiento compuesto anual durante el periodo intercensal (1974-1988) fue del 4.21.

II. COMPORTAMIENTO DE LOS INGRESOS Y SUS FUENTES MAS IMPORTANTES

Durante el período 1984-1987 los ingresos totales de la Municipalidad de Choluteca crecieron a una tasa anual promedio del 9.5%, sin embargo esta hubiese alcanzado el 5.0% si no se consideran las transferencias que recibiera la Municipalidad por concepto de subsidios, donaciones y préstamos, especialmente durante los años 1986 y 1987, tal cual se aprecia en el Cuadro No. 1.

1. Ingresos Corrientes

Los ingresos corrientes crecieron a una tasa promedio anual del 6.5% para el periodo 1984-1987, presentando una tasa anual creciente (2%, 6.2% y 11.5%), básicamente por una participación relativa mayor de los ingresos tributarios y dentro de éstos los impuestos directos (Impuesto de Bienes Inmuebles e Impuesto Vecinal). Sin embargo, el ingreso per capita sólo ha crecido a una tasa promedio anual del 2.1%.

Los ingresos corrientes fueron de L1,143.9, 1,166.4, 1,239.5 y 1,382.6 (millones) representando el 77%, 75%, 72% y 70% del total para los años comprendidos durante los años 1984-1987. La disminución se debió a que la Municipalidad recibió recursos de crédito y donaciones en forma creciente durante el período.

La participación relativa de los diferentes rubros que componen los ingresos corrientes se aprecia en el siguiente cuadro:

Participación Relativa de los Ingresos Corrientes
(Promedio 1984 - 1987)

Arrendamiento de propiedades y bienes	35%
Impuesto Est. Comerciales	22%
Servicios	10%
Impuesto Bienes Inmuebles	9%
Impuestos Fijos	9%
Impuesto Clasif. Municipal	4%
Impuesto Vecinal	3%
Otros	8%
Ingresos Corrientes	100%

Tal cual se aprecia en el cuadro anterior el principal rubro de ingresos lo constituye el "Arrendamiento de Propiedades y Bienes", representando en promedio durante el período 1984-87, el 35%. Básicamente constituyen este rubro los ingresos generados por las actividades de los mercados y terminal de buses. Le sigue en orden de importancia el Impuesto sobre Establecimientos Comerciales representando el 22%. Este impuesto, establecido en el Artículo 122 de la Ley de Municipalidades, reformado por el Decreto 33 de marzo de 1958 grava los establecimientos comerciales, industriales, mineros y empresas agropecuarias, en relación con el volumen de su producción o ventas anuales.

Le siguen los ingresos por concepto de servicos (tren de aseo, limpieza de calles, rastro público, alcantarillado, y cementerio) vale decir aquellos que se perciben mediante el cobro de una tasa, tarifa o canon, representando en promedio el 10% de los ingresos corrientes.

227

2. Ingresos de Capital

Por su parte, los ingresos de capital representaron durante el período 1984-1987, el 23%, 25%, 28% y 30%. Dicha tendencia ascendente ha sido motivada por una cada vez mayor participación de recursos provenientes de subsidios, donaciones y préstamos.

El rubro más significativo es el correspondiente a "rezagos" representando el 50% del total de los ingresos corrientes. Los "rezagos" son aquellos impuestos y tasas que la Municipalidad recauda de períodos anteriores.

Los subsidios y préstamos ocupan el segundo lugar con una participación promedio del 30%. Este rubro es totalmente variable (para 1984 representó el 15% y para 1987 el 51% de los ingresos de capital). Las transferencias de recursos del Gobierno Central (subsidios y donaciones) se caracterizan por ser esporádicas y variables en cuanto a su monto y el que se realicen depende de las relaciones políticas que tenga el gobierno local con el Poder Ejecutivo y/o el Congreso o bien el que se haya presentado en la localidad algún desastre natural.

III. COMPORTAMIENTO DE LOS EGRESOS Y SUS CATEGORIAS MAS IMPORTANTES

Por el lado de los egresos, escaso análisis puede realizarse por lo precario de los sistemas contables y presupuestarios que obligan a las municipalidades a adoptar. Estos son incompletos y confusos. Sobre este particular, un estudio realizado por la Price Waterhouse y el Instituto Brasileño de ADministración Municipal indicó: "los sistemas contables de las municipalidades se reducen al resultado de ingresos y egresos cuya clasificación no permite una clara diferenciación entre gastos corrientes, de capital o de administración. Existe por ejemplo, un rubro identificado como gastos diversos al que se aplican las más variables partidas de egresos".

Adicionalmente, el sistema contable y presupuestario es diseñado de tal forma que resulta en extremo difícil determinar con exactitud, por ejemplo, que se conozca el costo real que implica para la municipalidad la prestación de los servicios que brinda a la comunidad, resultándole muy difícil también, consecuentemente, cobrar el monto adecuado a los usuarios.

Aún con las limitaciones señaladas podemos afirmar que la composición del gasto en la Municipalidad de Choluteca se caracteriza por el predominio de los servicios personales, representando el 60% del total en los dos últimos años para atender a aproximadamente 250 funcionarios. Otros gastos corrientes consumen el 18% aproximadamente, el servicio de la deuda el 6% y gastos de capital el 16%. Los gastos de capital o de inversiones, provienen de las transferencias del gobierno central y recursos del crédito, sea que la Municipalidad no orienta recursos propios a inversión; en efecto, para los años 1986 y 1987 los ingresos corrientes no lograron atender los gastos corrientes, lo que ha obligado a la Municipalidad a la práctica nada aconcejable de atender parcialmente el gasto corriente con ingresos de capital. Esta situación se deriva por el excesivo gasto en salarios, fijación de tasa y tarifas por la prestación de servicios recuperables por debajo de los costos reales; no recuperación de los beneficiarios de las inversiones que realiza entre las razones principales. Esta situación provocó que la Municipalidad cerrara con un déficit en el año 1988 equivalente al 10% del total de ingresos para el mismo año. De otra parte, la deuda acumulada es de L6.0 millones originándose en el financiamiento de un mercado y terminal de buses, encontrándose en mora con su acreedor (BANMA) a octubre de 1989 en L1.0 millón. Ante la imposibilidad de atender el servicio de la deuda, la Municipalidad constantemente está sujeta a readecuaciones.

IV. SERVICIOS PUBLICOS MUNICIPALES

En el Cuadro No. 2 se encuentra el tipo de servicio que presta la Municipalidad a su comunidad. La cobertura de los principales servicios urbanos es bastante escasa y la calidad de éstos no alcanzan las expectativas de la población. Así, por ejemplo, el alcantarillado sanitario cubre escasamente el 15% de la ciudad. La recolección de desechos sólidos cubre solamente el 60% de la ciudad y su disposición final (por medio de crematorio) no cubre la totalidad de la basura recolectada, provocando ambas situaciones graves problemas que contaminación. El equipamiento municipal es muy escaso y constantemente no opera por desperfectos y falta de mantenimiento.

El agua potable, servicio que es administrado por el Servicio Autónomo Nacional de Acueductos y Alcantarillados (SANAA), cubre aproximadamente el 60% de la población urbana, presentando éste serios problemas de suministro y contaminación (la mayor parte de la ciudad se abastece del Río Choluteca, afluente en el que se descargan en la ciudad capital aguas de uso domiciliario e industrial sin tratamiento, principalmente). Es preciso resaltar que la Municipalidad emprendió a inicios del año 1989 formales gestiones ante el SANAA tendiente a que le sea traspasado la administración del servicio de agua, creando la Municipalidad un órgano autónomo que administre técnicamente el servicio. Las razones que han motivado la decisión municipal de administrar directamente el servicio fueron: 1) mejorar la administración del servico, 2) voluntad de administrar sus propios recursos, y 3) participación comunitaria en la administración.

En cuanto a los servicios públicos, la Municipalidad presta los tradiconales: Mantenimiento de parques, cementerio, matadero, mercado y terminal de autobuses.

En los servicios sociales, llama la atención que la Municipalidad destina aproximadamente el 15% de los egresos en el ramo de educación ante la imposibilidad del Gobierno Central de atender gastos tales como: pago de algunos maestros, vigilantes y aseadores y contrucción y mejoramiento de edificaciones escolares.

En lo que a servicios de seguridad pública se refiere, la Municipalidad de Choluteca no presta ni el de policía ni el de bomberos.

En síntesis, la Municipalidad de Choluteca presta unos cuantos servicios urbanos en forma deficiente en términos de cobertura y calidad. Los servicios públicos también son deficientes, a excepción de la terminal de autobuses en virtud de que es de reciente construcción; los servicios sociales y los de serguridad son nulos.

1. Participación Comunitaria en la Prestación de Servicios

El mecanismo más generalizado y arraigado en el cual participa la comunidad organizada en el mejoramiento de sus condiciones de vida es por medio del Patronato (figura con personería jurídica que es constituida por un grupo de vecinos que se organiza para lograr algún mejoramiento en el barrio o colonia al cual pertenece). En Choluteca existen aproximadamente 60 Patronatos, y ha sido un mecanismo usual de trabajo conjunto Municipalidad/comunidad. Para establecer la relación, normalmente el procedimiento consiste en los siguientes dos pasos: 1) el patronato solicita ayuda a la municipalidad para construir determinado proyecto, 2) la municipalidad estudia sus posibilidades de colaboración y negocia con el Patronato, en ocasiones el factor político es determinante en el monto de la ayuda. De este proceso resulta un plan de colaboración

231

Municipalidad/Patronato. La colaboración de la Municipalidad puede adoptar una de las siguientes formas o una combinación de ellas: recursos financieros, materiales (arena, cemento, etc.), maquinaria y personal, de tal forma que el proyecto es financiado conjuntamente entre la Municipalidad y Patronato.

Si bien es cierto que en Choluteca existe un alto grado de organización comunal por medio del Patronato, su relación con la Municipalidad se construye sobre bases coyunturales y no permanentes y sistemática, vale decir la relación es en función de los proyectos y pedidos que plantean los patronatos.

V. ALGUNOS ASPECTOS ADMINISTRATIVOS

1. Estructura Organizativa

Esencialmente la costumbre y las pocas y básicas disposiciones que se encuentran en la Ley de Municipalidades y del Régimen Político de 1927 constituyen la base de la estructura organizativa de la Municipalidad de Choluteca. Practicamente todas las unidades administrativas y de servicios públicos dependen del Alcalde (20 en total), siendo este esquema en extremo atomizado, dificultando la coordinación e interacción de las diferentes unidades entre sí y de éstas con el Alcalde.

2. Instrumentos Administrativos Básicos

No se encuentran en la Municipalidad instrumentos administrativos básicos que tiendan a establecer los deberes y responsabilidades de los funcionarios, líneas de comunicación entre las diferentes unidades que componen la estructura organizativa y demás instrumentos administrativos que en definitiva ordenen las

relaciones administrativas y laborales interna de la Municipalidad como ente que ofrece y presta servicios a la comunidad. Lo anterior afecta negativamente el desenvolvimiento de la Municipalidad de cara a la prestación eficiente de los servicios públicos.

3. Morosidad

La morosidad de los contribuyentes con la Municipalidad asciende a L.875.0 miles, representando cerca del 50% de los ingresos corrientes producidos en 1988, lo cual se considera muy alto. Las gestiones de la Municipalidad para recuperar las cuentas pendientes han sido poco efectivas en virtud de las limitaciones que presentan los registros de contribuyentes y por el procedimiento de cobro empleado por la Municipalidad. Se indica que por razones políticas, la Municipalidad no utiliza las facultades de cobro (administrativas y judiciales) que tiene a su haber.

4. Formulación del Presupuesto

La formulación del presupuesto la raliza el Auditor Interno con información que le suministran los Departamentos de Catastro y Contabilidad, recibiendo indicaciones del Alcalde. No se presenta la interacción necesaria entre las diversas unidades técnica, ni entre éstas y la Corporación y Alcalde ni la comunidad organizada.

5. Personal

De los aproximadamente 250 empleados, cerca del 60% ingresó en el año 1986 al verificarse el cambio de gobierno, siendo el nivel educativo formal de la mayoría de los funcionarios el de primaria.

Predomina el criterio político en la selección y contratación del personal, siendo esta la razón principal de la alta tasa de rotación en esta materia.

VI. CONCLUSIONES

- El grueso de los ingresos, 90% aproximadamente, dependen de la calidad de información fiscal que se procesa en el catastro municipal en cuanto al registro y dirección de contribuyentes y gestión de cobro.

- Las transferencias de capital (préstamos, donaciones y subsidios) han sido relativamente altas: han representado durante los últimos cuatro años cerca del 15% de los ingresos totales. Dos de ellas - donaciones y subsidios - dependen de las gestiones/vinculaciones políticas que existan entre la Corporación y el Poder Ejecutivo y/o Legislativo.

- El sistema contable y presupuestario que emplea la Municipalidad es extremadamente precario, especialmente el registro del gasto, el cual impide realizar análisis para la toma de decisiones.

- De igual forma el mecanismo de formulación del presupuesto no considera el criterio de las unidades técnicas de la Municipalidad ni los grupos organizados de la comunidad.

- La prestación de los servicios municipales se brindan en forma deficitaria, en parte a la forma de calcular sus costos. Esta situación ha inducido no sólo a que los servicios se presten en forma subsidiada, sino que una porción de los ingresos de capital se emplean para atender el gasto corriente.

- Como corolario de lo anterior, los gastos de capital o de inversiones provienen de las transferencias del gobierno central y recursos del crédito, no orientando recursos propios a inversión.

- Las obras financiadas con recursos del crédito no han sido recuperadas con la aplicación de algún tributo a los beneficiarios de los proyectos, provocando que la Municipalidad constantemente negocie readecuaciones.

- La cobertura de los principales servicos es limitada y la calidad de estos no alcanzan a satisfacer las espectativas de la población.

- Aunque Choluteca se caracteriza por su elevado grado de organizaicón comunitaria, el trabajo conjunto con la Municipalidad se ha realizado sobre bases coyunturales y no sistemática desperdiciándose en gran medida el potencial que ofrece la comunidad organizada.

- La estructura organizativa de la Municipalidad de Choluteca responde más que nada a la tradición. No existe una estructura formal ni tampoco otros instrumentos administrativos básicos tales como manual de funciones, descripción de responsabilidades y otros, todo lo cual incide en que la organización se desenvuelva con algún desorden. Este panorama se dificulta al no existir políticas adecuadas de selección de personal, el cual normalmente es reclutado por consideraciones políticas.

