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

HONDURAS

PROJECT PAPER

MUNICIPAL DEVELOPMENT
AMENDMENT NUMBER 2

AID/LAC/P-940
CR-571

PROJECT NUMBER: 522-0340

UNCLASSIFIED

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Agency for International Development PROJECT DATA SHEET Amendment No. 1				1. Transaction Code [C] A = Add C = Change D = Delete		Document Code 3																	
2. Country/Entity <p style="text-align: center;">HONDURAS</p>				3. Project Number <p style="text-align: center;">522-0340</p>																			
4. Bureau/Office <p style="text-align: center;">LAC</p>		II		5. Project Title <p style="text-align: center;">MUNICIPAL DEVELOPMENT</p>																			
6. Project Assistance Completion Date (PACD) <table style="width:100%; border: none;"> <tr> <td style="text-align: center;">MM</td> <td style="text-align: center;">DD</td> <td style="text-align: center;">YY</td> <td colspan="5"></td> </tr> <tr> <td style="text-align: center;">06</td> <td style="text-align: center;">30</td> <td style="text-align: center;">99</td> <td colspan="5"></td> </tr> </table>				MM	DD	YY						06	30	99						7. Estimated Date of Obligation <small>(Under "B" below, enter 1,2,3, or 4)</small> A. Initial FY 9 0 B. Quarter 2 C. Final FY 9 8			
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8. Costs \$000 or Equivalent \$ 1 =																							
A. Funding Source			First FY 90			Life of Project																	
			B. FX	C. I/C	D. Total	E. FX	F. I/C	G. TOTAL															
AID Appropriated Total			872	128	1,000																		
(Grant)						12,000	12,000																
(Loan)																							
Other			1.																				
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Host Country				5,000	5,000		13,139																
Other Donor(s)			872	5,128	6,000																		
TOTALS						12,000	13,139																
9. Schedule of AID Funding (\$000)																							
A. Appropriation	B. Primary Purpose	C. Primary Tech. Code		D. Obligations to Date		E. Amount Approved This Action		F. Life of Project															
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan														
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10. Secondary Technical Codes <small>(maximum 6 codes of 3 positions each)</small>								11. Secondary Purpose Code															
12. Special Concerns Codes <small>(maximum 7 codes of 4 positions each)</small>																							
A. Code																							
B. Amount																							
13. Project Purpose <small>(maximum 400 characters)</small> <p>The purpose of this project is to encourage more responsive and effective municipal government.</p>																							
14. Scheduled Evaluations <table style="width:100%; border: none;"> <tr> <td style="text-align: center;">MM</td> <td style="text-align: center;">YY</td> <td style="text-align: center;">MM</td> <td style="text-align: center;">YY</td> <td colspan="2"></td> </tr> <tr> <td style="text-align: center;">Interim</td> <td style="text-align: center;"> 0 9 </td> <td style="text-align: center;"> 9 4 </td> <td style="text-align: center;">Final</td> <td style="text-align: center;"> 0 2 </td> <td style="text-align: center;"> 9 9 </td> </tr> </table>						MM	YY	MM	YY			Interim	0 9	9 4	Final	0 2	9 9	15. Source/Origin of Goods and Services <input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input type="checkbox"/> Local <input type="checkbox"/> Other <small>(specify)</small>					
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16. Amendments/Nature of Change Proposed <small>(This is page 1 of a __ page PP Amendment)</small> Increase authorized USAID grant contribution by \$2,000,000 to a new LOP planned contribution of \$12,000,000 and extend the PACD by two years to June 30, 1999, for a total revised LOP of nine years.																							
Approved by	Signature <i>Elena Brineman</i>			DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION																			
	Title: Elena Brineman Mission Director USAID/Honduras		Date Signed: <p style="text-align: center;">9/15/95</p>																				

HONDURAS

PROJECT PAPER SUPPLEMENT NO. 2

MUNICIPAL DEVELOPMENT PROJECT
(522-0340)

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PROJECT DATA SHEET AMENDMENT

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PROJECT PAPER SUPPLEMENT NO. 2
MUNICIPAL DEVELOPMENT PROJECT

I. BACKGROUND AND PROJECT ACCOMPLISHMENTS TO DATE

A. Background

The Municipal Development Project (MDP, 522-0340) was authorized and the Project Grant Agreement signed on June 29, 1990. The original expression of the *goal* of the project was *to strengthen democracy in Honduras*. The *original purpose* of the project was *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 MDP is one of three projects that directly support Mission Strategic Objective (S.O.) No. 4, "More Responsive Democratic Processes, with Greater Citizen Participation." The project also directly supports Program Outcome No. 4.2, "More Responsive and Effective Municipal Governments" by increasing citizen participation in decisions related to the allocation of land and public service facilities by municipal governments, and improving the effectiveness of municipal government in responding to citizens' needs for urban planning, public services and infrastructure. The S.O., Program Outcome and respective indicators are shown below:

S.O.: More Responsive Democratic Processes with Greater Citizen Participation.

Performance Indicator: Increased Community Attendance in Town Meetings in Participating Municipalities.

Program Outcome: More Responsive and Effective Municipal Government.

Program Indicators:¹ Increased Proportion of Municipal Budgets Going to Capital Projects.

Increased Coverage/Provision of Public Services (Water, Sewerage, Refuse Collection) by Municipalities.

The original estimated cost of this project was \$25,000,000, with an authorized USAID contribution of \$10,000,000 in grant funds and a Government of Honduras (GOH) local currency contribution equivalent to \$15,000,000. This estimated cost was adjusted by Project Paper Supplement (PP Supplement) No. 1 of December 21, 1994 and the ensuing Project Grant Agreement Amendment No. 5 of December 23, 1994, which decreased the planned GOH contribution to \$13,139,046, and thus the overall estimated cost of the project to \$23,139,046. The project is implemented through a Handbook 3 bilateral Project Grant Agreement with the

¹ The Program Indicator for "Increased Number of Persons Attending Training Events" was eliminated from the Strategic Objective Framework during the Fiscal Year 1996-1997 Action Plan exercise.

GOH and three subsidiary Handbook 13 Cooperative Agreements with Honduran universities and non-governmental organizations (NGOs), subsumed in that Project Grant Agreement. The present Project Assistance Completion Date (PACD) is June 30, 1997.

B. Project Accomplishments To Date

The project was designed to resolve a number of constraints 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. The identified constraints included:

- * weak managerial, administrative, finance and urban planning capabilities;
- * deficient land use and productivity, inadequate or incomplete land classification systems and non-market related land values;
- * weak municipal capacity to provide basic infrastructure and other public services to their constituents;
- * weak municipal fiscal revenue bases; and
- * a lack of municipal support systems.

To address these key problem areas, the project works at both the national and municipal levels. At the national level, the project promotes measures to encourage fiscal responsibility of and increased revenue for municipalities, and decentralization of authority to municipalities to provide basic public services to their constituents. At the municipal level, the project provides technical assistance and related training to municipalities in such areas as administration and finance; accounting; urban planning; cadastre data gathering and systems; infrastructure project management and engineering services; expansion of the local tax base; improved taxpayer registration; and tax collection. Technical assistance and training is also provided to municipal and community leaders in community participation in local governance, with the aim of forging productive links between the community and local government and improving accountability for municipal actions and resources.