HJ/cmn
(01/17/90)

Cuadro No. 1

Municipalidad de Choluteca
Clasificación de los Ingresos Ejecutados
Periodo 1984 - 1987

CONCEPTO	1984	1985	1986	1987
I. INGRESOS CORRIENTES	1,143,995	1,166,411	1,239,510	1,382,660
A. Tributarios	519,770	561,195	646,778	687,693
1. Directos	120,902	113,073	174,904	189,848
Bienes Inmuebles	82,999	76,753	133,940	155,670
Impuesto Vecinal	37,903	36,320	40,964	34,178
2. Indirectos	398,868	448,122	471,874	497,845
Estab. Comerciales	253,888	275,278	275,963	295,043
Sobre Clasif. Mpal.	44,637	52,890	61,513	70,290
Impuestos Fijos	91,613	111,044	125,758	122,937
Inst. Bancarias y Seg.	8,730	8,910	8,640	9,575
B. No Tributarios	624,225	605,216	592,732	694,967
1. Por Prest. de Serv.	98,260	100,946	123,181	155,437
2. Arrend. de P y B	428,861	404,046	409,630	481,937
3. Ingresos Eventuales	97,104	100,224	59,921	57,593
II. INGRESOS DE CAPITAL	348,636	392,694	488,207	577,747
1. Saldo año anterior	177,325	238,092	252,436	218,167
2. Rezagos	46,865	84,908	53,771	63,471
3. Vta. Activos Fijos	53,230	69,700	32,000	90,009
4. Subsidios				89,300
5. Subvenciones			150,000	116,800
6. Donaciones	71,216			
7. Préstamos				
8. Otros Ingresos				
TOTAL INGRESOS	1,492,631	1,559,105	1,727,717	1,960,407

Cuadro No. 2

Servicios que Prestan las Municipalidades de Choluteca, Choloma y Juticalpa

SERVICIOS	CHOLUTECA	JUTICALPA	CHOLOMA
I. SERVICIOS URBANOS			
1. Construcción y Mantenimiento de Calles Urbanas	X (1)	X (1)	X (1)
2. Agua Potable	-	X (2)	X
3. Alcantarillado Sanitario	X	X	X
4. Alcantarillado Pluvial	-	X	-
5. Recolección de Basura	X	X	X
6. Tratamiento de Basura	X	X	-
7. Limpieza Vías Urbanas	X	X	X
8. Alumbrado Público	-	-	-
9. Zonificación/Planificiación Uso de la Tierra	X	X	X
II. SERVICIOS PUBLICOS			
1. Parques y Recreación	X	x	X
2. Cementerio	X	X	X
3. Matadero	X	X	X
4. Mercado	X	X	X
5. Biblioteca	-	X	-
6. Terminal de Buses	X	-	-
III. SERVICIOS SOCIALES			
1. Construcción Edificios Escolares	X (3)	X (3)	X (3)
2. Cultura y Deportes	-	-	X
IV. SEGURIDAD PUBLICA			
1. Policía	-	-	-
2. Bomberos	-	-	X

(1) Esta tarea normalmente se realiza conjuntamente con la Secretaría de Obras Públicas y Transportes bajo la modalidad de cofinanciamiento.

(2) La autoridad nacional de aguas (SANAA) ejecuta en la actualidad, con recursos del BID, la construcción de un nuevo acueducto para la ciudad de Juticalpa, el cual una vez construído, lo administrará el SANAA.

(3) La participación Municipal en Educación Primaria se orienta a: Pago de salarios de algunos maestros, vigilancia y aseo; mantenimiento y construcción de centros escolares.

Fuente: Municipalidades de Choluteca, Juticalpa y Choloma. Presupuestos Municipales

JUTICALPA

I. GENERALIDADES

Según datos del censo de población de 1988, Juticalpa, cabecera departamental de Olancho ubicado en la Región Este del país, cuenta con 74,163 habitantes, 27% asentados en la cabecera municipal y el 73% restante esparcidos en 179 aldeas y caseríos.

II. COMPORTAMIENTO DE LOS INGRESOS Y SUS FUENTES MAS IMPORTANTES

Durante los años 1984-87 los ingresos totales de la Municipalidad de Juticalpa fueron de L526.0, L512.0, L476.9 y L502.3 miles, decreciendo a una tasa anual promedio del -1.4%, al cual si se le aplica el factor inflación el decrecimiento sería aún más dramático (ver Cuadro No. 3).

1. Ingresos Corrientes

Estos crecieron a una tasa promedio anual durante el período 1984-87 en escasamente el 3.7%, aunque durante los años 1986, 1987 la tasa fué negativa. Su participación en los ingresos totales fue del 89%.

La participación porcentual de los principales ingresos de la Municipalidad de Juticalpa se aprecia en el siguiente cuadro.

Participación Relativa de los Ingresos Corrientes

Impuesto Establecimientos Comerciales	22%
Servicios	17%
Impuestos, Fijos	14%
Renta de Propiedadas	11%
Impuestos Sobre Bienes Inmuebles	10%
Otros	26%
Ingresos Corrientes	100%

El principal ingreso lo constituye el rubro "Impuestos a Establecimientos Comerciales", representando en promedio durante 1984-87 el 22% de los ingresos corrientes. Este tributo grava las actividades comerciales, industriales, mineras y agrícolas que se desarrollen en el municipio de acuerdo al volumen de su producción o ventas anuales.

El segundo en importancia lo son los ingresos por los servicios (tren de aseo, limpieza de calles, rastro público, agua y alcantarillado, etc.), representando el 17%.

Le siguen los impuestos fijos con el 14%, renta de propiedades con el 11%, impuesto sobre bienes inmuebles con el 10% y otros (Impuestos Vecinal, Impuesto Sobre Clasificación Municipal, Impuesto sobre Explotación de Madera e Ingresos Eventuales) con el 26%.

Se destaca en el comportamiento de los ingresos de la Municipalidad de Juticalpa el hecho de que estos sean altamente irregulares (ver Cuadro No. 1). Así, por ejemplo, el Impuesto sobre bienes inmuebles incrementó su recaudación entre el año 1984 y 1985, en L.7,000.00, sin embargo, dos años después se reduce en L4,600, presentándose similar fenómeno en el resto de ingresos (Impuesto sobre Bienes Inmuebles, Impuesto Vecinal, Impuesto sobre Clasificación Municipal, etc.).

Esta situación irregular en el comportamiento de los ingresos corrientes se debe a una combinación de factores: escaso apoyo de las autoridades locales a las tareas de catastro, deficiente administración tributaria (registro de contribuyentes y mecanismos de cobro), no utilización de los mecanismos legales para recalificar tributos (la revalorización de los bienes

inmuebles para efectos fiscales no se practicó en el año 1985 cuando la Ley lo exigía), y fallas en los controles administrativos presentándose, presumiblemente, fugas importantes de recursos.

En suma, en la administración tributaria (catastro, tesorería y contabilidad) se observa bastante desorden y dificultad en su manejo. Los factores descritos han incidido en que los ingresos sean decrecientes.

2. Ingresos de Capital

Durante el período 1984-87 los ingresos de capital representaron en promedio el 11%. Tres han sido los rubros que han compuesto los ingresos de capital en la Municipalidad de Juticalpa: rezagos (impuestos y tasas que la Municipalidad recauda de períodos anteriores) representando el 86%; subsidios con el 12% (recibió en el año 1984, un monto tal que representó el 10.5% de los ingresos totales) y la venta de propiedades con escasamente el 2% de los ingresos de capital. Se desprende de lo anterior, que la Municipalidad de Juticalpa depende practicamente de los recursos que ella misma pueda generar localmente, en una región que ha sido indicada por SECPLAN como de menor grado de desarrollo relativo.

III. COMPORTAMIENTO DE LOS EGRESOS Y SUS CATEGORIAS MAS IMPORTANTES

Al igual que para el caso de la Municipalidad de Choluteca analizado anteriormente, el análisis de los egresos se dificulta enormemente por lo precario de los sistemas contables y presupuestarios que adoptan las municipalidades.

Sin embargo, aún con las limitaciones indicadas en el sistema contable/presupuestario, se puede asegurar que los gastos corrientes absorven la mayor cantidad de recursos (cerca del 75%); gastos de capital, entre los que se encuentran transferencias a entidades locales (15%) y servicio de la deuda (10%).

Al año 1988 el saldo de la deuda de la Municipalidad de Juticalpa ascendía a L.708.0 miles (casi dos veces sus ingresos corrientes), siendo su acreedor el BANMA. El origen del endeudamiento fue el financiamiento de proyectos tales como: pavimentación de calles, mercado público, alcantarillado y pavimentación de calles. En ninguno de estos proyectos su inversión es recuperada por los beneficiarios ni siquiera en un 30%. La desatención de la deuda con BANMA, indujo a este último a invervenir la Municipalidad para asegurarse los pagos, que a pesar de lo drástico de la medida, no lo logró.

La relación entre ingresos y egresos se aprecia en el siguiente Cuadro:

Año	Ingresos	Egresos	Diferencia
1984	526,026	484,087	41,939
1985	512,042	502,588	9,454
1986	476,915	465,695	11,220
1987	502,259	473,495	28,764

IV. SERVICIOS PUBLICOS MUNICIPALES

En el Cuadro No. 2 se aprecian los servicios que la Municipalidad de Juticalpa tiene bajo su responsabilidad. Estos son en general de escasa cobertura y muy deficientes en su prestación, lo cual fácilmente se aprecia visitando la ciudad. El sistema de agua potable, administrado por la Municipalidad, cubre el 40% aprox. de las viviendas del perímetro urbano siendo el suministro esporádico. Para dar una idea de los recursos que orienta a este servicios para su mantenimiento y mejoramiento, en los últimos cuatro años destinó el 4% aproximadamente del gasto total, entre pago de salarios y mantenimineto, de un sistema que data de la década de los años 40. Actualmente se construye un nuevo sistema a través del SANAA con recursos del BID, y una vez concluido está estipulado que el SANAA asumirá la administración.

En peores condiciones de cobertura y calidad se encuentra el alcantarillado sanitario, aunque éste en los últimos años ha expandido su cobertura gracias a la participación de los patronatos.

El matadero, calles urbanas, y recolección y tratamiento de basura son servicios que en general, se prestan en forma deficiente. La participación comunal en la construcción de obras y prestación de servicios aunque menos organizada que en el caso de Choluteca, los mismos procedimientos y comentarios son válidos para el caso de Juticalpa: ésta se manifiesta sobre bases de proyectos específicos sin que exista una relación contínua y permanente.

V. ALGUNOS ASPECTOS ADMINISTRATIVOS

1. Estructura Organizativa

Una combinación entre tradición y rasgos administrativos elementales orientan la estructura organizativa. Así, en ésta no existen líneas definidad de mando ni ningún otro instrumento administrativo y de relación entre las diferentes unidades que compone la Municipalidad (10 en total). Lo anterior, aunado a la escasa dedicación del Alcalde a administrar la ciudad, hacen de la Municipalidad de Juticalpa una entidad muy deficiente.

2. Formulación del Presupuesto

El procedimiento en la formulación del Presupuesto ha sido muy deficiente, a tal grado que durante los últimos cuatro años la estimación de ingresos consignada en el presupuesto apenas alcanzó el 45% de la recaudación. Este hecho, orginado en una sobreestimación de ingresos trae como consecuencia inmediata que los planes no se llevan a cabo.

Además de las fallas en la estimación de ingresos, lo cual provoca un descalabro en los gastos, en el proceso de formulación sólo participa una unidad sin ninguna comunicación con otras instancias.

3. Personal

Es manifiesto la escasa preparación del personal así como su dedicación. Esencialmente es reclutado con base a criterios partidistas, no existiendo políticas de personal, inclusive en algunos casos, no se paga el salario mínimo.

VI. CONCLUSIONES

- Los ingresos totales decrecieron a una tasa promedio anual de -1.4% que, aplicándole el factor inflación sería sustancialmente mayor. Esta situación se presenta por una combinación de los siguientes factores: catastro inadecuado, deficiente administración tributaria, no se recalifican los tributos y fallas de control. La situación ha llegado a tal extremo que su principal acreedor - BANMA - intervino la administración financiera de la Municipalidad.

- En gran medida, los ingresos con que dispone la Municipalidad de Juticalpa son los que ella misma pueda generar localmente. Las transferencias del Gobierno Central han sido esporádicas y escasas.

- El sistema contable/presupuestario es precario, impidiendo la toma de decisiones con base en su estructura actual, especilamente en cuanto al registro del gasto.

- Escasa inversión se realiza con los ingresos generados localmente. La mayor cantidad de recursos se orientan a atender el gasto corriente y dentro de éstos a salarios.

- Para las finanzas de la Municipalidad y su actual administración financiera/tributaria, el servicio de la deuda se ha convertido en un problema inmanejable no sólo por su cuantía, sino que las obras financiadas con recursos del crédito no han sido recuperadas de sus beneficiarios ni siquiera para atender los gastos de operación y mantenimiento que producen dichas obras.

- Los servicios públicos municipales se caracterizan por ser de escasa cobertura y deficientes en su prestación, a tal punto que la Municipalidad desea a la brevedad que el SANAA asuma la administración del servicio de agua, actualmente en construcción por esta última institución.

- La comunidad organizada, especialmente los Patronatos, han contribuido a la expansión de algunos servicios, especialmente el alcantarillado sanitario. En muchas oportunidades en colaboración con la Municipalidad. A pesar de estas relaciones de colaboración comunidad/Municipalidad, no se explota su potencial pues ésta se ha construido sobre base de proyectos específicos y no permanentes.

- La Municipalidad adolece de todos los instrumentos organizativos básicos, como ser: organigrama, manual de estructura y funciones, escala salarial, políticas de reclutamiento y selección de personal entre otras, desarrollándose, en términos generales, con cierto desorden la gestión municipal.

HJ/cmn
(01/25/90)

Cuadro No. 3

Municipalidad de Juticalpa
Clasificación de los Ingresos Ejecutados
Periodo 1984 - 1987

CONCEPTO	1984	1985	1986	1987
I. - **INGRESOS CORRIENTES**	409,561.93	469,102.35	456,557.18	453,258.50
TRIBUTARIOS				
1. Directos				
a) Bienes Inmuebles	43,573.98	50,744.33	49,074.30	46,122.47
b) Impuesto Vecinal	25,337.10	26,378.18	24,421.08	25,567.30
2. Indirectos				
a) Explotación de madera	3,684.69	647.73	2,799.47	3,779.80
b) Establec. Comerciales	94,363.52	99,693.28	105,542.13	106,140.10
c) Sobre Clasif. Municipal	26,744.99	26,540.84	22,748.80	22,943.70
d) Impuestos Fijos	55,489.25	57,739.96	70,391.75	71,349.70
e) Inst. Bancarias y Seguros	4,050.00	4,418.18	2,430.00	5,670.00
II. **INGRESOS NO TRIBUTARIOS**				
1. Servicios	64,025.00	70,337.07	84,674.40	85,765.20
2. Renta de Propiedades	45,727.60	47,292.00	54,837.65	44,678.50
3. Ingresos Eventuales	46,565.80	85,310.84	39,637.50	40,161.73
III. **INGRESOS DE CAPITAL**				
1. Préstamos y Convenios Directos	116,464.75	42,940.20	20,357.88	49,001.43
2. Renta de Propiedades	612.00	559.09	1,170.00	
3. Transferencias de Capital y Subsidios	56,000.00			
4. Otros Ingresos de Capital				
Cargos Impuestos y Servicios	59,852.75	42,381.11	19,187.88	49,001.43
T O T A L	526,026.68	512,042.55	476,915.06	502,259.93

CHOLOMA

I. GENERALIDADES

La ciudad de Choloma se encuentra ubicada al Norte del Valle de Sula, a 19 Km. de San Pedro Sula, la segunda ciudad del país y la primera en producción industrial. Tiene una población de 66,257 habitantes, distribuida en 58% urbana y 42% rural. La tasa de crecimeinto compuesta durante el período intercensal fue del

La actividad económica principal de Choloma es la agricultura. Recientemente con la construcción de parques industriales dedicados a la industria de la maquila, se absorverá una considerable mano de obra y demanda por servicios públicos. Este tipo de industria se encuentra en expansión y generará gran presión por servicios.