1. National Level Component

To promote the decentralization of authority to municipalities to provide basic public services to municipal constituents, to encourage fiscal responsibility of municipalities, and to increase the revenues of municipalities, the project has provided assistance at the national level to the Honduran Municipal Association (AMHON), formed in 1962 as the national representative of member municipalities. In 1993 a three-year Cooperative Agreement was signed with AMHON to strengthen its organization, increase its ability to represent the interests of member municipalities, and make it an increasingly effective lobby at the national level for municipal

sector interests. To date, AMHON has achieved the following results with project assistance:

- * Assisted municipalities in carrying out legal actions (1) defending the right of municipalities to tax certain non-traditional products; (2) challenging the law that provides for a special tax exemption for cooperatives; and (3) defending the right of municipalities to levy taxes on Honduran owners of land and buildings in "free trade zones" located within municipal borders. These legal actions by the municipalities, if successful, will have a positive impact on municipal authority over local level issues and investments, the municipalities' fiscal base, and their capability to provide basic public services to their communities.
- * Published and distributed a wide range of information on municipal topics, including information on municipal legislation, and on the results of studies on the technical and financial implications of proposed amendments to the Municipal Law.
- * Negotiated for the establishment of a mechanism for the automatic transfer of central government budgetary resources to the municipalities. To date, this automatic mechanism has been approved by all the cognizant GOH offices. This initiative, however, still lacks the required formal authorization by the President of Honduras.²
- * Developed and received approval by member municipalities of an automatic membership fee deduction from central government transfers. Since the Ministry of Finance and Public Credit (MFPC) has yet to implement this automatic deduction mechanism, receipt of membership dues by AMHON continues to be sporadic.
- * Conducted campaigns to improve the image of municipal authorities and governments.
- * Carried out a multi-media campaign to educate the public on the separate ballot for mayoral candidates during the 1993 national elections.
- * Became recognized as the primary municipal sector advocate at all levels of government.

2. Municipal Level Component

The original project design anticipated extending project activities to all 289 municipalities then in existence, albeit with varying levels of involvement. Of these, the vast majority of municipalities were to participate in project-financed training activities, including seminars and panel discussions on municipal legislation, financial management and municipal planning, and

² The Municipal Law of Honduras mandates that the central government distribute annually 5% of current revenues to all Honduran municipalities, with 20% of that amount allocated equally to all municipalities, and 80% allocated to municipalities based on population. Automatic transfer would insure that the correct amount is actually distributed to the municipalities, and that it is received on time. These amounts are significant: the transfers constitute 95% of the annual budgets for small municipalities, and are vital to their financial health.

training courses on community participation. Fourteen municipalities, however, were targeted as the primary beneficiaries of project technical assistance activities, based on their strategic economic development potential for both industry and agriculture, population and urban growth rates, and municipal revenue and investment levels: Calami, Puerto Cortés, La Lima, Villanueva, El Progreso, La Ceiba, Tocoa, Juticalpa, Catacamas, Siguatepeque, Comayagua, and Choluteca, with limited assistance envisioned for Tegucigalpa and San Pedro Sula. As project implementation has evolved, the municipalities of Tela, Santa Barbara, Santa Rosa de Copán, Nacaome, San Lorenzo, Danlí, El Paraíso, and Gracias also qualified for participation in the project, for a total of twenty-two municipalities targeted to date as primary beneficiaries of project technical assistance activities. Many of the participating municipalities have women in managerial positions in their governments, and four have mayors who are women: Choluteca, Juticalpa, El Paraíso and La Ceiba.

a. Technical Assistance

The project has provided technical assistance to municipalities through the Foundation for Municipal Development (FUNDEMUN), an organization created to provide technical assistance and related training to municipalities. Project assistance through FUNDEMUN has been provided under the auspices of a three-year, grant-funded Cooperative Agreement, signed on May 28, 1993.

FUNDEMUN was established as a result of the departure in 1993 of the technical assistance team from the International City Management Association (ICMA), an institutional contractor brought in by the project to provide technology transfer, technical assistance and training to municipalities. After the departure of ICMA, the ICMA Honduran staff founded, and became the core professional staff of, FUNDEMUN. Since then, FUNDEMUN has provided technical assistance and training to MDP-participating municipalities in the areas of municipal finance, cadastre, municipal administration and training, and engineering services for basic infrastructure works, such as sewerage and potable water systems. FUNDEMUN also provides technical assistance to municipalities in the areas of tax policy and collection. In addition, FUNDEMUN has provided technical assistance to community leaders and municipal authorities in the organization and implementation of "*cabildos abiertos*" (town meetings). *Cabildos abiertos* are meetings between members of the community and municipal authorities, where important community issues are discussed and resolved. Agreements between the communities and the local authorities are signed on the issues resolved through these meetings. *Cabildos abiertos* are mandated by the Municipal Law, which requires that each municipality organize at least five *cabildos abiertos* every year.

Since 1993, FUNDEMUN has achieved the following:

- * Contributed to a significant increase in the level of resources that participating municipalities devote to infrastructure improvement and the provision of public services. The proportion of municipal budgets in participating municipalities that is devoted to capital projects has risen from the 1991 baseline of 14.5% to 32.4% (52% of the Life of

Project, or "LOP" target of 60%).³ It should be noted that the CY 1995 investment plans and budgets in 16 municipalities were prepared after consultations with the communities, and that these respond to community priorities. In addition, the percent increase in inhabitants of participating municipalities receiving refuse collection, water, and sewerage services has increased from the 1991 baseline of 17% to 28.8% (96% of the LOP target of a 30% increase in coverage).⁴

- * Provided technical assistance and related training in municipal administration and finance, and cadastre programs to over 800 municipal employees, of which approximately 30% were women.
- * Provided technical assistance to community leaders and municipal authorities in the promotion of community participation in local government and the organization and implementation of *cabildos abiertos* in four municipalities, to promote the discussion and resolution of important community issues. Average attendance by the community per town meeting in participating municipalities has risen from a 1990 baseline of zero to 164 persons to date (72% of the LOP target of an average attendance of 200 persons, per town meeting)⁵, with nearly equal attendance by women and men.
- * Bolstered its own financial base, and ultimate potential for self-sufficiency, by securing payment from participating municipalities for the technical assistance and training provided by FUNDEMUN⁶. In addition, FUNDEMUN has been able to generate paid contracts from other sources such as *The World Bank*, *The Interamerican Development Bank (IDB)*, and other donor organizations. FUNDEMUN's objective is to become a viable private consulting operation which has the expertise to provide technical assistance to municipalities.

b. Skills Building Training

The original project design provided for support of "skills building" training for municipal leaders and administrative and technical personnel in such areas as municipal administration and finance, accounting, urban planning, municipal legislation, community development, and environmental issues, as a complement to technical assistance provided by the project to the municipalities in these areas. An external institutional contractor was to carry out 55 training

³ This variable is also an indicator of progress at the Program Outcome level in USAID's Action Plan framework.

⁴ Ibid.

⁵ This variable is an indicator of progress at the Strategic Objective level in USAID's Action Plan framework.

⁶ Currently, the MDP contracts FUNDEMUN to provide technical assistance and training services to participating municipalities over the coming year, agreeing in principle to commit to pay a portion of the estimated fees. At the same time, FUNDEMUN approaches the municipalities which will receive the services, to pay the remaining amount of the estimated fees as they pertain to their specific activities. This portion is set by USAID and varies according to the number of years the municipality has participated in the MDP, and to the level of operation the municipality has achieved.

courses involving 2,040 participants, and develop curricular materials in municipal development planning; financial management, planning and budgeting; and project preparation and management. Since the cost of this assistance proved to be far higher than originally estimated, however, the idea of using international consultants for training was abandoned and an alternative approach sought.

In 1993, a new training strategy with four principal characteristics was developed. These characteristics are:

- * Training is to be market-driven; i.e., based on the demand by municipalities for technical and administrative training. To this end, formal training programs are offered by NGOs and other private sector providers of these services to municipal employees, community leaders, and other interested candidates. Since training of municipal employees has not been a common practice in Honduras, however, the project is stimulating demand for these services by financing, with funds from the GOH local currency counterpart contribution to the project, pilot programs through two local universities.
- * Training is to complement technical assistance provided to the municipalities.
- * Participant training in the U.S., through the CAPS and HOPS scholarship programs, is to be used to supplement local training programs.
- * Special training events, such as seminars, round table meetings, fora, etc., are to be employed to provide short term training to municipal employees, GOH officials from the Ministry of Government, and community leaders.