II. COMPORTAMIENTO DE LOS INGRESOS Y SUS FUENTES MAS IMPORTANTES

La tasa de crecimiento promedio anual de los ingresos de la Municipalidad de CHoloma entre 1983 y 1988 fue de aproximadamente el 12%. Afectada, especialmente en el año 1984 por las transferencias de capital que percibió del gobierno central.

1. Ingresos Corrientes

Tal cual se aprecia en el siguiente cuadro los ingresos corrientes representaron en promedio el 70% de los totales durante el período. Su tasa de crecimiento fue del 7%.

Municipalidad de Choloma
Ingresos Corrientes, de Capital y Totales
(1983 - 1988)

Años	Ingresos Corrientes	%	Ingresos Capital	%	Ingresos Totales	%
1983	392,631	79%	103,2882	21%	495,913	100
1984	381,145	58%	276,773	42%	657,918	100
1985	432,378	69%	193,278	31%	625,656	100
1986	N/D	N/D	N/D	N/D	N/D	N/D
1987	656,620	70%	272,424	30%	929,044-	-
1988	733,071	73%	265,958	27%	999,029	1000

Fuente: Municipalidad de Choloma.
ND: No disponible

La participación relativa de los diferentes rubros que componen los ingresos corrientes en orden de importancia son: Servicios (27%), Impuesto a Establecimientos Comerciales (19%), Impuestos Fijos (13%), Impuesto sobre Bienes Inmuebles (12%), Renta de Propiedades (12%) y otros (17%).

AL igual que en la gran mayoría de Municipalidades de Honduras la información fiscal del 90% de los ingresos corrientes dependen de la calidad y cobertura de las unidades de catastro.

248

2. Ingresos de Capital

Estos han representado en promedio el 30% de los ingresos totales, afectado dicho promedio por las transferencias percibidas del gobierno central especialmente en el año 1984, el cual fue del 42% de los ingresos totales al recibir una transferencia extraordinaria del Gobierno Central.

El rubro de los ingresos de capital más significativo lo constituyen los "rezagos" con un 63%, le siguen los subsidios con un 37%.

En cuanto a este último, se destaca que en los años 1987/88 representaron el 11% y 10%, de los ingresos totales, respectivamente. Los subsidios provinieron del Congreso Nacional lográndose por las vinculaciones políticas de la Corporación.

III. COMPORTAMIENTO DE LOS EGRESOS Y SUS CATEGORIAS MAS IMPORTANTES

Con las indicadas dificultades en el análisis de los egresos por la forma en que son tratados éstos en la contabilidad/presupuesto, una aproximación de su composición nos da el siguiente resultado: servicios personales 50%, otros gastos de funcionamiento 15%, servicio de la deuda 15% y 20% gastos de capital o inversiones. Este último básicamente se ha financiado con recursos provenientes de subsidios y crédito, destinando escasos recursos propios a inversión.

IV. SERVICIOS PUBLICOS MUNICIPALES

En el cuadro No. 2 se presenta el listado de servicios que la Municipalidad tiene bajo su responsabilidad. En éste, se distinguen cuatro tipos de servicios: urbanos, públicos, sociales y de seguridad pública.

En cuanto a los servicios urbanos, en general éstos se caracterizan, como en la mayoría de las ciudades de este tamaño, como de escasa cobertura y calidad. Así, por ejemplo, el servicio de agua, cuya administración es municipal, cubre el 70% de las viviendas urbanas aunque de éste, alrededor del 50% recibe el servicio en forma interrumpida. Este es, a criterio de las autoridades municipales y dirigentes comunales, el principal problema a resolver. Estudios a nivel de diseño ha preparado la Municipalidad.

Otro aspecto prioritario a resolver, se refiere al alcantarillado sanitario. La evacuación de aguas negras se realiza en un 40% aproximadamente mediante el sistema de letrina y alcantarillado sanitario y el 60% restante se evacúa mediante canales y zanjas, siendo éste un foco de infección y contaminación importantes. La basura también resulta un foco de contaminación e infección humana, pues la recolección alcanza el 70% y no se le da tratamiento adecuado.

En cuanto a los servicios públicos, esta presta los siguientes: mantenimiento de parques, cementerio, matadero y mercado, requiriendo mejoras, especialmente los dos últimos.

En los servicios sociales la municipalidad practicamente no destina recurso alguno a actividades culturales y deportivas, en cambio al sector educación orienta alrededor del 12% del gasto. Básicamente el aporte a dicho sector se ha orientado a: pago de maestros, construcción y mantenimiento de edificaciones escolares y otros.

En cuanto a los servicios de seguridad pública, bomberos y policía, sólo al primero le destina recursos en mínima cantidad, aunque la responsabilidad de este servicio es compartido.

Por la actividad de la industria de maquila (parques industriales) que se inicia en Choloma y los planes de expansión para los próximos años (se pretenden absorver entre 20,000 y 25,000 empleos), representará un gran reto para las autoridades locales en la provisión de tierra y servicios públicos en general. Este fenómeno ya está presionando a las autoridades locales.

V. PARTICIPACION COMUNITARIA EN LA PRESTACION DE SERVICIOS

Las relaciones de la comunidad organizada (Patronatos, Juntas y otras) con la municipalidad se canalizan a través de la Oficina de Desarrollo Comunal creada especialmente al efecto. Esta Oficina, constituida en 1985, tiene como objetivo atender los planteamientos de las organizaciones y recomendar las acciones a la Corporación. Aunque sólo una persona atiende esta oficina y sus métodos son bastante empíricos, las relaciones son ordenadas procurando canalizar los escasos recursos municipales en una forma más racional.

También se planean actividades con organizaciones o clubes sociales (Rotarios por ejemplo) y juntas escolares y de otro tipo.

Al igual que en otras ciudades, el potencial que ofrece la organización comunitaria, especialmente los patronatos, en cuanto a recursos humanos y financieros para la ejecución de proyectos, no es del todo aprovechada por la Municipalidad.

VI. ALGUNOS ASPECTOS ADMINISTRATIVOS

1. Estructura Organizativa

No se encontró, al igual que en las otras municipalidades, ningún documento en el que estuviera definida su estructura organizativa ni las funciones de cada unidad, en otras palabras, el organigrama y el manual de estructura y funciones. También hay ausencia de un instrumento que defina claramente las funciones de cada una de las dependencias, niveles de responsabilidad y las relaciones entre unas y otras.

2. Morosidad

Las Municipalidades en Honduras poseen las facultades legales para ejercer tanto el cobro administrativo como el judicial, sin embargo escasamente se practica. Choloma posee, a septiembre de 1989, una morosidad excesivamente alta: L1,170,419.00, sea, una vez y media los ingresos corrientes percibidos en el año 1988. Del total adeudado por los contribuyentes el 34% corresponde al servicio de agua, otros servicios 20%, 10% al Impuesto Vecinal, 24% Bienes Inmuebles y 12% a Establecimientos Comerciales de diferente índole. Ciertamente la información catastral (aspecto administrativo) y la falta de voluntad (aspecto político) se mezclan, y se obtiene alta morosidad.

3. Personal

Los responsables de las diferentes áreas de la Municipalidad muestran cierta estabilidad en sus puestos a juzgar por los años de servicio que posee.

No existe política de reclutamiento, selección y ascensos en la Municipalidad.

VII. CONCLUSIONES

- Aunque afectada en gran medida por las transferencias del Gobierno Central, la tasa de crecimiento promedio anual de los ingresos totales se presenta bastante alta (12%) comparándola con otras municipalidades.

- Al igual que el resto de municipalidades, el 90% de los ingres generados localmente descansan en la calidad y cobertura de la información fiscal del catastro. Este - el catastro - cubre aproximadamente el 80% de la zona urbana y posee muy poca cobertura en el área rural, existiendo por tal motivo recursos que no se recaudan.

- En consideración de las vinculaciones políticas de la Corporación con el Congreso Nacionaly Poder Ejecutivo, la Municipalidad se ha beneficiado de importantes transferencias d recursos en los últimos años.

- Al igual que los otros casos analizados, el principal rubro de egresos es representado por salarios. Los recursos orientados inversión provienen en su mayor proporción de recursos externos (crédito y subsidios).

- Se repite el problema - es generalizado para todas las municipalidades - del sistema contable/presupuestario, que no permite realizar análisis de costos de servicios y otros que orienten a la Corporación en la toma de decisiones.

- Los servicios prestados por la Municipalidad poseen escasa cobertura y calidad, siendo los más agudos los de agua y alcantarillado. Las autoridades locales están recibiendo y recibirán aún más presión por mejoras en los servicios derivado de la transformación por la que está pasando Choloma con la construcción de los parques industriales.

- La Municipalidad realiza series esfuerzos para ordenar y sistematizar las relaciones Municipalidad/comunidad a través de una oficina especialmente creada al efecto.

CONCLUSIONES GENERALES

Del análisis de las Municipalidades de Choluteca, Juticalpa y Choloma algunas conclusiones pueden generalizarse a todas las municipalidades de Honduras, haciendo la advertencia que tanto Tegucigalpa como San Pedro Sula pueden ser la excepción al poseer legislación diferente en algunas áreas.

1. Aspectos Financieros/Tributarios

a) La estructura tributaria es fija para la mayoría de los impuestos municipales y en algunos casos con valores en extremo bajos, provocando en algunos rubros que los costos de recaudación sean mayores que el monto que se recauda. Los gravámenes que son fijos no se actualizan desde 1958.

b) Otra característica de la legislación tributaria municipal es que no le permite a la Municipalidad posibilidad alguna para fomentar o desmotivar las actividades económicas del municipio.

c) Uno de los mayores problemas en la administración tributaria es la elevada morosidad que se presenta en las municipalidades. Esta situación se deriva de dos situaciones: uno de la propia legislación y otro de la administración municipal.

En cuanto al primero, ésta no contempla disposiciones que conducirían a que la morosidad sea tan elevada. Por ejemplo, no establece la prescripción de la deuda y no permite el dividir el pago de algunos impuestos anuales, como el de bienes inmuebles, que de permitirse facilitaría su pago, eliminándose una causa para la morosidad.

La administración municipal frente a la morosidad quizás sea el mayor problema. Esta se caracteriza por una actitud, consciente o inconsciente, de conformismo, que no actúa empleando con todo rigor sus facultades administrativas y judiciales, ya sea por intereses personales o por desconocimiento de los mecanismos a emplear.

d) Los procedimientos y sistemas contables y presupuestarios les son impuestos a las municipalidades por agencias del Gobierno Central. Aunque ésto de por sí no es negetivo, dichos sistemas son incompletos y confusos, pues su clasificación no permite una clara diferenciación entre gastos corrientes, de capital o administración. Así diseñado el sistema contable y presupuestario no permite, por ejemplo, determinar con exactitud el costo real de los servicios que presta la municipalidad, resultando, consecuentemente, el cálculo inadecuado de las tasas y tarifas a cobrar a los usuarios.

Adicionalmente, no le permite a las autoridades locales adoptar decisiones en el campo financiero, pues escaso análisis puede realizarse.

e) La formulación del presupuesto se ha convertido practicamente en una rutina y requisito adicional que hay que cumplir con las agencias del Gobierno Central, no empleándose como un instrumento de planificación.

f) La legislación tributaria fija y su administración deficiente son los elementos que mayormente inciden en que los ingresos generados localemtne se orienten casi exclusivamente a atender el gasto corriente, dependiendo de recrusos externos (crédito y transferencias) para gastos de capital o inversión.

g) Las transferencias de capital del sector público en forma de subsidios y donaciones se caracterizan como esporádicas y variables en cuanto a su monto. Estas transferencias, que se realizan a través del Gobierno Central o Congreso Nacional, dependen de las relaciones políticas de la Corporación con aquellas instancias. En tal sentido, por su propia naturaleza, las municipalidades difícilmente pueden programar estos recursos.

2. Aspectos Administrativos

a) En síntesis, el aspecto político (en el sentido partidista), la debilidad o inexistencia de la carrera administrativa y del sistema de mérito, la fragmentación de la función administrativa en múltiples centros de decisión, la inexistencia de instrumentos de organización y administración, han sido factores que se han opuesto a la eficiencia de la administración municipal, la prestación de servicios y administración tributaria.

3. Participación Comunal

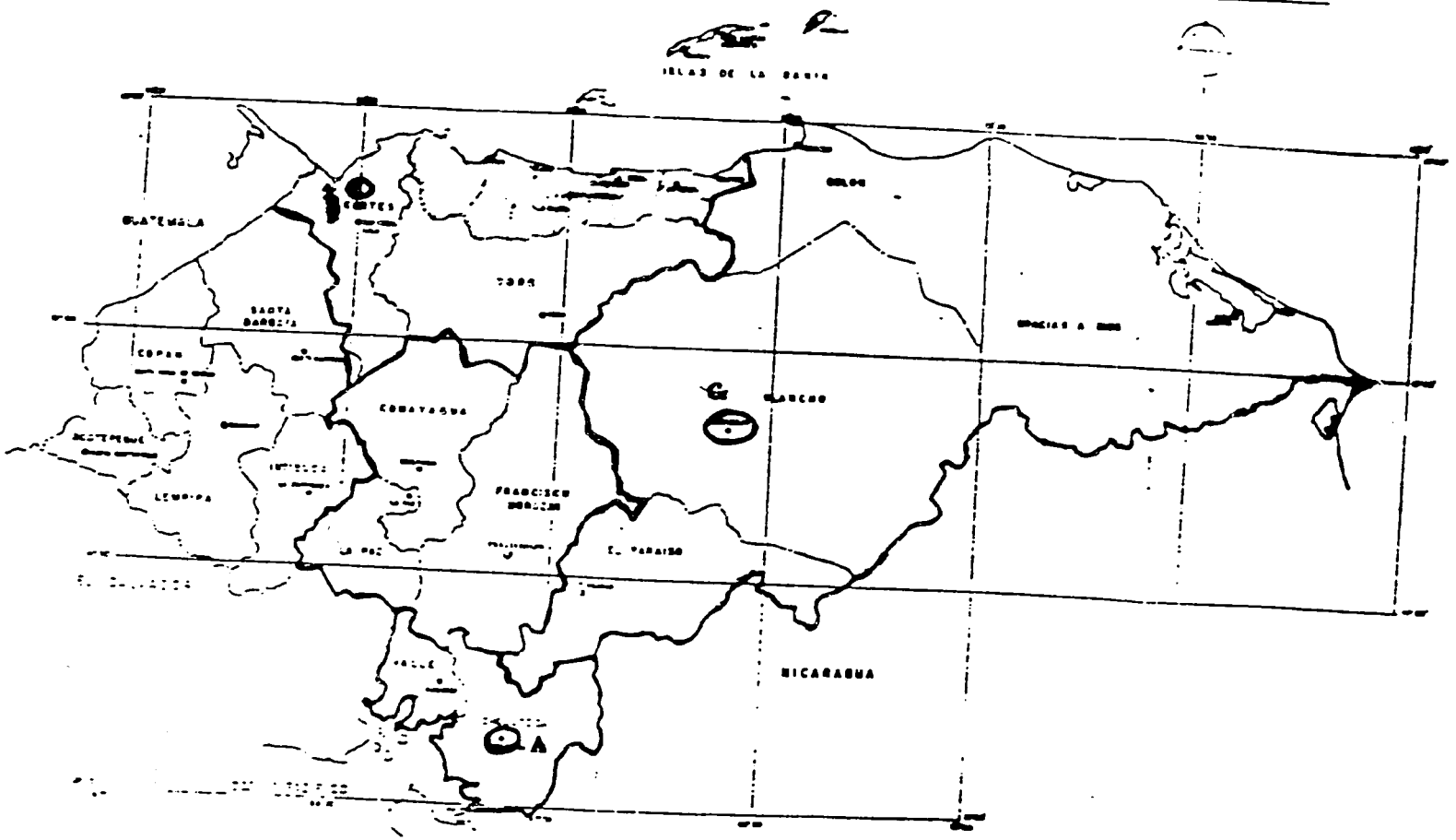
La organización comunal que agrupe a las familias de más bajos ingresos, reunida en patronatos y juntas, ofrecen un potencial incalculable en las tareas de desarrollo y participación comunitaria, especialmente en las tareas y proyectos de mejoramiento de las condiciones de vida, tales como proyectos de agua, alcantarillado, aceras, energía eléctrica, salones comunales multiuso entre otros. Estas organizaciones movilizan tanto recursos humanos (mano de obra) como económicos (realizando ferias, rifas y otras actividades, además del aporte propio). Normalmente estas organizaciones las cobija una organizaicón mayor (regional o departamental).

La municipalidad ha empleado este esfuerzo para la ejecución de algunas obras de infraestructura de limitado impacto y cobertura, no tanto como iniciativa propia sino más bien a petición de los patronatos y juntas. En tal sentido, tales esfuerzos conjuntos, comunidad/municipalidad, son esporádicos y responden a solicitudes o peticiones para atender proyectos específicos. No es el resultado de un esfuerzo concertado y sistemático que procura unir recursos escasos y multiplicarlos para mejorar las condiciones de vida de las comunidades.

HJ/cmn
(01/26/90)

259

UBICACION GEOGRAFICA DE CHOLUTECA, CHOLOMA Y JUTICALPA



	Choluteca (A)	Choloma (B)	Juticalpa (C)
Población Urbana 1/	53,612	38,302	19,948
Ingresos '87	1,960,407	999,029	502,259

1/ Población Urbana = Cabecera Municipal

Cuadro No. 4

Indices y Datos Comparativos

	CHOLUTECA	CHOLOMA	JUTICA
Población			
Total	87,889	66,257	74,16
Urbana 1/	53,779	38,302	19,94
Rural	34,090	27,955	54,215
Tasa de Crecimiento Pob. Urbana	5.3%	10.8%	5.0%
Finanzas			
Ingresos '87	L1,960,407	L999,029	L502,259
Ingreso per cápita	L22.30	L15,08	L6
Morosidad per cápita	L9.95	L17.70	n/d
Deuda per cápita	L68.3	L10.65	L9
Tasa Crec. Ingreso Corriente	6.5%	7%	3
Ingreso Corriente/Ingreso Total	74%	70%	89%
Administración			
No. de Empleados	250	105	60
% gastos salarios	60%	50%	65%

1/ Se considera población urbana la asentada en la Cabecera Municipal.

QUARTERLY PROGRESS REPORT OF PARTICIPATING MUNICIPALITIES

The following questions illustrate the type of information that should be developed on a quarterly basis to monitor and manage the project. The information should be developed jointly by municipal officials and the TA team. It should serve as a device both for reporting regularly to the local group overseeing the project in each municipality and for soliciting collective reaction to developments. Some of the information is of a routine nature and simple forms can be devised for recording it. Other information requires discussion and should be noted in narrative form. It is not anticipated that compiling the information and generating the reports will be a substantial task, as this information would normally be included in trip reports or normally quarterly reports.

The quarterly reports should constitute a regular part of the regular feedback to the community regarding local policy dialogues. Regular meetings of the group which keep community leaders and municipal officials informed, will facilitate policy decisions.

RELATIONSHIP BETWEEN THE MUNICIPAL GOVERNMENT AND THE LOCAL CITIZENRY

Information relating to the purpose level question:

Is the policy dialogue process, that is being promoted at the local level through a strategy of TA and training, resulting in increased citizen participation?

Activities Respecting the Preparation of an Action Plan and Community-wide Dialogue

- Total number, by position, occupation and sex, of those who participated in each of the dialogue sessions. In addition, this information should be analyzed and summarized annually.

- What critical needs have been identified and addressed?

- What lessons have been learned from the policy dialogue process?

- What has <u>not</u> gone well with the process? Why? What needs to be modified or discarded?

- What resources were lacking that would have made the

process more successful? What action should be taken to acquire them?

- What devices were used (such as handouts at the tax collection office) to inform the local citizenry of the development process that is being promoted?

- The activities related to the advancement of the Action Plan and Program and the public policy dialogues that are scheduled during the next six month period should be reported semiannually.

- Number of TA visits made and their primary purposes: to incorporate municipality in the project; to undertake reconnaissance survey; to work on the municipal assessment; to participate in local public dialogue sessions; findings and achievements of such visits.

- Information on persons were <u>not</u> involved in the policy dialogue sessions but should have been and recommendations for more effective participation in the future should be reported on a semi annual basis.

<u>Related Training Activities</u>

- Local participants identified by category and sex. involved in the policy dialogue and/or in the preparation of the Action Plan and Program, who received special training during the last quarter. This information should also be summarized and analyzed annually.

- Evidence of application of training by participants.

- recommendations respecting training relating to local policy dialogue?

IMPROVING THE FINANCIAL AND GENERAL MANAGEMENT OF

MUNICIPAL GOVERNMENT

Information relating to the purpose level question:

Is the policy dialogue process that is being promoted at the local level resulting in the ability of the participating municipalities to function more effectively?

<u>Municipal Administration</u>

- Level of involvement of municipal officials and community leaders in the gathering and analysis of information related to the identification of community-wide needs and the preparation of an initial Action Plan and Program to resolve the priority needs.

- Improvements in the operations of the municipal government identified in the public dialogue sessions as requiring priority attention; and those improvements which have been included in the Action Plan. This information should be reported on a semi annual basis.

- Specific actions taken by the municipality to improve its financial and general management systems. Financial benefits of such improvements in terms of increasing revenues.

- The level of effort by the municipality in assisting with the improvements in terms of cost, time and personnel involvement.

- The level of effort by the TA consultants in assisting with the improvements in terms of cost, time, and personnel involvement.

- The financial, and other benefits, that flowed to the municipality as a result of actions taken at the national level. This information should be reported semiannually.

- The impact the improvements have had on the general administration of the municipality

- What actions are proposed for improving the level of competence?

- What has been the turnover situation of municipal personnel? If it poses a problem, what measures are proposed for dealing with it? This information should be reported annually.

- The activities related to improving municipal administration that are scheduled during the next quarter.

- What TA was provided, or contacts made with, non-participating municipalities?

Related Training Activities

- The names, positions and gender of the local public

officials and functionaires who received special training during the last quarter

- Are the officials and functionaires who have received special training applying what they have learned or in some manner showing evidence of benefiting from the training?

- What plans should be made for improving the training of the local public officials and functionaries of the municipality?

EXERCISE OF GREATER LOCAL AUTONOMY

- Did the municipality take any action that demonstrated an increase in local autonomy? What was the act and the current and/or projected result?

- Was TA provided to assist with the action? If so, what was its nature and extent?

IMPROVEMENTS IN THE DELIVERY OF SERVICES BY THE MUNICIPALITY

Within the participating municipalities are the policy dialogues resulting in the delivery of land, public services and facilities on a sustainable basis at costs affordable to the majority of the urban population and in a manner that encourages public participation?

The information called for below is suggestive only. It will have to be adapted to cover the various urban development subprojects contemplated at the local level.

- Basic nature of subproject undertaken

- Relationship of subproject to the overall Action Plan and Program

- The condition of the service or facility prior to initiation of the subproject

- Expected results and sustainability of the subproject

- Identification of the primary beneficiaries

- Level of effort, cost, etc., involved in the subproject

- Local resources that are involved

- Involvement of the Municipal Development Fund

Assessment of level of popular participation on the local community including the primary beneficiaries that is build into the detailed planning, execution, monitoring, evaluation and subsequent maintenance or operation of the improvement.

Relation of project training events to participants in subproject execution.

Municipal participation in the management of natural resources.

Training Activities - Public Policy Dialogue Process

- Number and type of training exercises undertaken.
- Total number, by category (position, occupation and sex), of those who participated in the different training activities drawn from the local and national levels.
- The level of effort involved in each one of the training exercises -- in terms of cost, time, and personnel involvement.
- Manner in which the participants were identified
- What aspects of the exercises were considered by the participants as particularly valuable; what were considered as of little value; and what measures are proposed to improve the exercises?
- What resources were lacking that would have made the exercises more successful? What action should be taken to acquire them?
- What follow up activities took place during this reporting period?
- What did the trainers learn from the follow up activities?
- The training activities that are scheduled during the next reporting period.

The Role of the Municipal Assessments in Developing Baseline Data.

The principal source of baseline data are the municipal assessments. These are to be undertaken in all of the participating municipalities. They are envisioned as a three-step process involving: an analysis of social, physical and financial issues; formulation of an overall strategic plan; and preparation of an Action Plan and Program.

The process is designed to highlight critical local needs as well as provide information that is useful for intermunicipal comparisons. The work is to be performed by task forces composed of TA consultants and designated municipal officials and functionaries.

Besides serving as a primary source of baseline information, the municipal assessments should constitute a major step in: 1) identifying key groups and individuals who should be participants in the initial stages of the local policy dialogue process; and 2, initiating and advancing the participatory process itself.

The following information will be common to all assessments. This information can be tabulated in a manner that provides a basis to gauge improvements in the economic, social and physical character of a municipality as well as the stage of development of its municipal finances and general administration.

<u>Economic, Social and Physical Conditions</u>

-- Urban and regional economic trends and potentials.

-- Population and income growth characteristics and 10-year projections.

-- Review/inventory of existing urban infrastructure and services.

-- Identification of key infrastructure related to health, safety, economic efficiency and productivity.

-- Identification of target groups and their locations related to major environmental problems and infrastructure deficiencies.

-- Identification of existing growth trends and land use requirements.

-- Continuation of the process, initiated during the reconnaissance survey, of identifying key community

leaders associated with patronatos and other neighborhood groups, commercial interests, women's groups, national agencies, and private voluntary associations who should play a role in the discussions related to the preparation, approval and subsequent monitoring of the Action Plan and Program for the municipality.

-- Preparation of a strategy for involving the key community leaders in the decision-making process.

Municipal Finances

A review of past trends in municipal finance to include:

-- Central government transfers to the city

-- Local revenues by source

-- Project finance investments by various sources, and capital and recurrent expenditures by purpose

-- City debt obligations

The potential for improvement to be evaluated, including:

-- Existing tax sources

-- New potential tax sources

Municipal Administration:

A review of staffing and skill levels in the most important municipal departments and a review of performance covering key existing municipal functions

Evaluation of the potential for improvement including:

-- Upgrading of existing staff capacity through training and TA;

-- New staffing requirements at minimum acceptable levels.

Under any arrangement, however, some follow up visits in the field with a selected number of participants will always be required (See Annex B for the type of quarterly report that should emanate from the directors of the training activities.)

It is important that close collaboration exist between the training and TA components of the project. The persons involved with TA should be constantly recommending persona for different types of training, be kept informed as to who has [illegible]

ECONOMIC ANALYSIS OF THE MUNICIPAL DEVELOPMENT PROJECT

As stated in the Project Proposal, the main objective of this seven year project is to strengthen democracy in Honduras. The Project purpose is to enhance the participation of the Honduran people in the local democratic process and improve the operational capacity of municipalities in the provision of public services.

Strengthening democratic institutions requires making those institutions effective in the delivery of tangible benefits to their constituents, including an increase in their economic welfare. As the institutions closest to the people, the municipalities offer the greatest possibility for citizens to participate in political decision-making concerning the provision of the public services upon which the quality of their daily lives depends. These include basic services such as the provision of water and sanitary-waste disposal, education, health services, roads, and electricity.

The proposed project has three components. The first is the Skills Building Component, which involves the training of municipal officials and leaders of formal and informal citizen's groups in citizen participation in the political decision-making process and in several areas of municipal administration. A second component is the Technical Assistance Component, which involves diagnosis of the management problems faced by a selected number of municipalities and provision of experts to work with municipal officials in solving those problems. It also involves technical assistance to the central government in devising and implementing a municipal reform law, in decentralizing central government agencies, and in developing a national research and training unit to provide technical assistance to the municipalities. The third component is the creation of a Municipal Development Fund to finance projects in the selected municipalities that are planned and approved with citizen participation, conditioned on the demonstration of a capacity to plan and implement the project, to amortize capital costs, and to manage and finance project-related operation and maintenance activities. An overriding goal of the MDP is to reduce the scope of central government activities with specific emphasis on the provision of goods and services which can be more effectively provided by the private sector, institutional entities such as cooperative groups, or by the municipalities.

The major components of the MDP should produce substantial benefits for the people of Honduras. Some of these benefits are intangible, such as the strengthening of democratic processes and the people's commitment to democracy; and the stimulation of local economic development through the encouragement of individual initiative and the creation of productive enterprises more responsive to the wants of the people.

Increasing the fiscal capacity of the municipalities will enable a more rapid extension of potable water and sanitary sewage systems, solid waste disposal, roads and communications, and electricity. The increased resources available at the community level will also facilitate improvements in education and health services, increasing the productivity and capabilities of the population. The Municipal Development Fund component, coupled with technical assistance, will be designed to promote effective project planning and implementation in the targeted municipalities and provide an investment model for other municipalities.

Training and technical assistance will increase efficiency in the delivery of public services, keep the real estate tax base current, reduce tax delinquency, and increase the equity of the tax system. Devolution of powers to the municipalities coupled with training and technical assistance should enable them to relieve pressing problems of land tenure, low-income housing, and destructive forestry practices.

Municipal Functions and Services

At the present time, there is a proposed Municipal Law under study by the Honduran National Congress. The passage of this law will strengthen the political and economic decision-making power of local political jurisdictions. The MDP is designed to provide the major municipalities with the technical and administrative skills necessary to effectively expand the scope of their service provision activities, in keeping with the intent of the proposed law. Through the multifaceted approach of training, technical assistance and financing of municipal projects, the project is expected to enhance the capability of municipalities to:

* administer and supervise utilization of both the natural and financial resources of their communities.

* grant permits and control access to and use of municipal resources and communal facilities.

* impose and collect taxes, fines and other revenues essential for the provision of services.