Beginning in April 1993, skills building training was conducted under two pilot programs and financed with GOH local currency counterpart funds through an agreement between the Honduran Ministry of Government and Justice and two local universities. The first, at the University of San Pedro Sula (USPS), provided 2 short courses for 160 municipal employees (32% women and 68% men) from 30 municipalities in the northern and northwestern sections of Honduras in municipal finance, administration, urban planning, environmental issues, and community development. The USPS also carried out four seminars addressing the issues of municipal autonomy, fiscal bases of municipalities, and the encouragement of popular participation in local government. In addition, the USPS initiated the first formal training course in municipal development, a two-year specialization at the Bachiller, or high school level. By 1995, approximately 38 students are expected to graduate from this program.

The second major training activity, which also began in 1993, was with the Central American Technological University (UNITEC). UNITEC has offered short courses at 9 different sites covering the southern part of Honduras in community development, municipal administration and finance, urban planning, municipal legislation and popular participation. To date, more than 240 persons (approximately 35% women and 65% men) from 44 municipalities have attended these courses. In addition, UNITEC conducted four seminars examining research

results on the decentralization of public services and the creation of a participatory culture. Over 300 municipal and community leaders (35% women and 65% men) attended these seminars, with participating municipalities sponsoring the attendance of municipal personnel through the provision of transportation and per diem expenses. While the municipal governments select the participants that they will send to these training sessions, USAID, UNITEC, and FUNDEMUN encourage the municipalities to offer the opportunity equally to female as well as male employees.

In addition to the above, the project has also financed the following training activities: (1) participant training through the Honduras Peace Scholarships II (HOPS II) project; (2) three national conferences of mayors; and, (3) training related to the technical assistance provided by ICMA and FUNDEMUN. All told, 3,643 persons (approximately 35% women and 65% men) have been trained under the project to date, representing 178% of the original LOP target of 2,040 persons trained (of which 20% or 408 were to be women and 80% or 1,632 were to be men).

3. Basic Infrastructure Investments

The original Project Paper (PP) and Project Grant Agreement included a \$15,000,000 local currency equivalent LOP GOH counterpart contribution to finance a Municipal Development Support Fund (MDSF). The MDSF was intended to be used as a directed credit line to rediscount private bank loans to municipalities for basic infrastructure investments. Soon after the Project Grant Agreement was signed, however, USAID/Honduras decided to support the GOH in eliminating all directed lines of credit. As a result, no basic infrastructure activities were carried out under this component. Beginning in CY 1995, however, the project began to use local currency from the GOH's counterpart contribution to finance similar basic infrastructure activities through a Memorandum of Understanding (MOU) with the Honduran Social Investment Fund (FHIS), signed on December 23, 1994. The rationale for the use of this mechanism and its expected results are set forth in detail in PP Supplement No. 1 of December 21, 1994.

The FHIS MOU specifies that efforts to increase community participation in the planning, implementation and maintenance of these projects will focus on promoting the integration of women in these activities. This is carried out by agreements between FHIS and the municipalities which insure that women in the community are encouraged to participate in all stages of the projects.

4. Other Assistance

In addition to the technical assistance and skills building training cited above, the project has achieved the following results, financed from the GOH counterpart contribution:

- * Strengthened national institutions that support the municipal sector, including strengthening of the Directorate of Technical Assistance (DGAATM) of the Ministry of Government and Justice, and the initiation of studies for the

devolution of municipal water services to six municipalities by the National Water and Sewerage Service (SANAA).

- * Strengthened the local fiscal base of participating municipalities by supporting the development and improvement of municipal urban and rural cadastres, and the demarcation of urban boundaries and municipal limits. To date, private sector firms have carried out 14 cadastre and related activities under the project.
- * Briefed municipal officials and others on municipal reform and decentralization efforts and other policy changes through seminars, panel discussions, national conferences and orientation courses to discuss general matters of interest to local governments. To date, the project has sponsored one seminar for 450 Governors, mayors, municipal officials and GOH officials from the Ministry of Government (nearly 30% of the participants were women).

It should be noted that the original project design envisioned the provision of development grants to municipalities, financed with project grant funds, for basic infrastructure works, and decentralization and municipal cadastre activities. Due to the availability of GOH local currency financing for these activities, however, grant funds were never used for this purpose.

II. RATIONALE FOR PROJECT AMENDMENT AND ANTICIPATED RESULTS

Under this PP Supplement, the authorized USAID contribution to the project will be increased by \$2,000,000 in grant funds, for a revised LOP total planned USAID contribution of \$12,000,000. The GOH contribution to the project will remain unchanged at \$13,139,046, as agreed by USAID and the GOH in Project Agreement Amendment No. 5, and the PACD extended two years to June 30, 1999, for a total LOP of nine years.

The articulation of the goal, purpose and End of Project Status (EOPS) of the project have been modified to reflect USAID's Action Plan framework. The revised versions are as follows:

- Project goal:** more responsive democratic processes with greater citizen participation.
- Project purpose:** more responsive and effective municipal government.
- EOPS:** average of 60% of municipal budgets for capital projects in participating municipalities, and
30% of urban inhabitants receiving all three services (water, sewerage and refuse collection) in participating municipalities.

While these modifications express more clearly what the project is to achieve and the hierarchy of sub-objectives whose attainment will contribute to this goal, this rearticulation does not result in any substantive change in project-funded activities themselves. This PP Supplement simply rearranges, and thus clarifies, the hierarchy of objectives. Accordingly, no Congressional Notification is required. In addition, the original Output Indicator of "Increased Number of Persons Attending Training Events" has been eliminated, as recommended by the Strategic Objective Committee. The revised Project Logical Framework is shown in Annex C; the links between expected inputs and outcomes are shown in an Objective Tree format in Annex D.

During its extended life and with the increase in LOP funds, the project will:

- * **Add the following eight (8) municipalities for a new total of thirty targeted as primary beneficiaries of project technical assistance activities: La Paz, La Esperanza/Intibucá, Roatán, Trujillo, Yoro, Olanchito, La Entrada and Talanga.**
- * **Continue funding special studies through AMHON concerning issues affecting municipalities in order to consolidate its capacity to act as an advocate for the municipal sector at the national level.**
- * **Provide technical assistance to participating municipalities to strengthen and consolidate the improvements achieved to date and to extend those improvements to new participating municipalities. While some municipalities have progressed to the point where they can be "graduated" from project assistance, others will require additional assistance and monitoring over a longer period before project-sponsored improvements become sustainable. This is especially true in those municipalities that have only recently begun working with the project. As for the eight municipalities newly introduced to MDP, USAID expects that they will require assistance through the extended PACD.**
- * **Fund technical assistance and training to municipalities in priority skills areas and in community participation in local governance.**
- * **Continue investments in basic infrastructure funded by the GOH's local currency contribution to the project.**

The increase in authorized LOP funding and PACD extension is expected to achieve the following major results:

National Level: Continued project assistance to AMHON is to result in:

- * the establishment and full implementation of an automatic mechanism for budgetary transfers to municipalities.⁷
- * the devolution of authority to at least eight (8) municipalities to provide and levy fees for basic public services.

Municipal Level:

- * 20 to 30 municipalities organizing and conducting at least five (5) town meetings per year, with an average attendance of 200 persons per town meeting (including 50% women and 50% men).⁸
- * an average of 60% of municipal budgets for capital projects in participating municipalities.⁹
- * 30% of urban inhabitants receiving all three services (water, sewerage and refuse collection) in participating municipalities.¹⁰
- * at least 25 municipalities will have developed master investment plans and related technical work.
- * 5,000 additional persons (including at least 30% women) trained in community participation, municipal accounting, finance, urban planning, and the provision of basic public services, for a total of 8,643 persons (of which at least 2,600 would be women) trained in these areas over the revised LOP.¹¹

⁷ A basic assumption of the redesigned project is that the determined efforts of AMHON and coalitions of interested parties mobilized by AMHON will ultimately be able to overcome the central government's initial reluctance to implement fully the already-established transfer mechanism. As the actual attainment of this result will depend on central government action, it is, strictly speaking, outside the project's direct span of managerial control.

⁸ Objectively Verifiable Indicator at the Goal level.

⁹ End of Project Status indicator.

¹⁰ Ibid.

¹¹ Although women are participating in community affairs in greater numbers, and although municipalities are becoming more open to the idea of women in managerial positions, nonetheless, women's participation is still restricted by social attitudes and perceptions in these small cities. As a result, the number of women employed in local government, and then selected by municipalities to participate in these training sessions continues to be lower than the number of men. USAID and its partners will continue to encourage change in this area, and work to insure that training opportunities are open equally to men and women.

- * municipal accounting and administrative systems installed and functioning in 20 to 30 municipalities.
- * investment plans developed with community participation and approved in 20 to 30 municipalities.

Basic Infrastructure Investments:

- * approximately 15 to 18 basic infrastructure subprojects will be carried out in 12 to 15 municipalities. These improvements will include water, sewerage and garbage collection infrastructure; their completion will assist municipalities in the provision of basic services to their citizens.

III. PLANNED ACTIVITIES OF THE AMENDED PROJECT

A. National Level Technical Assistance

During the extended LOP, the project will support the expansion of the role and influence of AMHON with key central government organizations by providing funding to AMHON for legal defense of elected municipal officials, and for special studies of issues affecting the municipalities to increase their effectiveness in securing policies, legislation and resources that support municipal governments.¹² AMHON will continue to assist specific municipalities in legal actions defending the rights and interests of those municipalities, as well as to provide advice and legal assistance to municipalities on legal decisions and issues that affect the municipal sector as a whole. It will also publish and disseminate information on the results of the judicial decisions in these cases. In addition, AMHON will continue to carry out information campaigns to improve the public image of municipal governments, mayors, and municipalities in general. AMHON will also continue to pressure for GOH approval and full implementation of the automatic transfer of central government budgetary resources to the municipalities and the automatic deduction from these transfers of AMHON membership fees. Approval and full implementation of these measures will improve AMHON's long-term financial sustainability.

Continued project assistance to AMHON is expected to lead to the establishment and full implementation of this automatic mechanism for budgetary transfers to municipalities; the devolution of increased authority to municipalities to levy taxes and fees for municipal public services; and the development of and submission to the Honduran Congress of an amendment to the Municipal Law including the following modifications: (1) a provision that only the constituents of a municipality may remove a mayor or city councilman or councilwoman from

¹² Starting in March of 1995, the MDP stopped providing funding for operating expenses of AMHON. The funding provided by MDP to AMHON now relates to specific services or studies provided. Studies completed by AMHON for the MDP include a technical assistance needs survey of municipal governments, a study of how municipalities invest money received from the central government, and an analysis of the impact of export incentive tax abatements on the municipal tax base.

office, and that those constituents have the exclusive right to appoint directly the replacement(s) for municipal officials so removed; and (2) a clarification of the role of municipalities vis-à-vis autonomous agencies of the central government (e.g. SANAA, and the Empresa Nacional de Energía Eléctrica – ENEE) in the provision of public services.

B. Municipal Level Technical Assistance

Via the existing Cooperative Agreement with FUNDEMUN, the project will finance the provision of approximately 900 person/months (180 person/months per year from CY 1995 to CY 1999) of technical assistance to municipalities in the development of master investment plans and related technical work, thereby enabling MDP municipalities to design and implement water and sewerage projects using their own resources, GOH local currency resources provided through the FHIS, as well as resources from both the bilateral GOH and Central American Bank of Economic Integration (CABEI) housing guarantee programs. In addition, beginning in CY 1995, FUNDEMUN will provide technical assistance in the organization and use of *cabildos abiertos* and in promoting increased community participation in local government. This will include assistance to improve the capacities of these municipalities to plan and implement subprojects and funding for the design of infrastructure subprojects as well as involving the communities in subproject maintenance. Community participation will focus on promoting the integration of women in all stages. FUNDEMUN will also continue to conduct short-term training courses, seminars, and workshops to complement the technical assistance provided.

C. Municipal Level Skills Building Training

1. UNITEC

During the extended life of the MDP, project resources will continue to assist UNITEC and possibly other universities and institutions in the provision of mid- to long-term specialized skills building training to municipal staff and community leaders, and in strengthening the capability of these institutions to continue to provide training in these areas in a sustainable manner beyond the PACD. During the remaining life of the project, and through the existing Cooperative Agreement, which will be extended to June 30, 1999, UNITEC will offer "Intermediate Career" programs (equivalent to the Junior College Associate Degree level in the U.S.) for municipal personnel in administration, accounting, and computer programming. These technical programs will be offered as extension courses from Tegucigalpa and San Pedro Sula, thereby providing the opportunity to participate in these programs to students who would otherwise be unable to afford the opportunity cost of moving to these cities to study. As part of this component, UNITEC will provide more than 500 scholarships to municipal employees and/or community members nationwide. While scholarship participants are selected by their municipal government, USAID and UNITEC will work with municipal governments to encourage the participation of women in this program. This training will strengthen the capacity of municipal personnel in the key areas of administration and finance, community development, cadastres, and municipal legislation.

In addition to the Intermediate Career programs, UNITEC will offer more than 200 short-term specialized, intensive training courses in municipal administration, finance, and community participation to mayors, city councilmen and councilwomen, municipal technical personnel, and community leaders. Over 4,000 such individuals will participate in approximately 72 short training courses over a three year period. Once again, USAID and UNITEC will encourage municipal governments to send women as well as men as participants.

2. USPS

While the USPS offered skills building training in 1993 and 1994, it did not renew its short courses for the following year due to internal financial difficulties. Should this situation change, however, and the USPS indicate a renewed interest in participating in this area, project assistance may be provided to the USPS for the provision of skills building training under a grant-funded Cooperative Agreement.

3. FUNDEMUN

Through its existing Cooperative Agreement, which will be extended to June 30, 1999, FUNDEMUN will also provide specialized training courses to personnel of MDP-participating municipalities. This training will directly support technical assistance provided by FUNDEMUN in such areas as basic cadastre data gathering and systems¹³ municipal administration, municipal project management, municipal legislation and regulations, budgeting, taxpayer registration, improved tax collection and expansion of the tax base, auditing, personnel motivation, decentralization of decision-making authority, and the devolution to municipalities of the responsibility for providing basic public services.

FUNDEMUN will also conduct a two-phase training program in democratic processes and popular participation. The first phase, covering the period from 1995-1996, will focus on the fundamentals of participatory democracy. The second phase will expand efforts in this area by providing training to municipal and community leaders in organizational methodology, the role of community groups in a democratic society, conflict resolution, negotiating techniques, local legal grievance redress measures, and voter rights and obligations.

Approximately 500 persons will receive specialized technical and community participation training through the existing Cooperative Agreement with FUNDEMUN. A rate of at least 30% participation by women will be targeted.

¹³ Training in cadastre will be increased to help insure that municipalities have the ability to carry out these projects with their own funds after the PACD of the MDP. As a result of this training, 6 more municipalities are expected to carry out surveys during the extended life of the MDP. *The Interamerican Development Bank* is also active in providing funding for cadastre projects, and is expected to have some funds available for this purpose in the future.

4. Communications Systems

In addition to the training courses and technical assistance described above, the project will fund short-term technical assistance to design three distinct communications systems: between AMHON and its member municipalities; between USAID, other institutions and donor organizations and the municipalities; and between the municipalities and their member communities. These systems will, respectively, assist AMHON and its member municipalities in promoting continued municipal autonomy at the national level; promote the exchange of information, ideas, experiences and cooperation among municipalities at the local level; and further participation by the citizenry and community organizations in local government.