It is in the area of service provision that the role of municipalities will be most significantly enhanced. Once the objectives of the MDP are reached and the benefits of the municipal law materialize, the capacity of the municipalities to promote the sustainable economic and social development of their communities through efficient provision of basic services (water and sewage, electricity, communication, road maintenance, police and fire protection...) will be increased.

Funding for the MDP is expected to be US$25.0 million, of which USAID will provide $10.0 million, and the GOH will provide a counterpart

equivalent of $15.0 million in the form of a directed credit line disbursed under the AEGIS of the MDP. In this regard two issues appear to merit serious consideration.

(1) The proposal for a large directed line of credit reinforces a highly controversial approach to credit allocation through which project developers attempt to channel banking sector credit flows in accordance with their own preferences and objectives. The evidence seems clear that despite good intentions such attempts often result in (1) inefficient credit allocation decisions based on non-market criteria, (2) high administrative costs related to program targetting and monitoring activities, and (3) decreased reliance on domestic savings as a source of internal credit. This typically results in loans which are (1) channelled to inefficient recipients, (2) associated with high transactions costs, and (3) provide banking systems already inundated with cheap rediscount lines with one more incentive to avoid undertaking actions to raise banking system deposits. It should be noted in this regard that the World Bank has negotiated a directed credit phase out program with the GOH as part of its SAL II agreement.

(2) The GOH's macroeconomic reform program is still in the preliminary stages of implementation. Faced with the prospect of significant fiscal and trade imbalances over the medium term, the GOH is going to be forced to run very strict credit expansion policies over the next several years - most particularly if it is going to maintain IMF and World Bank support. The proposed establishment of a L65 million credit line under these circumstances runs directly counter to the spirit of the monetary and fiscal policy reform negotiations which have been undertaken with the IMF. The larger the volume of pre-programmed credit expansion which AID fosters during a given year, the more difficult it will be for the GOH to stay within its overall credit expansion targets for that year.

Under the key assumption that the potential negative effects which could result from the use of directed credit line to finance the MDP do not in fact materialize, an analysis has been undertaken to establish the profitability of the proposed project.

The illustrative analysis of potential project benefits will include:

* The distribution and consumption component of electrical power provision in 11 selected municipalities.

* The direct provision of water services in 12 selected municipalities.

* An estimate of the increased flow of municipal revenues generated by the completion, updating and fuller utilization of cadaster information in 8 selected municipalities.

Financial Analysis of Electricity Distribution in Selected Communities

The National Electrical Company (ENEE) is practically the sole provider of electricity in the country. At present, its production and transmission capacity for hydro-electrical power is approximately 423 thousands kilowatts/h. (Kwh), while the internal and external demand is approximately 345 thousand Kwh. Total power capacity in the country is about 561 thousand Kwh, which includes a number of thermal plants now in operation.

It is reported that prior to the large hydro-power construction program initiated in the early 1970's - Río Lindo, El Nispero, and El Cajón (the largest hydro-power plant in the Central American region) - small hydro-power and diesel facilities scattered throughout the country provided the bulk of electrical power. Most of them were privately owned and operated, and are no longer in operation.

Currently, fuel-wood accounts for almost 60 percent of all energy consumed in the country. Annual consumption exceeds 5.6 million cubic meters (equal to about 3.4 million metric tons of wood). This is reported to be one of the main causes for the 33 percent reduction in total forest resources in Honduras during the last 25-30 years.

Cost functions have been defined for generation, transmission, distribution and customer service activities. A cost study made in 1988 for the National Electrical Company (ENEE), indicates the following cost distribution per function in percentage terms: generation - 54 percent, transmission - 10 percent, distribution - 25 percent, customer service - 11 percent. The latter includes the servicing of customer accounts, unrelated to electric system functioning.

A strong case can be made that ENEE's energy generating and transmission network is already well established and that expansion of its activities could be justified on the basis of economies of scale considerations and also on the basis of the comparative advantage in service provision activities associated with a relatively well trained technical and managerial work force.

By contrast, the distribution and customer service functions represent service components which, historically, have not been provided in a cost-efficient manner. These two components account for approximately 36 percent of all energy provision costs.

The present coverage of electrical services is about 32 percent at the national level, 70 percent in urban areas and less than 10 percent in the rural areas. While the expansion of generation and transmission capacity practically doubled with the incorporation of the El Cajón hydro-power plant in 1985, the expansion of service coverage has lagged behind,

rising from 25 percent of all housing units in 1974 to 32 percent at present. Residential and commercial demand represent over 60 percent of the electricity consumption in the country, while industrial use is about 25 percent, and agriculture between 2 and 3 percent.

Moreover at the client service level, the utility confronts major problems such as the massive volume of unpaid customer accounts, which in 1989 amounted to L139.4 million - equal to more than one half of total sales revenues. Due in part to this problem, the recent study by Arthur Young on ENEE management practices recommends that the electrification of rural areas, including both distribution and customer service components, should be carried out by decentralized entities (e.g. electrical cooperatives), as is done in such diverse environments as the United States and Costa Rica*. Moreover, even some staffers within ENEE agree that company performance would improve significantly if it were to (1) concentrate exclusively on energy production and transmission functions, and (2) allow distribution and customer service activities to be provided by private companies or decentralized public entities such as municipalities.

Cost Analysis

Present average electricity rates in Kwh (hydro-generated) for residential users are L0.17-0.18, while wholesale prices can be as low as L0.11-0.12. The passage of the Municipal Law and the implementation of the MDP, could result in the decentralization of some of the functions currently performed by ENEE.

Thus it is assumed that within 2 to 3 years, 11 out the 14 selected municipalities, excluding Tegucigalpa, San Pedro Sula, and Puerto Cortés (which at present is supplied by two thermal plants), would be able to (1) buy wholesale electrical power from ENEE, (2) control distribution for residential and public use, and (3) perform customer service activities (e.g., billing, fee collection, and maintenance).

The rates cited above were provided by a staff member of the Planning Department of ENEE, and cover only the operation, maintenance and administrative costs of generation, transmission, distribution and the costumer service provision. They exclude general and administration costs, depreciation costs and the financial costs of future network expansion. Thus, it is estimated that the opportunity cost of the provision of electricity at present is 100 to 130 percent above the current charges per Kwh.

* See Arthur Young., "Evaluación Financiera y Operacional de la Empresa Nacional de Energía Eléctrica," april 1989.

It is also important to realize that slightly less than one quarter of the electricity output of ENEE is generated in six thermal plants operated with fuel oil (Bunker "C"), whose price has increased from about L1.08 to L2.40 (for the Tegucigalpa zone). This price change represents a major increase in the cost of producing thermal electricity. ENEE revenues have been consistently lower than its expenditures during the period 1986 to 1989 (the average annual short-fall over this period has been L148.5 million, or approximately 63 percent of total electricity sales). Thus in the absence of significant tariff adjustment the financial position of ENEE will become increasingly precarious.

The conservative assumption is made that the net user savings under municipal service provision would be L0.04 cents/Kwh in the form of a 10 percent cost reduction related to more efficient municipal provision of electricity distribution and customer service. Population and housing units growth rates within the 11 selected communities are estimated, based upon data in the 1974 and 1988 Population and Housing Census. It is assumed that the MDP starts in 1991 and runs through year 2000. Therefore, a projection of the housing stock is made over the next 10 years, based on historical trends.

At present average urban coverage is approximately 62 percent for the selected communities, and it is assumed that this will increase to 70 percent by year five, and 80 percent by year 10.

Electrical consumption per residential user is based on several factors including the cost of electricity, the availability of energy substitutes, weather conditions, time of day, and seasonality. Estimates vary from a mean residential/commercial consumption of 2,800 Kwh per year for the country as a whole, to actual annual consumption estimates supplied by ENEE of 2,492 Kwh for Tegucigalpa, 2,591 Kwh for San Pedro Sula, and 1,019 Kwh for a smaller community like Siguatepeque. For purposes of the analysis, a mean value consumption of 2,000 Kwh per year is utilized for the 11 selected communities.

Cost/Benefit Analysis of Electricity Services

An economic evaluation of municipal participation in the provision of electrical distribution and customer services within 11 selected municipalities is undertaken using the following assumptions:

The cost component of the service includes: purchase of electricity wholesale from ENEE, the capital costs of adding new users to the service, provision of street lighting, and customer service costs, both for old and new users.

Project benefits for old and new customers are identified in the following manner:

272

- For old users: the additional consumer surplus (i.e. the difference between the marginal benefit of consuming an additional unit of energy and the marginal cost of producing it, across a given range of consumption, associated with a more efficient distribution system; which in turn produces a lower price per Kwh than would be necessary to cover costs if the distribution network continued to be centrally operated.

- A dead weight loss savings thru more realistic pricing of distribution services and customer service activities, which in turn produces a reduction in electricity consumption to a level at which the marginal benefits and costs of consumption are equalized.

- For new users: the net benefits associated with increased access to electrical services.

Assuming that the unit price of electricity rises to L0.38/Kwh and that the price elasticity of demand is -0.5, annual consumption per household falls from 2000 Kwh to 765 Kwh. Society benefits from this reduction in consumption since at the old subsidized price of L0.17/Kwh the marginal cost of electricity exceeded the benefits of consumption over a significant share of total consumption units. Society also benefits from a reduction in the real unit costs of service provision (from L0.42 to L0.38/Kwh, which assumed to occur as a result of municipal provision of the service). Finally, new consumers benefit from gaining access to electricity services, that benefit reflected in the difference between the marginal benefit of consuming an additional unit of energy and the unit cost of producing it (L0.38) for all units of consumption. The suppositions that unit costs are constant, and that demand elasticity is constant across all consumption levels, are simplifying assumptions made to facilitate an empirical analysis of the net benefits of this project activity. These benefit estimates are per household figures, and are subsequently multiplied by the number of households estimated to receive each type of benefit through the year 2000. The overall flow of net benefits associated with municipal provision of electricity services expressed in financial prices is provided in Table 1.

Water Service Under Municipal Administration

The Honduran population is scattered in 27,397 hamlets with less than 100 people, approximately 3,725 villages which have at least 100 people and one public school, and approximately 125 towns and cities. It is estimated that 60 percent of the population lives in the rural areas and the balance in urban areas. The two major population centers are Tegucigalpa (the country's capital) and San Pedro Sula (the industrial center of Honduras), which together account for over one half of the urban population and slightly more than 22 percent of the entire population of the country.

As of 1988, there were approximately 2,000 urban and rural water systems in Honduras. This compares to 150 water systems in operation in 1961, when coverage was approximately 75 percent in urban areas and only 8 percent in rural areas. However, more recently increases in population have matched the growth in availability of water services. Thus, between 1974 and 1988 the percentage of people who had access to water and sewage services increased at the national level by only two percentage points, from 14.0 to 15.9 percent.

The provision of water and sewage services in the country is the responsibility of a number of public, private, and municipal organizations. The leading institution is SANAA (Servicio Autónomo Nacional de Acueductos y Alcantarillados) which operates 61 systems throughout the country. SANAA's coverage includes Tegucigalpa, 15 intermediate cities and 45 rural systems. As of 1988 SANAA provided water coverage to 121,000 users, roughly half in Tegucigalpa and the rest spread throughout smaller urban and rural areas. The only sewage system which SANAA operates is also in Tegucigalpa and provides sewage services to 58,000 users. Another large organization in this field is the DIMA (División Municipal de Aguas) in San Pedro Sula. There are also several municipalities responsible for the operation of local water and sewage systems, and hundreds of local committees who administer these services in isolated rural areas.

Part of the justification that led to the creation of SANAA, in 1961, was the need to concentrate and maximize available resources for the provision of water services under a single jurisdiction. SANAA, however, has never achieved this objective, and now there appears to be growing support for a more direct approach to the operation and administration of water systems. In many cases the municipalities already are providing this service, with some technical and operative support from SANAA.

A USAID-financed management evaluation operation carried out in 1988 indicated that SANAA was facing difficult financial problems. Over the past decade, it has accumulated huge financial losses, and has a record of providing unreliable and, at times, low-quality service.

The financial problems are a consequence of a number of inter-related factors, including (1) a bloated and inflexible work force, which absorbs from 60 to 70 percent of service revenues, (2) a depressed tariff structure which does not come close to covering service provision costs, and which has not been revised since 1983, (3) the highly centralized decision making structure of the institution, (4) inadequate bill collection administration (in some cities unpaid bills represent 50 percent of the value of paid accounts), and (5) inadequate meter coverage, which results in fixed monthly rates which do not reflect the real cost of service provision. A sample of 15 medium-size cities indicated that roughly 90 percent of SANAA costumers within those cities

were charged a fixed monthly rate. Information on the use of water meters within a sample sub-group highlights the limited utilization of meter services.

Water Meter Coverage

City	Meters in Service	Meters Out of Service	Unmetered
Choluteca	1,580	2,540	-
Comayagua	365	590	-
La Ceiba	190	-	3,943
Puerto Cortés	34	-	2,284
El Progreso	-	-	2,528
Danli	-	48	-
TOTAL	**2,169**	**3,178**	**8,755**

Source: Marketing Department, SANAA. Tegucigalpa, May 1990. These six cities have 37,423 customers. Thus, the number of billings directly based on household water consumption amounts to only 6.0 percent of the total. Additionally, there is no metered service in operation in the rural areas.

Confronted on the one hand with a rapidly growing demand for water services and on the other hand with fixed undervalued charges, inadequate meter coverage and a bloated work force, the institution has been unable to respond adequately to service expansion needs, and has been unable to improve the quality and reliability of its services significantly.

Municipally-Operated Water Services

In view of the critical problems confronting SANAA, and the potential for technical assistance and training activities under the MDP which could significantly improve municipal capacity to provide water services, it is assumed that some of the selected municipalities could undertake the provision of water services on a commercial basis. Seven of these 14 selected municipalities (excluding Tegucigalpa and San Pedro Sula) have their water systems managed directly by SANAA (Puerto Cortés, El Progreso, La Ceiba, Catacamas, Comayagua, Siguatepeque and Choluteca).

The commercial approach is based on the provision of metered water services in each of the 12 target cities. At present, the coverage of water services in all intermediate urban areas is approximately 45 percent. It is assumed that MDP-supported service devolution would begin

in year 3 of the LOP (1993), and that metered service coverage over the LOP would increase to 55 percent by year 5, and 65 percent by year 8.

Estimation of the costs of municipal provision of metered water is based on the following analysis:

The total number of housing units in each selected municipality is projected - on the basis of historical growth rates between 1974 and 1988 - for the period 1991 - 2000. Additionally, it is assumed that two years after the initiation of the MDP, the selected municipalities are in a position to undertake provision of fixed metered service. Rate of growth of service coverage is projected as follows:

Year	Projected Coverage (%) (Annual Growth)	(Accumulated)
3	25	25
4	20	45
5	5	50
6	5	55
7	5	60
8	5	65
9	-	65
10	-	65

Thus by year 4 approximately 45 percent of the housing units in each community are incorporated into the service. This percentage increases to 60 percent in year 7, and reaches 65 percent during the final 3 years of the LOP.

The water charges in each selected municipality are based on an average annual residential consumption (per five member household unit) of approximately 365 cubic meters. This represents a mean consumption value of about 43.2 gallons per person per day. For urban residential consumption there are two types of charges - a flat monthly fee (L6.50), and a metered charge based on water consumption above 15 cubic meters.