In all, approximately 5,000 persons (including at least 30% women) are to be trained with project assistance from CY 1995 to the revised PACD.

D. Basic Infrastructure Investments

On December 23, 1994, USAID and the GOH signed Project Agreement Amendment No. 5, which provides that from CY 1995 to the PACD all local currency GOH counterpart contributions to the project will be used exclusively for basic infrastructure activities with MDP-participating municipalities, thereby returning the local currency counterpart of the project to the concept contemplated in the original design. These improvements will include water, sewerage and garbage collection infrastructure; their completion will assist municipalities in the provision of basic services to their citizens. Approximately 15 to 18 basic infrastructure subprojects will be carried out in collaboration with 12 to 15 municipalities. USAID, the GOH and the FHIS have signed a MOU agreeing on the work to be undertaken, the procedures for the environmental review system to be utilized to evaluate the potential environmental impact of these infrastructure subprojects, operating and disbursement procedures, and the responsibilities and commitments of each party. All basic infrastructure activities will be implemented through the FHIS MOU. These activities are detailed more fully in Project Agreement Amendment No. 5 of December 23, 1994, and in Project Paper Supplement No. 1 of December 21, 1994.

E. Sustainability of Planned Activities

Under the extended project, USAID and its partners will seek to insure that the results achieved continue after the PACD. They will do so by focusing project-funded efforts on the creation and maintenance of key elements of *"More Responsive and Effective Municipal Government"* including:

- ◆ The generation of public demand for representative municipal government and effective municipal services.

The MDP will continue to provide training in community participation to constituents and municipal governments. In addition, it will continue to encourage participation in open town meetings, and in all stages of subproject implementation.

- ◆ The development of the **technical capacity** within participating municipalities to provide and manage services that will satisfy that demand.

To promote responsiveness in municipal government, the project will continue to provide technical assistance and training to municipal governments in project management, urban planning, and provision of public services.

To promote effectiveness in municipal government, the MDP will continue to provide technical assistance and training in municipal accounting, finance, and administration. In addition, it will work with municipalities to develop and install functioning accounting and administrative systems.

- ◆ The development of **revenue bases** that will allow municipalities access to sufficient funds to provide these services.

To help provide municipalities with the financial resources required to meet constituent needs, the MDP will continue to work to implement the automatic transfer of funds from the central government to municipalities. In addition, the MDP will provide training in tax collection as well as cadastre to enable municipalities to perform surveys in the future that will increase their property tax receipts.

- ◆ The devolution to municipalities of the **legal authority** needed to provide these services.

To insure that municipal governments retain the authority to make decisions necessary to meet constituent needs, the MDP will continue to work for the implementation and amendment of the Honduran Municipal Law.

USAID will also continue to work to create financially self-sufficient organizations that will be capable of providing technical assistance and advocacy for municipalities after the PACD:

- ◆ **Technical Assistance.** To help insure that municipalities have access to high quality technical assistance in the areas of finance, administration, public service delivery, cadastre, and others, USAID will continue to purchase the provision of such technical assistance and training through FUNDEMUN. FUNDEMUN is working towards its own self-sufficiency by providing technical assistance to municipalities for a fee, and by generating paid contracts from other sources such as *The World Bank*, *The Interamerican Development Bank (IDB)*, and other donor organizations. FUNDEMUN's objective is to become a viable private consulting operation which has the expertise to provide technical assistance to municipalities.
- ◆ **Advocacy.** To provide municipalities with a defender of their rights and interests, and a source of legal advice, USAID will continue to fund special studies by AMHON. To help assure that it is able to continue to serve as a source of this expertise beyond the PACD, AMHON is working to achieve financial self-sufficiency through the collection of membership fees which would be automatically deducted from GOH transfers to the municipalities.

F. Activities of Other Donors

USAID funded activities are complementary to but not duplicative of related activities of other donors. This PP Supplement takes into consideration the related efforts and financial resources of the donor community, including:

- ◆ ***The Interamerican Development Bank (IDB)***, which is currently providing funding for municipal development activities in municipalities with populations of up to 80,000 inhabitants. Most of the municipalities in the MDP have populations of more than 80,000 inhabitants. USAID and IDB projects coordinate activities to carefully avoid duplication and to effect complimentary efforts. These efforts overlap in three Honduran municipalities:

Gracias, in the Department of Lempira: The IDB is carrying out a cadastre project which complements the MDP work to strengthen the municipality's tax and financial capabilities through training and technical assistance. At the same time, several other small organizations are providing complementary assistance to Gracias in the areas of public works and municipal services, such as sanitation and water supply.

Tocoa: The IDB is carrying out a cadastre project which complements the MDP work to strengthen the municipality's financial and managerial capabilities through training and technical assistance.

Roatán: The IDB has just started work on an environmental protection project for the Bay Islands (*Proyecto de Ordenamiento Ambiental de las Islas de Bahía*). This IDB project will include the municipality of Roatán, and will also be involved in capital investment and other activities related to sewerage and water supply. The MDP will work with the IDB to avoid duplication of effort, and focus on other areas of assistance, such as training in finance and accounting systems.

- ◆ **The German technical assistance fund, *Cooperación Hondureña Alemana de Seguridad Alimentaria (COHASA)***, which has contracted with FUNDEMUN to provide technical assistance and training to three small municipalities in the Department of Lempira. These municipalities are too small to participate in the MDP, and so do not constitute a duplication of effort.
- ◆ ***The World Bank***, which has contracted analyses in a variety of areas affecting Honduran municipalities, including watershed conservation and decentralization of water and sanitation services. The World Bank, however, has not provided assistance directly to municipalities.
- ◆ ***The United Nations***, which has financed sanitation, water and sewerage projects for small residential areas within municipalities. The MDP does not duplicate these efforts since it works at the municipal level.

- ◆ The Spanish development assistance agency, *Agencia Española de Cooperación Iberoamericana (AECI)*, is providing technical assistance, training, and funding for small water and sanitation projects. The AECI generally works with small residential groups, and does not have a continuing project working with municipalities. The AECI is also offering loans to municipalities for the purchase of certain types of garbage collection equipment currently used in Spain.

The primary difference is that the MDP provides assistance directly to participating municipalities on a continuous basis. Other donor efforts focus on individual projects for small residential groups, or analyze issues effecting municipalities. They generally are not working directly with the municipalities. The MDP works from the grassroots level (constituents and their municipalities) up to the national level, while other donors are working from the top down.

IV. IMPLEMENTATION ARRANGEMENTS

A. Non-Governmental Organizations (NGOs)

The existing Cooperative Agreements with AMHON, FUNDEMUN and UNITEC will be amended to provide for the technical assistance and training activities described above.

B. Municipalities

As noted, the original project design targeted fourteen municipalities as the primary beneficiaries of project activities. As project implementation has evolved eight additional municipalities have also qualified and are participating in the project, for a total of twenty-two. With the addition of LOP funds and extension of the PACD, eight more new municipalities that demonstrate interest in and commitment to the objectives of the project are being considered as new participants, which would result in a new total of 30 municipalities targeted as primary beneficiaries.

Municipalities that qualify for participation in the project sign formal agreements with FUNDEMUN. These agreements specify the amount and nature of the technical assistance to be provided by FUNDEMUN to the municipality, the counterpart contribution of the municipality, and any conditions required for participation in the project (e.g., decreased municipal operating costs; increased municipal revenues; increased municipal investment in basic infrastructure; and increased community participation in local government).

C. Honduran Social Investment Fund (FHIS)

As discussed above, the present MOU with the FHIS will be the tool used for the implementation of all basic infrastructure activities financed with the GOH local currency counterpart contribution to MDP. In accordance with the MOU, FHIS will encourage community participation in all stages, focusing on promoting the integration of women in project activities.

D. USAID Project Management

The USAID/Honduras Office of Municipal Development and Democratic Initiatives (MDDIO) will continue to manage this activity. Two US direct hire officers will provide oversight and guidance to MDP staff. The project will finance:

- (1) a USPSC Project Manager, who will have overall responsibility for monitoring the project;
- (2) 50% of the costs of a USPSC Senior Democracy Advisor, who will devote 50% of his/her time supporting the MDP;
- (3) an FSNPSC Community Empowerment and Training Specialist, who will be responsible for managing all community participation activities under the project;
- (4) an FSNPSC Project Assistant; and
- (5) a Project Secretary.

In addition, an FSN Engineer, whose position will be funded from the Mission's budget for operating expenses, will provide technical support on a regular basis.

The USAID Project Manager will hold quarterly project meetings with key project representatives from the GOH, AMHON, FUNDEMUN, UNITEC and FHIS, to coordinate project activities and assess implementation progress.

E. Monitoring and Evaluation

USAID staff will cooperate with AMHON, FUNDEMUN, UNITEC, FHIS and municipalities to monitor progress toward inputs, outputs, and results. All data will be gender disaggregated. Project interventions at the municipal level are expected to effect benefits to all citizens, regardless of gender. In addition, the project is actively involved in promoting the participation of women and men in project activities that promote democratic participation at the municipal level; e.g. *cabildos abiertos*. Female participation in the *cabildos abiertos* and training events has reached 50% and 35% of all participants, respectively.

A final external evaluation is scheduled for early in FY 1999. Evaluators will work primarily from project design documents, progress reports, and other periodic project reports. This evaluation will be directly contracted by USAID. The evaluation data will be gender disaggregated.

V. REVISED FINANCIAL PLAN, PROCUREMENT PLAN AND BUY AMERICA

A. Financial Plan

Under Authorization Amendment No. 2 and this PP Supplement No. 2, an additional \$2,000,000 in grant funds will be added to the authorized USAID contribution to the project. The Financial Plan (Annex A) has been modified to reflect this increase in planned LOP grant funding and project implementation to date, including: (1) an increase of \$3,184,208 in grant funds for the Technical Assistance line item, due to the increase from 22 to 30 in the number of municipalities receiving such assistance; (2) a decrease of \$544,392 in the Training line item, of which \$422,542 is due to savings achieved through the use of local providers of these services, and \$121,850 has been reallocated to the Project Management line item to cover costs associated with the USPSC Senior Democracy Advisor; (3) a reduction of \$332,641 in the amount of grant funds budgeted for Evaluations and Studies, due to the inclusion of special studies within the Technical Assistance line item (AMHON and FUNDEMUN Cooperative Agreements); (4) a reduction of \$45,175 in the Project Management line item, reflecting savings achieved with the elimination of the San Pedro Sula office of the project; and, (5) the elimination of the Development Grants to Municipalities and Environmental line items (numbers IV and VII respectively), due to the inclusion of financing for these activities within the Technical Assistance (FUNDEMUN Cooperative Agreement) and Basic Infrastructure (FHIS MOU) line items.

Overall the financial estimates are considered reasonable and firm, meeting the requirement of Section 611 (a) of the FAA. The planned methods of financing project inputs comply with USAID regulations. UNITEC, AMHON and FUNDEMUN have proven capable of managing and accounting for USAID assistance resources under Cooperative Agreements awarded to these institutions to date, and have received regular financial audits without significant findings. The proper internal control and accountability of project funds is therefore reasonably assured.

Table 3 of Annex A lists the expected uses of project funds from CY 1995 to CY 1999. The GOH contribution will be derived from the ESF local currency accounts or, if such resources are unavailable, from National (01) funds, and will support basic infrastructure activities implemented through the FHIS.

B. Procurement Plan

The authorized source/origin for procurement funded under the USAID contribution to the project is the United States (Geographic Code 000). Procurement funded by the USAID contribution will continue to use the procurement mechanisms already in place and will follow the rules and guidelines of relevant USAID Handbooks, including Handbook 1B, Procurement Policies; Handbook 15, Commodities; Handbook 10, Training; Handbook 11, Host Country Contracting; Handbook 14, USAID Acquisition Regulations; and the Federal Acquisition Regulations (FAR).

Due to the complexity of off-shore procurements and the lack of experience of the host country entities in these processes, USAID/Honduras will directly procure the services of all off-shore training and technical assistance and all commodities to be procured outside Honduras. USAID will sign new Cooperative Agreements, or amend existing ones, with UNITEC, AMHON and FUNDEMUN to implement grant-funded project technical assistance and training activities in-country. USAID may also sign similar agreements with other Honduran universities and NGOs interested in and capable of conducting such activities should the Mission identify such institutions. Project-financed goods and services will be procured by these universities and NGOs in accordance with their USAID-approved procurement systems.

USAID will reserve approximately \$1,150,000 for direct procurement of the USPSC Project Manager; the USPSC Senior Democracy Advisor¹⁴; the FSNPSC Community Empowerment and Training Specialist, Project Assistant, and Project Secretary; as well as for a final evaluation of the project. The project will continue to comply with the Agency's rules and procedures for Gray Amendment procurement. All local currency-funded basic infrastructure activities will be implemented through the MOU with the FHIS. The Procurement Plan is shown in Annex B.

This Project Paper Supplement has been designed in accordance with the Agency's Buy America Guidance. Local procurement is authorized in accordance with Handbook 1, Supplement B, Chapter 18. If, during implementation of the project, transactions are proposed that require a waiver under Handbook 1, Supplement B, Chapter 18, such waivers will be obtained before proceeding with the procurement.

¹⁴ As specified on page 18 of this PPS, the Senior Democracy Advisor will devote 50% of his/her time to the MDP, and the MDP will finance 50% of the cost of this position.

MUNICIPAL DEVELOPMENT PROJECT

REVISED ILLUSTRATIVE FINANCIAL PLAN							
	CURRENT AUTHORIZATION (as of December 1994)		THIS AMENDMENT		AMENDED LOP CONTRIBUTION TOTALS		REVISED PROJECT TOTALS
	USAID	GOH	USAID	GOH	USAID	GOH	
Technical Assistance	4,259,400	-0-	3,184,208	-0-	7,443,608	-0-	7,443,608
Strengthening of Local Fiscal Base	-0-	1,161,440	-0-	-0-	-0-	1,161,440	1,161,440
Training	2,807,000	-0-	(544,392)	-0-	2,262,608	-0-	2,262,608
Institutional Development & Decentralization	-0-	464,576	-0-	-0-	-0-	464,576	464,576
Strengthening of Support Institutions	-0-	926,502	-0-	-0-	-0-	926,502	926,502
Basic Infrastructure	-0-	10,586,528	-0-	-0-	-0-	10,586,528	10,586,528
Development Grants to Municipalities ¹	200,000	-0-	(200,000)	-0-	-0-	-0-	-0-
Evaluations & Studies	500,000	-0-	(332,641)	-0-	167,359	-0-	167,359
Project Management	2,071,600	-0-	(45,175)	-0-	2,026,425	-0-	2,026,425
Environmental ²	112,000	-0-	(112,000)	-0-	-0-	-0-	-0-
Audits	50,000	-0-	50,000	-0-	100,000	-0-	100,000
TOTAL:	\$10,000,000	\$13,139,046	\$2,000,000	\$ -0-	\$12,000,000	\$13,139,046	\$25,139,046

¹ The activities originally envisioned as the USAID contribution to this line item will be financed with GOH counterpart contribution to the project, under the Institutional Development and Decentralization, Strengthening of Support Institutions, and Basic Infrastructure line items. As such, this line item has been eliminated.

² Funds for environmental technical assistance and related training are included in the FUNDEMUN Cooperative Agreement. Accordingly, this line item has been eliminated.