Cost/Benefit Analysis of Water Service Provision

At present per unit consumption costs (for metered users) equal approximately 0.42 cents/cm^3. However this is estimated to be less than half of real service provision costs, including the costs of water system expansion and meter installation and operation. Assuming that the unit price of water consumption rises from 42 cents/cm^3 to 88

-216

cents/cm^3 (an increase of 110 percent) and that the price elasticity of demand for water is -0.5, annual consumption per metered household falls from 365 cm^3 to 165 cm^3. Society benefits from this reduced consumption, since at the original subsidized price the marginal costs of water provision exceeded the marginal benefits of consumption over a significant range of consumption units. Moreover society benefits even more from the installation of meters in houses which are currently unmetered but which nevertheless obtain water services, since these consumers would in the absence of meter installation continue to overconsume up to the point at which the marginal benefit of consuming an additional unit of consumption equalled 0 (since for these consumed water essentially represent a free good). Finally, new consumers benefit from gaining access to water services, that benefit measured by the difference between the marginal benefit and marginal cost of consuming an additional cubic meter of water across all consumption units. These benefit estimates are per household figures, and are subsequently multiplied by the number of households estimated to receive each type of benefit through the year 2000.

Again the suppositions that unit costs of consumption are constant, and that demand elasticity is constant across all consumption levels, are simplifying assumptions made to facilitate an empirical estimation of the potential net benefits of this project activity. The overall flow of net benefits associated with municipal provision of water services is listed in Table 2.

Municipal Revenues and Cadastral Utilization

Adequate assessment of unit costs of urban and rural housing, and proper estimation of the unit value of rural land parcels based on productive potential, provides an important mechanism for measuring the value of urban and rural properties. In fact municipal property tax revenues could increase dramatically in response to accurate and periodically updated cadastral information.

The experience of two municipalities which have implemented comprehensive cadastral surveys supports this contention. A property tax assessment entitled "Evaluación de los Proyectos Catastrales Implantados en los Municipios de Villa de San Antonio y Puerto Cortés", shows that in the case of the larger municipality - Puerto Cortés - the level of property ten revenues increased by 163 percent as a consequence of updated property value information yielded by a comprehensive cadastral survey. Real state revenues in Puerto Cortés increased from L93.1 thousand in 1987 to L245.0 thousand in 1988. An increase of about 259 percent was experienced in the smaller municipality of Villa de San Antonio between 1987 and 1988. Moreover, the total fiscal impact of the updated cadastral information in these municipalities was probably higher, since the data provided by the cadastral surveys facilitated increased collections of other levies.

277

The 14 selected municipalities all have cadastral surveys. However, not all of them have complete urban and rural registers, and in some cases the information has not been kept current. In addition the municipalities have faced the problem of enforcing levies among a target population long accustomed to property tax avoidance. AID/Honduras has been instrumental in supporting cadastral efforts in the country through its land titling project, which has financed cadastral assessments in eight departments of the country, mostly covering areas in which coffee production is an important economic activity.

The potential clearly exists for significantly expanding revenues by widening cadastral information-gathering efforts. A typical municipality receives revenues from about two dozen different sources - the majority of which produce very little income. Among the principal sources of municipal funds are the following:

*Municipal income and property taxes.

*Fees levied on private users of municipally owned or controlled resources.

*Fees charged for public services offered by municipalities

*National government transfers

*Revenue sharing on special levies such as port authority fees.

Obviously, good cadastral information is a more relevant instrument for increasing revenues from certain revenue sources than from others. Moreover, the effectiveness with which cadastral information is utilized across municipalities is based on relative institutional capacity and administrative integrity.

The detailed 1988 budgetary information for La Ceiba displayed in Table 3 contrasts projected and actual municipal revenues from a variety of sources. Budgeted revenues were significantly overestimated in relation to actual collections. Budgeted funds went primarily to meet current expenditures, the largest component of which was the municipal payroll. Moreover, there were high expectations that substantial external funding would be provided, via Municipal Development Bank (BANMA) loans and government transfers. The figures indicate that these expected sources of funds were significantly overestimated.

It should be noted that the real state tax figures indicate a high correlation between budgeted and actual revenues. All real state owners are legally required to pay L1.50 per each 1,000 of assessed value over and above a minimum value of L20,000. This tax would generate significantly higher revenues if the rate set in January 1977 were adjusted to reflect increased real state values.

Budgetary projections for 8 of the 14 targeted municipalities (see Table 4) are consistent with the revenue data just described. First, central government transfers and bank loans represented the main source of projected revenues in 1989. Second, projected revenues from urban and rural real state taxes were too low to represent a significant source of funding. Finally, the municipal payroll ate up a large share of municipal resources.

Real State taxes represented a scant 10 per cent of total projected revenues for these municipalities. However, since non-tax revenue projections were probably overestimated by 30-35 percent, the actual contribution of property taxes to the overall revenue base was undoubtedly much higher.

In general, the need exists to rely more heavily on local sources of revenues in relation to less reliable external sources. Moreover, the yield from real estate taxes could be greatly expanded if cadastral information were collected and updated on a regular basis. Overall, it is anticipated that the strengthening of the administrative capacity and autonomy of selected municipalities which would follow from a devolution of political decision-making authority could result in a major broadening of the tax base and revenue-generating capacity of local governments.

Cost/Benefit Analysis of Increased Tax Revenues

Given the uncertain availability of bank loans and central government transfers, it is clearly necessary to strengthen revenue-generating capacity at the municipal level. Based on the aforementioned past experience of a number of municipalities, it can be reasonably assumed that the completion, updating and fuller utilization of cadastral surveys and related information, would greatly enhance municipal revenue-generating capacity. Thus, a rough estimate of the costs and benefits of this activity were developed for 8 selected municipalities for which detailed revenue - expenditure data for 1989 were available.

Though the cost of a cadastral survey is a function of many factors, including the number of jurisdictions under municipal administration, the size of the housing stock, the existence of previous surveys, etc., it is still possible to make an average cost estimate based on IDB cost information and estimates based on surveying activities undertaken in connection with the Land Titling Project of AID. An estimated five year cost per municipality would be about L1.37 million or L275,000 per year.

The additional annual cost of maintaining and updating of cadastral surveys would be approximately L90,000 per municipality. The total estimated cost for the LOP would therefore be about L14.6 million.

The proposed cadaster surveys are multi-purpose. That is, besides providing basic fiscal information, they also provide data on the natur and value of physical and natural resources within the municipal jurisdictions. Hence the potential of cadastral surveying efforts as a mechanism for revenue enhancement is quite large.

We estimate that property tax revenues would increase by 200 - 400 percent in relation to current levels following completion of the cadastral updating activities. Thus total revenues for the 8 municipalities could increase from an average of approximately L2.9 million to between L6 million and L10 million. Of course, the increase in revenues would represent a transfer from individuals to the municipal government. The flow of financial costs and benefits from cadastral surveying activities are listed in Table 5.

Global Project Profitability

The net benefits generated by the three aforementioned activities have been compared with the project costs, in order to assess the profitability of the MDP in market prices (see Table 6). The estimated financial rate of return is 57.2 percent, which is quite high given the small number of benefit categories which have been included in the analysis.

The internal rate of return in economic (shadow) prices is 50.6 percent (see Table 7), which is again robust in consideration of the conservativ approach adopted in assessing project benefits. A wide-ranging sensitivity analysis was subsequently conducted in order to test the robustness of profitability indicators. The results are given in Table 8, and indicate that project profitability is not highly sensitive to moderate variation in the benefit/cost structure of individual project activities.

The potential returns to municipal provision of key basic services appea to be high, as does the revenue-enhancement potential of updated and fully utilized cadastral information. The activities analyzed here are the tip of the iceberg in terms of the full range of potential municipal service provision activities which could be undertaken. The long range potential for service provision and resource development under municipal auspices is indeed high. The Municipal Reform Law, the MDP, and the financial and technical cooperation of other public and international organizations, should help to convert this potential into higher levels of social welfare for the population of the participating municipalities

TABLE 1
MDP: ELECTRICITY SERVICE UNDER MUNICIPAL ADMINISTRATION
11 MUNICIPALITIES* (YEARS 1991 - 2000)

PROJECT BENEFITS

Year	Access to Electricity Services Residential Housing (a)	Municipal Electricity Service Activity (b)			Project Benefits (Consumer Surplus Values in Millions of Lempiras)			
		Old Users	New Users	Total Users	Old Users (c)	DWLS (d) (Old Users)	New Users (e) (Accumulated)	Total
1991								
1992								
1993	118.874	110.002	0	110.002	3.28	0.00	0.00	3.28
1994	127.208	110.002	7.812	117.814	3.28	1.01	2.27	6.56
1995	152.421	117.814	24.445	142.259	3.28	3.17	9.38	15.83
1996	163.194	142.259	12.054	154.313	3.28	1.56	12.88	17.72
1997	174.779	154.313	8.815	163.128	3.28	1.14	15.44	19.87
1998	199.722	163.128	36.594	199.722	3.28	4.75	26.08	34.11
1999	214.020	199.722	14.298	214.020	3.28	1.85	30.24	35.37
2000	229.408	214.020	15.388	229.408	3.28	2.00	34.71	39.99
TOTAL					26.22	15.49	131.00	172.72

* From the 14 selected municipalities. Tegucigalpa, San Pedro Sula and Puerto Cortes are not included.

(a) It is estimated that the coverage of electricity in the selected municipalities is at present about two thirds of the housing stock, increasing to 75% in 1985 and to 80% as of 1998. At the same time the rate of growth of coverage is projected to ratched up by 20% in years 5 and 8, with lower rates of growth during other years.

(b) Covers electricity distribution, public lighting and costumer service.

(c) Represents original users during LOP.

(d) Represents the dead weight loss savings of original unmetered users during LOP.

(e) Cumulative for new costumers (metered) during LOP.

TABLE 2
MDP: WATER METERED SERVICE IN 12 MUNICIPALITIES*
(YEARS 1991 - 2000)

PROJECT COSTS AND PROJECT BENEFITS

Year	Housing with Acess to Water Service (a)	Type of Water Service: Metered	Type of Water Service: Unmetered	Municipal Water Service Activity: Share of Housing Stock With Meters	Municipal Water Service Activity: Metered	Municipal Water Service Activity: Unmetered	Cost of Installation of Meters	Project Benefits (Consumer Surplus Values - Millions of Lempiras): DWLS (c) (Metered)	DWLS (d) (Unmetered)	New Users (e) Accumulated	Total
1991	69.250										
1992	81.002										
1993	86.441	17.288 (b)	69.153	40	34.576	51.865	2.25	0.80	11.62	2.51	14.92
1994	92.276			50	46.138	46.138	1.50	0.80	11.62	4.18	16.60
1995	109.485			55	60.173	49.232	1.82	0.80	11.62	6.22	18.63
1996	116.950			60	70.170	46.780	1.30	0.80	11.62	7.67	20.08
1997	124.968			65	81.229	43.739	1.44	0.80	11.62	9.27	21.68
1998	160.294			70	112.206	48.088	4.03	0.80	11.62	13.76	26.18
1999	171,396			75	128.547	42,849	2.12	0.80	11.62	16.13	28.55
2000	183,329			80	146.663	36,666	2.36	0.80	11.62	18.76	31.17
TOTAL							16.82	6.36	92.94	78.50	177.81

* Includes the selected municipalities of the MDP with the exception of Tegucigalpa and San Pedro Sula.
(a) At present, it is estimated that on the average 45% of the housing stock in these municipalities has access to water service either administered by the municipalities or by SANAA. It is assumed that service coverage will increase to 55% by year 1995 and to 80% by year 2000.
(b) Represents 20% of houses receiving metered water service at the beginning of the Municipal Water Service Project.
(c) Represents dead weight loss savings of original metered users during LOP.
(d) Represents dead weight loss savings of original unmetered users during LOP.
(e) Cumulative for new costumers (metered) during LOP.

TABLE 3
MUNICIPALITY OF LA CEIBA
PROJECTED AND ACTUAL REVENUES - 1988

ITEM	PROJECTED REVENUES	ACTUAL REVENUES	ACTUAL REVENUES AS A PERCENTAGE OF PROJECTED REVENUES	
CURRENT REVENUES	3,539,257.80	2,801,444.61	79.1	64.0
TAX SOURCES	1,535,353.80	1,330,812.99	86.7	30.4
Property	371,546.00	314,069.73	84.5	7.2
Head Tax	128,695.80	98,244.10	68.6	2.0
Commercial Firms	574,668.00	511,291.02	90.0	11.7
Building Permits	253,589.00	233,965.39	92.3	5.3
Fees	183,755.00	175,161.75	95.3	4.0
Banks	23,100.00	8,081.00	35.0	0.2
NON TAX SOURCES	2,003,904.00	1,470,631.62	73.4	33.5
Public Services	1,669,029.00	1,119,324.73	65.1	25.6
Rentals	129,525.00	127,886.25	98.7	2.9
Other (fines, etc)	205,350.00	223,420.64	108.8	5.3
CAPITAL REVENUES	7,131,768.00	1,579,004.29	22.2	36.0
Loans	3,650,000.00	275,000.00	7.5	6.3
Transfers and Contributions	840,000.00	25,000.00	3.0	0.6
Sale of Properties	35,000.00	33,672.00	96.2	0.6
Collection of over-due taxes	1,150,030.00	243,721.64	21.2	5.6
Collection of past-due service fees	1,445,538.00	401,010.65	27.7	9.2
Other Capital revenues	11,200.00			
4% Port Authority Transfer		600,600.00		13.7
TOTAL REVENUES	10,661,025.80	4,380,448.90	35.5	100.0

Source: Consultores Financieros Internacionales, S.A. "Diagnóstico de la Situación Actual del Municipio de La Ceiba". Estudio Preliminar, Cuadro 2.p.9

TABLE 4
PROJECTED MUNICIPAL REVENUES AND PAYROLL EXPENDITURES, 1989
(lempiras)

Municipalities	Projected Total Revenues	Projected Real Estate Revenues	Projected Revenues from other Sources a/	Annual Payroll Expenditures
Puerto Cortés	[illegible]	[illegible]	[illegible]	[illegible] 8,018
La Lima	[illegible]	[illegible]	[illegible]	[illegible] 7,553
Villanueva	[illegible]	[illegible]	[illegible]	[illegible] 8,225
El Progreso	[illegible]	[illegible]	[illegible]	[illegible] 2,041
La Ceiba	[illegible]	[illegible]	[illegible]	1,[illegible]5,741
Catacamas	[illegible]	[illegible]	[illegible]	
Tocoa	[illegible]	[illegible]	[illegible]	[illegible] 36
Choluteca	[illegible]	1,[illegible]	[illegible]	[illegible] 8,351

a/ Mainly expected government transfers and loans.

Source: Ministry of Government and Justice, Dirección Técnica de Municipalidades, Tegucigalpa, D. C.