**MUNICIPAL DEVELOPMENT PROJECT
USAID CONTRIBUTION**

PROJECT EXPENDITURES: CY 1990 - CY 1999							
	ORIGINAL AUTHORIZATION CY 1990 - 1994						PROJECTED EXPENDITURES
	AUTHORIZED	OBLIGATED	EXPENDED (AS OF 12/31/94)	UNEXPENDED (A)	MORTGAGE (B)	THIS AMENDMENT (C)	CY 1995-1999 (A+B+C)
Technical Assistance	4,259,400	5,414,152	4,143,608	1,270,544	(1,154,752)	3,184,208	3,300,000
Training	2,807,000	1,501,768	506,212	995,556	1,305,232	(544,392)	1,756,396
Development Grants to Municipalities	200,000	100,000	-0-	100,000	100,000	(200,000)	-0-
Evaluations & Studies	500,000	170,825	67,359	103,466	329,175	(332,641)	100,000
Project Management	2,071,600	2,057,255	845,774	1,211,480	14,345	(45,175)	1,180,650
Environmental	112,000	50,000	-0-	50,000	62,000	(112,000)	-0-
Audits	50,000	50,000	-0-	50,000	-0-	50,000	100,000
TOTAL:	\$10,000,000	\$9,344,000	\$5,562,953	\$3,781,046	\$ 656,000	\$2,000,000	\$6,437,046

ANNEX A
Table 3

MUNICIPAL DEVELOPMENT PROJECT
PROJECTED EXPENDITURES: PERIOD FROM 01/01/95 to 06/30/99

YEARS		1995	1996	1997	1998	1999	TOTAL
PROJECT ELEMENT							
I. TECHNICAL ASSISTANCE							
1.	FUNDEMUN	800,000	800,000	200,000	200,000	100,000	2,100,000
2.	AMHON	200,000	200,000	300,000	200,000	100,000	1,000,000
3.	Other TA	50,000	50,000	50,000	50,000	-0-	200,000
	Sub-Total	1,050,000	1,050,000	550,000	450,000	200,000	3,300,000
III. TRAINING							
1.	UNITEC	500,000	280,750	300,000	280,000	81,000	1,441,750
2.	Other Training	50,000	50,000	156,400	58,246	-0-	314,646
	Sub-Total	550,000	330,750	456,400	338,246	81,000	1,756,396
V. EVALUATION AND SPECIAL STUDIES		-0-	50,000	-0-	50,000	-0-	100,000
VI. PROJECT MANAGEMENT							
1.	Project Manager	130,000	130,000	140,000	140,000	70,000	610,000
2.	Project Admin. Assist.	17,500	18,000	20,000	22,000	12,000	89,500
3.	Project Secretary	7,700	8,000	8,800	9,600	5,200	39,300
4.	Empowerment and Training Specialist	41,000	23,600	26,000	28,000	15,000	133,600
5.	Senior Democracy Advisor	-0-	73,250	70,000	70,000	35,000	248,250
6.	Other Management Expenses	10,000	15,000	15,000	10,000	10,000	60,000
	Sub-Total	206,200	267,850	279,800	279,600	147,200	1,180,650
VII. AUDITS			50,000	-0-	50,000	-0-	100,000
TOTAL		1,806,200	1,748,600	1,286,200	1,167,846	428,200	6,437,046

Note: Line items II, IV, and VII are not included in this annex since no expenditures are budgeted in these areas over the period represented, 1995 through 1999. In addition, line items IV and VII have been eliminated due to the inclusion of financing for those activities within Technical Assistance (line item I) and Basic Infrastructure (counterpart contribution) items. For a discussion of these changes, see pages 18 and 19, section V.A. of this PP Supplement.

ANNEX B

PROCUREMENT PLAN

I. Authorized Source/Origin/Nationality

The authorized source/origin/nationality for procurement funded under the USAID contribution to the project is the United States (Geographic code 000). Procurement funded by the USAID contribution will continue to use the procurement mechanisms already in place and will follow the rules and guidelines of relevant USAID Handbooks, including Handbook 1B, Procurement Policies; Handbook 10, Training; Handbook 13, Grants; Handbook 14, USAID Acquisition Regulations; Handbook 15, Commodities; and the Federal Acquisition Regulations (FAR).

II. Non-U.S. Procurement

USAID/Honduras will sign new Cooperative Agreements, or amend existing ones, with Honduran non-governmental organizations (NGOs) and universities to implement grant-funded project technical assistance and training activities in-country. Project-financed procurement of goods and services under these Cooperative Agreements will be undertaken by these NGOs in accordance with the requirements of Handbook 1, Supplement B, Chapter 16.B.; Handbook 13, Chapter 4, Appendix 4C; Handbook 13, Chapter 6; and in accordance with their USAID-approved procurement systems.

All other goods and services financed from the USAID contribution to the project will be directly procured by USAID. All procurement will be from the U.S. whenever practicable. Non-U.S. procurement for the project is planned only for certain goods and services for which Handbook 1, Supplement B provides a specific exemption and for which it is more judicious to use other alternatives. These specific cases include:

USAID-Direct Procurement

- A. **Technical Assistance:** No off-shore short-term or long-term technical assistance is contemplated under this PP Supplement No. 2. All long-term in-country technical assistance directly procured by USAID will be provided by Honduran NGOs, under Cooperative Agreements. Section G below outlines the procedures to be followed for the procurement of in-country technical assistance services under Cooperative Agreements with Honduran NGOs.

No individual procurement of short-term in-country technical assistance directly procured by USAID will exceed \$250,000. Handbook 1, Supplement B, Chapter 18 provides that source/nationality waivers are not required for professional services contracts under \$250,000 with local contractors.

B. Training: The project plans to fund short-term and long-term training in-country and outside Honduras. All long-term off-shore training activities will be conducted in the United States. A small portion of short-term off-shore activities will be procured directly by USAID outside of the United States. Short-term in-country training will be conducted with both local and off-shore consultants. Section 19 of the Buy America guidance provides that the source policy on participant training set forth in Handbook 10 remains unchanged by the Buy America policy. Handbook 10 authorizes Third Country training under appropriate circumstances. USAID has concluded that the non-U.S. training procurement envisioned under the project is appropriate for the following reasons:

1. Most of the short-term training participants will not have English language skills sufficient to benefit from much of the technical training conducted in the U.S. If an adequate option is available in a Latin American country, it is therefore more appropriate.
2. The use of local and Third Country training will be more cost-effective in certain cases. The lower cost of the training should allow a greater number of participants to benefit.

Section G below outlines the procedures to be followed for the procurement of in-country training services under Cooperative Agreements with Honduran NGOs and universities.

- C. Commodities:** All commodities to be procured off-shore directly by USAID will be of U.S. source/origin. Section G below outlines the procedures to be followed for commodities procured under Cooperative Agreements with Honduran NGOs and universities.
- D. Project Management:** USAID will directly contract for the services of a Personal Services Contractor (PSC) Project Manager of U.S. nationality and a PSC Senior Democracy Advisor of U.S. nationality¹. In addition, USAID will directly procure the services of Honduran PSCs for the positions of Community Empowerment Specialist, Training Specialist, Project Assistant, and Project Secretary.
- E. Evaluations and Studies:** The project budget includes funding for a final project evaluation and several studies. The final project evaluation will be directly procured by USAID from U.S. firms or U.S. nationality

¹ As specified on page 18 of this PPS, 50% of the costs of this position will be financed by the MDP budget, and the Advisor will devote 50% of his/her time supporting the MDP.

consultants. All procurement for studies will be procured by USAID in-country. No single procurement from a Honduran firm is expected to cost more than \$50,000. Handbook 1, Supplement B, Chapter 18 provides that source/nationality waivers are not required for professional services contracts under \$250,000 procured from local contractors.

- F. **Non-Federal Audits:** USAID will directly procure non-federal audits to be conducted under the direction of the Audit Section of the Regional Inspector General's Office. Both U.S. and host country firms will be eligible to provide these services.

Procurement under Cooperative Agreements with Honduran NGOs and Universities

- G. **Technical Assistance, Training, Commodities:** The project will directly award new Cooperative Agreements, or amend existing ones, to Honduran NGOs and universities for the provision of in-country technical assistance and training services and commodities under the project. NGO recipients of a Cooperative Agreement under the Project will comply with the source/origin/nationality provisions described in Handbook 1, Supplement B, Chapter 16.B. for all procurement under the Cooperative Agreement.

The project will continue to comply with the Agency's rules and procedures for Gray Amendment procurement.

This Procurement Plan has been designed in accordance with the Agency's Buy America Guidance. Local procurement is authorized in accordance with Handbook 1, Supplement B, Chapter 18. If, during implementation of the project, transactions are proposed that require a waiver under Handbook 1, Supplement B, Chapter 18, such waivers will be obtained before proceeding with the procurement. The Procurement Plan is attached as Table 1.

MUNICIPAL DEVELOPMENT PROJECT

PROCUREMENT PLAN: CY 1995 – CY 1999						
SERVICE/COMMODITY	DESCRIPTION	ESTIMATED COST	SOURCE & ORIGIN	TYPE OF PROCUREMENT	FIRST DELIVERY DATE (Mths)	PURCHASE AGENT
Technical Assistance						
National Level: Long-Term TA	AMHON C.A. Amendment¹	800,000	Honduras	Non-Competitive	02/19/96 (40 Mo.)	USAID/H
Municipal Level: Long-Term TA	FUNDEMUN C.A. Amendment²	700,000	Honduras	Non-Competitive	10/01/96 (33 Mo.)	USAID/H
Short-Term TA	PSC contracts	200,000	Honduras & 000	Competitive	TBD	USAID/H
Training						
Municipal Level: Off-shore	Academic U.S. Universities	314,646	000	Non-Competitive	TBD	USAID/H
In-Country	UNITEC C.A. Amendment³	491,750	Honduras	Non-Competitive	06/28/97 (24 Months)	USAID/H
SUB-TOTAL:		\$2,506,396				

TBD: To be determined.

¹ Cooperative Agreement with AMHON to be extended from 02/19/96 to 06/28/99 (40 Months).

² Cooperative Agreement with FUNDEMUN to be extended from 10/01/96 to 06/28/99 (33 Months).

³ Cooperative Agreement with UNITEC to be extended from 06/29/97 to 06/28/99 (24 Months).

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MUNICIPAL DEVELOPMENT PROJECT

**PROCUREMENT PLAN: CY 1995 – CY 1999
CONTINUED**

SERVICE/COMMODITY	DESCRIPTION	ESTIMATED COST	SOURCE & ORIGIN	TYPE OF PROCUREMENT	FIRST DELIVERY DATE (Mths)	PURCHASE AGENT
Project Management						
Project Manager	PSC Amendment	512,500	USA	Non-Competitive	10/20/95 (45 Mo.)	USAID/H
Empowerment and Training Specialist	PSC Amendment	100,267	Honduras	Non-Competitive	08/20/95 (46 Mo.)	USAID/H
Project Assistant	PSC Amendment	44,000	Honduras	Non-Competitive	06/28/97 (24 Mo.)	USAID/H
Project Secretary	PSC Amendment	35,450	Honduras	Non-Competitive	06/30/95 (48 Mo.)	USAID/H
Senior Democracy Advisor	PSC Contract	248,250	USA	Competitive	01/01/96 (42 Mo.)	USAID/H
Evaluations and Studies		100,000	Honduras & 000	Competitive	TBD	USAID/H
Audits		100,000	Honduras & 000	Competitive	TBD	USAID/H
TOTAL:		\$3,588,946⁴				

TBD: To be determined.

⁴ The \$3,588,946 shown above corresponds to new procurement actions only. An additional \$2,848,100 has already been approved through Cooperative Agreements and service contracts for the period CY 1995 – CY 1999, results in the total of \$6,437,046 in projected expenditures for the period.

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(522-0340)
LOGICAL FRAMEWORK

ANNEX C

Project Title: Municipal Development

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SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEASUREMENT OF ACHIEVEMENTS	IMPORTANT ASSUMPTIONS
<p><u>GOAL:</u></p> <p>More Responsive Democratic Processes with Greater Citizen Participation</p>	<p>a) 15-20 municipalities organizing and conducting at least 5 town meetings per year, with an average attendance of 200 persons per town meeting.</p>	<p>a) Municipal records; project reports; project evaluations.</p>	
<p><u>PROJECT PURPOSE:</u></p> <p>More Responsive and Effective Municipal Government.</p>	<p><u>END OF PROJECT STATUS:</u></p> <p>a) Average of 60% of municipal budget for capital projects in participating municipalities.</p> <p>b) 30% of urban inhabitants receiving all three services (water, sewerage and refuse collection) in participating municipalities.</p>	<p>a) Review of municipal investment plans; municipal records; project reports; project evaluations.</p> <p>b) Review of municipal investment plans; municipal records; project reports; project evaluations.</p>	<p><u>OUTPUT TO PURPOSE:</u></p> <p>a) Continued willingness of municipalities to assume greater responsibility for public service delivery.</p>
<p><u>OUTPUTS:</u></p> <p>1. Appropriate national level framework for municipal government in place.</p>	<p><u>OUTPUT INDICATORS:</u></p> <p>1.a. Municipal Law and Reglamentos in place and implemented.</p> <p>1.b. Establishment and implementation of automatic transfer mechanism for budgetary transfers to municipalities.</p> <p>1.c. Devolution to at least 6 municipalities of the authority to provide and levy fees for basic public services.</p>	<p>1. Project evaluations.</p>	<p><u>INPUT TO OUTPUT:</u></p> <p>1.a. Continued GOH support for strengthening municipalities.</p> <p>1.b. Willingness of the GOH to provide budgetary transfers to municipalities, as provided for in the Municipal Law.</p> <p>1.c. Willingness of the GOH to devolve authority to municipalities.</p>

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LOGICAL FRAMEWORK

ANNEX C

Project Title: Municipal Development

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SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEASUREMENT OF ACHIEVEMENTS	IMPORTANT ASSUMPTIONS
<p>2. Municipalities are actively promoting community participation in local government and are capable of managing municipal budgets, administrative systems, and the provision of basic public services.</p>	<p>2.a. 8,643 (6,915 male and 1,728 female) persons trained in community participation, municipal accounting, finance, urban planning, and the provision of public services.</p> <p>2.b. Municipal accounting and administrative systems installed and functioning in 15-20 municipalities.</p> <p>2.c. Investment plans developed with community participation and approved in 15-20 municipalities.</p>	<p>2. Review of municipal investment plans; municipal records; project reports; project evaluations.</p>	<p>2. Continued willingness of municipalities to assume greater responsibility for public service delivery and accept greater community participation.</p>
<p>3. Fiscal base of participating municipalities strengthened.</p>	<p>3. 14 cadastre and related activities completed in participating municipalities.</p>	<p>3. Review of municipal investment plans; municipal records; project reports; project evaluations.</p>	<p>3. GOH counterpart contribution is made available on a timely basis.</p>
<p>4. Basic infrastructure of participating municipalities strengthened.</p>	<p>4. 12-15 basic infrastructure subprojects completed in 10-12 participating municipalities.</p>	<p>4. Review of municipal investment plans; municipal records; project reports; project evaluations.</p>	<p>4. GOH counterpart contribution is made available on a timely basis.</p>

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LOGICAL FRAMEWORK

ANNEX C

Project Title: Municipal Development

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SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEASUREMENT OF ACHIEVEMENTS		IMPORTANT ASSUMPTIONS
IMPLEMENTATION TARGETS:		ENDING YEAR		
	UNITS	1994	1999	TOTAL
Technical Assistance	P/mths	900	900	1,800
Training	Persons	3,643	5,000	8,643
Basic Infrastructure	Works	0	12-15	12-15
Devolution of Water Services to Municipalities	Municipalities	0	6	6
Cadastre	Activities	14	0	14

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