84

TABLE 5
MDP: CADASTRAL SURVEY, PROJECT COSTS AND PROJECT BENEFITS
8 MUNICIPALITIES, YEARS 1991 - 2000
(Millions of Lempiras)

Year	Project Costs	Project Benefits (a)
1991		
1992	2.20	
1993	2.20	6.00
1994	2.20	6.00
1995	2.20	8.00
1996	0.72	8.00
1997	0.72	8.00
1998	0.72	10.00
1999	0.72	10.00
2000	0.72	10.00
TOTAL	12.40	66.00

(a) It is assumed that property tax revenues increase by 200% in year 3 (1993), 300% in year 5 (1995) and 400% in year 8 (1998) based on actual property taxes revenues and increases experienced in other communities which have implemented cadastral surveys.

TABLE 6
MDP: TOTAL PROJECT COSTS AND BENEFITS (Financial Prices)
YEARS 1991-2000
(IN MILLION OF LEMPIRAS)

YEAR	MDP BUDGETED FUNDS (a)			PROJECT ACTIVITIES TOTAL COST	OVERALL MDP COSTS	TOTAL PROJECT BENEFITS	MDP PROJECT CASH FLOW
	AID	GOH	TOTAL				
1991	6.24	0.00	6.24	0.00	6.24	0.00	-6.24
1992	9.60	0.00	9.60	2.20	11.80	0.00	-11.80
1993	10.14	8.61	18.75	4.45	23.20	24.20	1.00
1994	7.19	21.52	28.71	3.70	32.41	29.16	-3.25
1995	4.86	19.37	24.23	4.02	28.25	42.46	14.21
1996	3.21	10.76	13.97	2.02	15.99	45.80	29.81
1997	1.81	4.30	6.11	2.16	8.27	49.55	41.28
1998	0.00	0.00	0.00	4.75	4.75	70.28	65.53
1999	0.00	0.00	0.00	2.84	2.84	73.92	71.08
2000	0.00	0.00	0.00	3.08	3.08	81.16	78.08
TOTAL	43.05	64.56	107.61	29.22	136.83	416.52	279.69

IRR	=			57.18%
NPV (20%)	=	63.62	118.07	71.61
B/C Ratio	=			1.86

(a) At the interbank exchange rate of L4.305/US$1.00.

TABLE 7
MDP: PROJECT ACTIVITIES (a)
ECONOMIC PRICES
(YEARS 1991 - 2000)
(MILLIONS OF LEMPIRAS)

Year	Electricity Distribution: Project Benefits	Water Distribution: Project Costs (Metered Inst.)	Water Distribution: Project Benefits	Cadastral Survey: Project Costs	Cadastral Survey: Project Benefits	Total MDP: Costs	Total MDP: Benefits (b)	Project Cash Flow
1991	0.00					6.24	0.00	-6.24
1992	0.00			2.2		11.80	0.00	-11.80
1993	3.28	1.80	14.92	2.2	3.00	22.75	21.20	-1.55
1994	6.56	1.20	16.60	2.2	3.00	32.11	26.16	-5.95
1995	15.83	1.46	18.63	2.2	4.00	27.89	38.46	10.57
1996	17.72	1.04	20.08	0.72	4.00	15.73	41.80	26.07
1997	19.87	1.15	21.68	0.72	4.00	7.98	45.55	37.57
1998	34.11	3.22	26.18	0.72	5.00	3.94	65.28	61.34
1999	35.37	1.70	28.55	0.72	5.00	2.42	68.92	66.50
2000	39.99	1.88	31.17	0.72	5.00	2.60	76.16	73.55
Total	172.72	13.46	177.81	12.40	33.00	133.47	383.52	250.06
					IRR =			50.58%
					NPV (20%) =	62.55	107.89	
					B/C Ratio =	1.72		

(a) The following shadow price conversion factors are utilized in the economic analysis of project profitability:
- Labor 0.6
- Technical and managerial component 0.8
- Exchange rate 1.0 (assuming an equilibrium between the interbank exchange rate and the parallel market over the LOP)

(b) Since increased property tax revenues actually represent a transfer from individuals to the municipalities, they cannot be included as a net economic benefit of the project. We have assumed that, as a result of externality and multiplier effects, the social welfare impact of an additional dollar of public expenditures exceeds that of private expenditures by 50 percent. As a result, we include one-half the value of the revenue increase in our estimate of project benefits in economic prices.

TABLE 8
MDP: SENSITIVITY ANALYSIS
(ECONOMIC PRICES)

	35% Decrease in Electricity Component of Project Benefits (a)	35% Decrease in Water Component of Project Benefits (a)	30% Increase in Cadastral Surveying Costs	30% Decrease in Property Tax Revenues
IRR (%)	46.14	43.17	53.66	50.58

(a) Assumes that significant price increases will occur even in the absence of the project and therefore that the benefits resulting from reduced overconsumption by current users are not attributable to the project. In addition, all other project component benefits are reduced by 30%.

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Asistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES:	IS COUNTRY CHECKLIST UP TO DATE?	Yes
	HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?	Yes

A. GENERAL CRITERIA FOR PROJECT

1.	FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A. If money is sought to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?	Congressional Notification expired on June 7, 1990.
2.	FAA Sec. 611(a) (1). Prior to an obligation in excess of $500,000 will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	a) Yes b) Yes
3.	FAA Sec. 611 (a) (2). If legislative action is required within recipient country, with respect to an obligation in excess of $500,000 what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?	No legislative action required

4.	FAA Sec. 611(b); FY 1990 Appropriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962. et seq.)? (See A.I.D. Handbook 3 for guidelines.)	Appropriated dollars will not be used for water or water-related land resource construction.
5.	FAA Sec. 611(e). If project is capital assistance (e.g. construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?	U.S. assistance will not be used for capital assistance.
6.	FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	No
7.	FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	The project is intended to increase municipal capacity to provide basic services and respond to constituent needs. Private sector involvement will be maximized in the delivery and provision of such services, as municipalities will contract with the private sector to carry out capital investment projects. Private financial institutions including commercial banks, savings and loans, and credit unions will be encouraged to make proposals to finance selected capital investment projects for each participating municipality.
8.	FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	The project will not directly encourage U.S. private trade and investment abroad. However, the technical assistance services and training activities will be carried out through U.S. or Central American firms. At this time a buy-in to an existing central contract with a U.S. association is anticipated for technical services. The

		procurement of training services will be competed and it is anticipated that U.S. firms will submit proposals.
9.	FAA Secs. 612(b), 636(h). Describe steps taken to assure that to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services and foreign currencies owned by the U.S. are utilized in lieu of dollars.	Host Country owned local currency will be used to finance a US $15.0 million equivalent fund for municipal development activities.
10.	FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
11.	FY 1990 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?	The assistance is not for the production of commodities for export.
12.	FY 1990 Appropriations Act Sec. 540. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807." which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?	No
13.	FAA Sec. 119(g)(4)-(6) & (10). Will the assistance (a) support training and education efforts which improve the capacity of	

	recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?	a) No b) No c) No d) No
14.	FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?	Not a Sahel Project
15.	FY 1990 Appropriations Act, Title II, under heading "Agency for International Development". If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?	No assistance will be made to a U.S. PVO
16.	FY 1990 Appropriations Act. Sec. 537. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?	No assistance is contemplated for PVOs. If future assistance is made available to PVO's they will be registered.
17.	FY 1990 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?	Funds are being obligated under the FN-(Food and Nutrition) and PSEE (Private Sector Energy and Environment) Accounts as appropriated by Congress.

18.	State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and AID LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).	The Project Agreement will be forwarded.
19.	Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?	Metric measurements are the standard in Honduras. Most procurements will not require measurements.
20.	FY 1990 Appropriations Act, Title II, under heading "Women in Development". Will assistance be designed so that the percentage of women participants will be demonstrably increased?	The project seeks to increase participation of all citizens in Municipal decision making. To the extent feasible women's groups will be identified and targeted for increased participation.
21.	FY 1990 Appropriations Act Sec. 592(a). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies, has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the	a) Yes b) Yes c) Yes

terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government? — Yes

Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? — Yes

If assistance is terminated to a country, will any unemcumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? — Yes

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria — Assistance is not for agricultural development activities.

a. FY 1990 Appropiation Act. Sec. 546. (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training) are such activities (1) specifically and principally designed to increase agricultural exports by the

host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

It is anticipated that appropriate technology will be used in project activities.

b. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

The Municipal Development Project takes advantage of the Honduran environment which is propitious for increasing authority and responsibility of municipalities. The recently elected national government has expressed a strong desire to foster municipal capability and to increase citizen participation. Project activities will be focussed on key Honduran leaders and decision makers at the national and municipal levels, to build relevant skills and to increase their responsiveness to citizen needs. All of these activities support effective participation in governmental processes essential to self-government.

c. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

Yes. The project will work with municipalities with significant economic potential.

d. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

The Municipal Development Project will help to spread the benefits of growth to the poor, by enabling their local government to manage and implement constituent oriented programs more effectively. Project activities will be concentrated in intermediate cities and by developing centers of economic growth will help to disperse investment and stem the flow of migration to the primary cities. As municipalities exercise their increased ability to carry out development activities broad-based participation will be promoted. The project will assist the urban poor in expressing their concerns by providing mechanisms to increase access to and communication with municipal officials and decision makers. The entire focus of the project is to strengthen local government as a democratic institutions, and will focus on major constraints which impede municipal performance. The basic rationale is that municipalities are the form of government closest to the people and as such have a responsibility to respond to constituent needs. In order to carry out this mandate, municipalities must be able to identify, plan and respond to local priorities, and the Municipal Development Project will assist municipalities in doing so. Project activities will include community participation courses, and will work with organized groups which may include women's groups. Data collected on project activities and outputs will include gender disaggregated information on participants to help measure the project's impact on women. Because the project works primarily at the municipal level in Honduras, it will not directly encourage regional cooperation by developing countries.

e. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (1) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in

Yes. 50% of Project funding will come from the FN Account, while the remainder will come from the PSEE Account. At least 50% of the population reached through the MDP will be in rural areas.

the benefits of development on a sustained basis, using appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions: (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries.

f.	FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1990 Appropriations Act. Title II, under heading "Sub-Saharan Africa, SA. Does the project fit the criteria for the source of funds (functional account) being used?	Project does not take place in an Sub-Saharan Africa country.
g.	FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA". Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U.S. Government?	See b. above

h.	FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	The total cost of the project is U.S. $25 million, of which the GOH will contribute the equivalent of $15.0 million in financial resources. This represents 60% of total project costs.
i.	FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the cost of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?	Yes. The project envisions the training and technical assistance interventions as means to achieve the end of providing better service to the poor majority.
j.	FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?	See c. above
k.	FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.	No

1.	FY 1989 Appropriations Act. Sec. 535. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?	No
	Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?	No
	Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?	Funds are not made available for family planning
	Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?	No
	In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?	No
	Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of abortions or involuntary sterilization as a means of family planning?	Yes

m. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

n. FY 1990 Appropriations Act Sec. 579. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans and private and voluntary organizations which are controlled by individuals who are Black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

No portion will be available for HBCU's

o. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the

Yes. Tropical forests are not considered in the project
1) yes
2) yes
3) yes
4) yes
5) yes
6) yes
7) yes
8) yes
9) yes
10) yes
11) yes

establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need for protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (11) utilize the resources and abilities of all relevant U.S. government agencies?

p.	FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (1) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (2) take full account of the environmental impacts of the proposed activities on biological diversity?	The assistance will not significantly affect tropical forests.
q.	FAA Sec. 118(c)(14). Will assistance be used for (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?	1) no 2) no
r.	FAA Sec. 118(c) (15). Will assistance be used for (1) activities which would result in the conversion of forest lands to the rearing of livestock; (2) the construction, upgrading, or maintenance of roads (including temporary haul rods for logging or other extractive industries) which pass through relatively	1) no 2) no 3) no 4) no

undegraded forest lands; (3) the colonization of forest lands; or (4) the construction of dams of other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development.

s. FY 1990 Appropriations Act Sec. 534(a). If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

Assistance does not relate to tropical forests.

t. FY 1990 Appropriations Act Sec. 534(b). If assistance relates to energy, will such assistance focus on improved energy efficiency, increased use of renewable energy resources, and national energy plans (such as least-cost energy plans) which include investment in end-use efficiency and renewable energy resources?

Describe and give conclusions as to how such assistance will: (1) increase the energy expertise of A.I.D. staff, (2) help to develop analyses of energy-sector actions to minimize emissions of greenhouse gases at least cost, (3) develop energy-sector plans that employ end-use analysis and other techniques to identify cost-effective actions to

Assistance does not relate to energy.

minimize reliance on fossil fuels, (4) help to analyze fully environmental impacts (including impact on global warming), (5) improve efficiency in production, transmission, distribution, and use of energy, (6) assist in exploiting nonconventional renewable energy resources, including wind, solar, small-hydro, geo-thermal, and advanced biomass systems, (7) expand efforts to meet the energy needs of the rural poor, (8) encourage host countries to sponsor meetings with United States energy efficiency experts to discuss the use of least-cost planning techniques, (9) help to develop a cadre of United States experts capable of providing technical assistance to developing countries on energy issues, and (10) strengthen cooperation on energy issues with the Department of Energy, EPA, World Bank, and Development Assistance Committee of the OECD.

u. <u>FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA"</u> (as interpreted by conference report upon original enactment). If assistance will come from the Sub-Saharan Africa DA account, is it (1) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (2) being provided in accordance with the policies contained in section 102 of the FAA; (3) being provided, when

Assistance is not from the Sub-Saharan Africa DA account.

consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (4) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (5) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give

priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

v. International Development Act Sec. 711, FAA Sec. 463. If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (1) the world's oceans and atmosphere, (2) animal and plant species, and (3) parks and reserves; or describe how the exchange will promote: (4) natural resource management, (5) local conservation programs, (6) conservation training programs, (7) public commitment to conservation, (8) land and ecosystem management, and (9) regenerative approaches in farming, forestry, fishing, and watershed management.

Project will not finance a debt-for-nature exchange

w. FY 1990 Appropriations Act Sec. 515. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified?

No deob/reob authority is sought

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion of capacity of the country to repay the loan at the reasonable rate of interest.	N/A Project is financed with Grant funds
b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enerprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?	N/A
c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?	N/A

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?	N/A Project does not use ESF dollar funds
b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes?	N/A
c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	N/A

MUNICIPAL DEVELOPMENT PROGRAM - COST ESTIMATES

1. Skills Building

The services to manage and implement this component will be acquired through an institutional contract based on an RFP and bidding process. Cost estimates are based upon recent experience in Honduras where INCAE has developed curricula and implemented training activities of the general nature of those contemplated under the Municipal Development Program. From this experience, it is estimated that the combined dollar and lempira cost per participant day of training should be around $187. This is an all inclusive cost including research and development of training curriculum schedules, printed and graphic materials, costs of the training space and trainers and the costs of administering the course including publicity, registration of participants, participants lodging and subsistence, etc. Based on an average of 40 participants per course, the cost of each initial course per day is estimated at $7,500.

Repetitions of developed courses will be implemented at less cost From experience, our estimate is that the cost per training day in repeated courses should be around $4,000.

Five of the proposed seven training events will require substantial preparation of curriculum and training materials and are expected to incur the $7,500 per day cost for the initial event and $4,000 per day thereafter.

All of the Orientation and Panel Discussion events can be staged at the $4,000 per day figure.

The proposed administration of the training program will require two resident expatriate technicians; a Municipal training team leader for a period of 3 years and a training curriculum specialist for a period of 2 years. The efforts of these two specialists will be complemented by 2 Honduran professionals who will be hired for a period of 48 months each. The Honduran professionals will hone their management and training development skills under the direction of the training specialists. After the specialists leave country, the Honduran will be responsible for continuation of this component for another 12 months. Thereafter, the materials which have been developed will be made available to training institutions (public, private for profit or PVO's) to continue the provision of training services to the municipalities. The skills building component will have 24 person months of short-term TA available to supplement the team of resident consultants with very specialized technical support, if needed, and to provide occasional guidance and supervision to the Honduran professionals.

After the initial 3 year period no major curriculum or materials inputs are contemplated and it is thought that the contractor can conduct the remaining training events using local trainers with short-term administrative visits by the contractor in connection with the events. It is expected that the skills building component and the Tegucigalpa TA unit will share an office in Tegucigalpa. Direct office expenses are estimated to be $2500/month for the full 48 months of the life of this component. A project vehicle will also be required. Vehicle purchase price is estimated at $20,000 and annual maintenance at $2500.

Professional costs are estimated to be:

1 Resident Team Leader for 36 months @ $10,000 =	360,000
1 Resident Curriculum Specialist @ $10,000 = for 24 months	240,000
2 Honduran Training Specialist @ $3,000= for 48 months	288,000
Total Professional	888,000

2. Local and National Level Technical Assistance (TA)

These services will be provided by one institutional contractor (ICMA buy-in). A team leader/national TA coordinator and 2 Honduran professionals, with appropriate administrative support, will be posted in Tegucigalpa. Two expatriate technicians will be posted for 36 months in San Pedro Sula to manage the municipal level intensive Technical Assistance Activities. Their efforts will be complemented during the first 36 months by 2 Honduran professionals. These local professionals will continue to manage the component for another 36 months, with occasional guidance and support through short-term TA. The contract will provide for 84 months of short term TA (48 months expatriate & 36 months local) to support National and Local level activities. The contractor will provide its own office space in Tegucigalpa and San Pedro Sula as well as all local personnel, supplies, equipment, transportation and communications required to support operations in Honduras. Office expense is estimated at $5,500/month with Hondurans and expatriate staff and will decrease to $3500/month after the first 3 years, and vehicles are projected to cost $20,000 each with annual maintenance costs of $2500. Two vehicles will be required in San Pedro Sula and one in Tegucigalpa.

$198,000 per year is the planning figure used for individual expatriate personnel. This would include all support costs such as housing, office furniture, education allowance, household and car shipping, etc. Honduran professionals are estimated to cost $36,000 per year.

The planning figure for short term TA is $15,000 per month for expatriates and $3,000 per month for Honduran professionals.

Annual planning figures for clerical personnel are $7,800 in Tegucigalpa and $7,200 in San Pedro Sula. Corresponding, estimates for service personnel are $4,800 in Tegucigalpa and $4,200 in San Pedro Sula. A high level Honduran program assist is projected at $18,000 per year. A summary of projected costs is:

Local and National Technical Assistance Cost Summary (in $000's)

Permanent Personnel		2,646,400
Short Term TA		864,000
Office + Support Personnel		644,400
Vehicle Expenses		105,000
	$	4,529,400

3. USAID Management

USAID Management of the Project will be handle by a USDH in the RHUDO office with a senior USPSC assigned to the Tegucigalpa project office for the duration of the project and mid level USPSC assigned to the San Pedro Sula office for an initial 36 months of the project. The USPSC in Tegucigalpa will be assisted by a competent Honduran Program Assistant.

4. Information and Evaluation

Because of the innovative nature of project and the need to respond to changes in the environment, $500,000 has been allocated for evaluations and special studies. Three evaluations are planned, 24, 48 and 72 months after project initiation. The first two evaluations will cost about $75,000 each and the last one $100,000. The remaining $250,000 will be used during a 6 year period to do special studies related to measuring the success and effectiveness of the component activities with a view to assisting project management fine tune the detailed implementation strategy.

5. Environmental Activities

A local engineer or environmental scientist will be required to revie the subproject proposed for the Municipal Development Support Fund. It is anticipated that this person will be contracted for half time (50 percent work year) from the third to the fifth years of the project. During years six and seven approximately one third of a wo year will be required. The monthly planning figure in $3000.

6. Participant Training

Participant training figures are based on an average cost of $6,000 per participant training month. This figure is equivalent to that experienced under other training programs and is the level suggested by the Office for International Training. The Project will provide approximately 53 person months of Participant Training.

MUNICIPAL DEVELOPMENT PROGRAM (MDP) - LEVELS OF EFFORT
(Costs in $)

Management Component	Level of Effort	Rate Per Unit	Cost	Totals
MDP MANAGEMENT (TGU)				
In USAID/Honduras				
1 USDH	--			
2 Clerical	72PM	650	93,600	
				93,600
In Tegucigalpa Office				
1 US PSC	72PM	16,500	1,188,000	
1 Program Assistant	72PM	1,500	108,000	
1 Clerical	72PM	650	46,800	
				1,342,800
In San Pedro Sula Office				
1 USPSC	36PM	12,500	450,000	
1 Clerical	36PM	600	21,600	
1 Service	36PM	350	12,600	
				484,200
Administrative and Office Expense			151,000	
				151,000
	SUB-TOTAL MANAGEMENT			2,071,600
Evaluation + Special Studies			500,000	
				500,000
SKILLS BUILDING				
In Tegucigalpa Office				
1 Res.Team Leader	36PM	10,000	360,000	
1 Res. Curriculum Adv.	24PM	10,000	240,000	
2 Hond. Professional	48PM	3,000	288,000	
Training Events	35 Days	7,500	262,500	
Training Events	236 Days	4,000	944,000	
Office Expenses	48 Months	2,500	120,000	

Vehicle (1)			35,000	
				2,247,500
PARTICIPANT TRAINING			317,500	
				317,500
SHORT TERM TA	24 Months	10,000	240,000	
				240,000
DEVELOPMENT GRANTS			200,000	
				200,000
NATIONAL AND MUNICIPAL TA UNITS				
In Tegucigalpa Office				
1 Res. Team Leader	36PM	16,500	594,000	
2 Hond. Professionals	72PM	3,000	432,000	
1 Program Assist.	72PM	1,500	108,000	
1 Clerical	72PM	650	46,800	
1 Service	72PM	400	28,800	
				1,209,600
In San Pedro Sula Office				
2 Res.Expatriate Prof.	36PM	16,500	1,188,000	
2 Hond. Professionals	72PM	3,000	432,000	
2 Clerical	72PM	600	86,400	
2 Service	72PM	350	50,400	
				1.756,800
OFFICE EXPENSES	36 Months	5,500	198,000	
	36 Months	3,500	126,000	
				324,000
VEHICLE EXPENSES (2 IN SPS, 1 IN TGU)	72		105,000	
				105,000
SHORT TERM TA	48PM	15,000	720,000	
	36PM	3,000	108,000	
				828,000
PARTICIPANT TRAINING			317,500	
				317,500
ENVIRONMENTAL				
Technical Assistance	26PM	3,000	78,000	
Seminars	17	2,000	34,000	
				112,000

AUDIT		50,000	
TOTAL			10,000,000
MUNICIPAL DEVELOPMENT FUND	LC EQUIVALENT	15,000,000	

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FROM: Melissa Stephens, DF
William H. Waeger, RHUDO

THROUGH: Lars Klassen, DF
Mario Pita, RHUDO

DATE: June 19, 1990

SUBJECT: Structure of the Municipal Development Support Fund in the Municipal Development Project (522-0340)

ACTION REQUESTED: That you approve a directed line of credit for the Municipal Development Support Fund of the Municipal Development Project (522-0340)

BACKGROUND: The Municipal Development Project Paper proposes an integrated program of assistance to municipalities and national level agencies in order to enhance the participation of the Honduran populace in the local democratic process and improve the operational capacity of municipalities to respond to the land, infrastructure and public service needs of their constituents. The program will address major constraints in municipal management and finance; urban land, infrastructure and service provision; and in municipal support systems and democratic processes. The strategy envisioned will use technical assistance and training to improve skills, increase knowledge and awareness of community needs and to change municipal practices so that citizen input is solicited and acted upon, and a Municipal Development Support Fund will be established to ensure that municipalities have access to funds to undertake investment priorities which have been determined by the community. At the present time lending by commercial banks for municipal investment is nearly nonexistent, and limits the ability of municipalities to respond to citizen needs.

The Municipal Development Support Fund (MDSF) will be a directed line of credit totalling the local currency equivalent of $15.0 million. The purpose of the Municipal Development Support Fund is to ensure that resources are available to carry out demonstration projects in fourteen economically significant municipalities which will participate in the project. Loans would be made to municipalities at market terms for specific projects based on financial analyses carried out by private banks. A primary objective of the Fund is to leverage additional resources from the private sector; consequently MDSF resources would be available for only a portion of the total cost of each proposed activity. The Fund would be managed by the Central Bank in much the same way it handles existing lines of credit, and funds would be made available to banks at the Central Bank rediscount rate. The Fund will be an essential element of the project design and is critical to achievement of the project purpose and end of project stratus indicators.

The intent of the subject project notwithstanding, Agency policy and experience as well as other donor policies indicate that over reliance on directed credit may distort market forces and result in misallocations of scarce investment resources. In addition, the Government of Honduras reached

an agreement with the World Bank under the Structural Adjustment Loan II to limit subsidized lines of credit to the amount existing at December 31, 1990 and to develop a plan for the eventual phasing out of all directed lines of credit. These two factors present the potential for conflict with the proposed MDSF which needs to be resolved by you as we move to authorize the subject project.

DISCUSSION:

AID Policy

Agency policy promotes "a system of financial markets that is integrated and relatively undistorted", and AID supports host country efforts to carry out policies and reforms to improve financial markets. Distortions commonly found in markets are subsidized credit, ceilings on interest rates, legal and regulatory frameworks and over reliance on directed credit. The MDSF issue deals specifically with directed lines of credit.

AID's Financial Markets Policy Paper "discourages excessive reliance on directed credit." In support of this policy, the paper and the report of a recent World Bank Task Force on Financial Operations point to the comparative efficiency of market based financial institutions. At the same time, it is recognized that a number of factors limit the feasibility of a purely market based approach. These factors include economic and social objectives, the relatively underdeveloped state of institutions, and inappropriate policies.

The benefits of efficient financial markets are evident in that resources are channeled to activities that provide the highest rates of return, and thus help to stimulate economic growth. In addition an efficient financial market will encourage more widespread ownership of assets and help to spread the benefits of growth. For this type of allocation and efficiency to exist, the macroeconomic conditions for growth must be in place, government intervention should be structured to encourage competitive forces, and the market should be sufficiently deep to provide savers and borrowers real alternatives for their investment and financial needs.

Adherence to Policy

The MDSF is consonant with AID's Financial Markets Development policy in all areas with the exception of directed credit. The major thrust of the AID policy is that financial markets should not be distorted and that market forces should be allowed to determine the allocation and returns on financial resources. For example, Agency and other donor policies encourage market rates to the end borrower and call for interest rates to the financial institution which should be "at least equal to the cost of local, nonconcessional sources of capital". MDSF loans will be made to municipalities at market rates, and resources for lenders will also be on market terms. However, the policy paper also states that Missions should consider projects with targeted credit

> "as a way of encouraging host governments to correct policy and other constraints where they exist and helping private financial institutions develop some expertise and experience with delivering financial

resources to intended target groups (possibly with the concomitant provision of training and technical assistance.)"

This rationale for directed credit is applicable to the Municipal Development Support Fund; the Fund will temporarily overcome the constraint of inadequate access to investment resources for municipalities, and it will provide Honduran financial institutions with the experience they need in developing loan packages for municipalities. This constraint is based on a lack of liquidity in the banking system, and more importantly on bankers' inexperience in dealing with municipalities and the perception that municipalities are poor risks. Technical assistance and training activities under the project will increase municipal capacities to manage their financial positions, and will help municipalities identify means to increase their revenues. Both of these efforts will improve the creditworthiness of municipalities, and the Fund will provide a temporary bridge to let municipalities and private banks develop the experience and relationships necessary to continue lending activities upon completion of the project.

AID policy also states that

> "guaranties may be appropriate when the general policy and institutional environment is supportive and lenders retain their traditional inhibitions in developmentally important areas... Guaranty programs should facilitate breakthroughs in new lending patterns and are not meant to substitute for unaddressed structural inadequacies in financial markets; the case for their introductions must be well-justified and the size and duration of such programs should be limited."

As described above, the Fund seeks to overcome lender practices which severely limit municipal investment resources. In accordance with policy objectives, the MDSF will be limited to the local currency equivalent of $15.0 million. A demand analysis of the twelve intermediate cities (excluding Tegucigalpa and San Pedro Sula) which will participate in the project reveals that their needs in the areas of water, sewage, urban road construction and maintenance and garbage collection total $194.4 million. This analysis makes it clear that the MDSF is not intended to fill a resource gap, but rather to act as a catalyst to leverage private sector resources and demonstrate to both lenders and citizens that municipalities can analyze, respond to and execute investment activities which relate to citizen priorities. In addition, the Fund will not be a permanent resource for municipalities or lenders. Resources will be available from the MDSF on a one time basis. When initial loans to municipalities have been successfully paid, the reflows to the MDSF will not be available for future municipal lending. These reflows will go the Central Bank and will be demonetized.

MDSF will also be in line with a 1989 World Bank Report of the Task Force on Financial Sector Operations which recognizes that "there may be reasons for retaining some directed credit lines through the transition period or even indefinitely. As financial reform proceeds, however, such lines should be subjected to repeated questioning and phased out when they no longer meet the required burden of proof of their justification."

This "burden of proof of their justification" is also an important aspect of the MDSF. The proposed Fund is not anticipated to become operational until Year 3 of the project. In order to ensure that the current rationale is still

valid at that time, the Project Agreement will contain a Condition Precedent which will require a separate review of the need for the Fund prior to initiating its use. This review will analyze macroeconomic policy, progress toward financial sector reforms, and private bank willingness to lend to municipalities. A significant improvement in financial sector operations and liquidity would mean that the Fund would not be activated. If initiated, the Fund would be subject to annual reviews of its appropriateness and consistency with policy which would help alleviate potential distortions.

In conclusion, the proposed MDSF helps the Mission achieve important objectives with regard to strengthening democracy and local government. Its temporary nature limits the potential for distortion of the financial market, but provides a mechanism for a demonstration of increased municipal capability and creditworthiness. The review of financial markets prior to initiation of the Fund will ensure that the need is fully justified at that time.

RECOMMENDATION: That you approve an exception to policy and authorize a directed line of credit for the Municipal Development Support Fund of the Municipal Development Project. The use of the Fund will be conditioned on a separate analysis prior to its initiation, and annual reviews will ensure its consistency with overall macroeconomic conditions and policy objectives.

John Sanbrailo
Approved

Disapproved

6/19/90
Date

317