



MCA-Honduras

Reducing Poverty Through Economic Growth

GOVERNMENT OF HONDURAS

MCA - Honduras

Program Quarterly Advance Report

**Activities performed for the period
October 2006 – December 2006**

Prepared by

**MILLENNIUM CHALLENGE ACCOUNT
MCA - HONDURAS**

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Country of Compact: **Honduras**

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A. BACKGROUND

This quarterly advance report reflects the main achievements and the outcome of program activities scheduled and implemented for the period from October to December 2006.

The document includes the same sections used in previous Progress Reports, and presents supplemental information of this period related to the implementation of condition precedents established in the Program Disbursement Agreement, the implementation of activities set forth for the Transportation Project and the Rural Development Project, as well as activities reported as part of the Program's governance and management.

This period report coincides with the beginning of the first quarter of the United States Government Fiscal Year 2007.

B. PROGRAM IMPLEMENTATION

B.1 Compliance of conditions precedent Fiscal Year 2007 (FY 02)

During Fiscal Year 2006, 19 of the 26 conditions precedent established in the Compact Disbursement Agreement for the first year of implementation of the MCC Compact were met. From the seven conditions rescheduled, two were fulfilled during the quarter reported. These conditions precedent advanced according to Plan 1, revised on 09/25/06 are: (i) MCA and MCC approval of the Monitoring and Evaluation Plan, and (ii) contracting , to MCC's satisfaction, the insurances and other actions related required under Section 3.9 of the Compact and y 3(d)(ii)(5) of Compact Schedule.

The remaining five conditions precedents are:

1. MCA-Honduras has duly approved a Bid Challenge system acceptable to MCC. Compliance has been re- programmed for the second quarter of Fiscal Year 2007.
2. Document that establishes the procedures for refunding taxes paid with MCC funds to the Program. Compliance is rescheduled for the second quarter of Fiscal Year 2007.
3. MCA-Honduras has contracted, in due form, a procurement through a contract that was duly implemented and that has full force and effect. Condition Precedent eliminated by MCC after the satisfactory outcome of the evaluation of installed procurement capacity of MCA-Honduras Program Management Unit.
4. Review of data quality acceptable for MCC is performed. Condition reprogrammed for the fourth quarter of fiscal Year 2007

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5. MCA-Honduras has contracted the Transportation Project Manager pursuant to an agreement duly approved by the Board of Directors and MCC and that is in full force and effect. The MCA – Honduras Board of Directors approved the contract signature on 12/6/06 and signing was programmed for January 2007.

The conditions precedent corresponding to Fiscal Year 2007, in accordance with MCC letter of September 25 2006, are the following:

6. MCA-Honduras holds a workshop, acceptable for MCC, with banks and micro finance institutions to inform them of the preparation of the Credit work plan and the RFP.
7. FONADERS subscribes an agreement acceptable to MCA-Honduras and MCC for the Access to Agricultural Credit RFP.
8. GoH issues a law to facilitate the Access to Credit and the respective regulations for implementation, acceptable for the MCC.
9. MCC has approved the formation, governance, compensation structure, operating plan and other substantial terms of the Grants Project.
10. MCA-Honduras approves an environmental management plan acceptable for the MCC.
11. MCC is satisfied that all building permits for the North and South sections of CA-5 are in proper order.
12. MCC is satisfied that the MCA-Honduras has submitted all of the required requests for obtaining any other necessary permit (For example, to access sand banks).
13. MCC has approved the secondary roads that MCA-Honduras has selected for construction / rehabilitation using MCC funds.
14. MCA-Honduras develops a support plan and documentation acceptable for MCC for one or more of the contractors to build and operate the weight control system on the national road network.
15. In the Credit Access activity, less than 4 to 6% of the MCA-Honduras loan portfolio is at risk.
16. MCA-Honduras presents a plan to MCC: i) detailing the actions to provide road maintenance for the primary and secondary network in a manner congruent with the commitment to deliver adequate maintenance to the highways and pursuant to generally accepted technical standards; ii) defining the content of the annual maintenance reports, and iii) the annual budget for the “Road Maintenance Plan” for a 20-year period, including costs and funding sources.

The following describes the advance made for complying with the indicated conditions precedent.

B.1.1 MCA-Honduras has a duly approved a Bid Challenge system, acceptable to the MCC.

The Bid Challenge system has been discussed with the MCC legal team, including the “Assistant General Counsel” and external MCC law firms, in Honduras as well as in Washington and with the MCC acquisitions advisor in Honduras. The outcome of this discussion is that the updated version shall incorporate a section containing a mechanism to attend informal complaints/claims in order to reduce the volume of claims in the Claims Attention Board of Examiners. The proposal will also include a section that prohibits the claimant (based on the Compact) to present claims in the Honduran courts of law. MCA –Honduras is waiting the MCC acceptance of the proposal to comprise the Board of Examiners, the language to use and the Corporation’s review faculties.

Once these decisions are obtained and incorporated into the text, the system will be submitted to the approval of the MCA Board and the MCC No Objection.

B.1.2 Document contemplating the manner in which taxes paid with MCC funds are reimbursed into the Program.

The definition of tax exonerations and the refund mechanisms with the Secretariat of Finances (SEFIN) and the Executive Income Direction (DEI) is still incomplete. SEFIN/ DEI and MCA-Honduras have continued the discussions defining the ideal content of said fiscal exonerations mechanism. For this purpose, MCA-Honduras obtained DEI authorization to prepare a proposal in accordance to the Compact's stipulation. This proposal was remitted to the Sub-Secretariat of Public Credit and Investment for comments and adjustments of the SEFIN Legal Counsel, contracted to review and prepare proposals regarding this procedure. Given the lack of concurrence between SEFIN and DEI regarding this procedure, MCA-Honduras has opted for presenting the proposal to the MCA Board explaining the impasses. The mechanism will come into force once SEFIN and MCC agree upon the procedures, for which an MCC mission, with the support of OTA Tax (as an MCC contractor), will be meeting with SEFIN and DEI directors and technicians during the second week of February 2007.

B.1.3 MCA-Honduras has obtained in due form, the services of an acquisitions and contracting supervisor sanctioned by a duly executed contract that has full force and effect.

Condition eliminated by MCC. A mission from the MCC acquisitions team visited the Program in November 2006. The mission's objective was to assess the PMU installed capacity to implement the acquisitions set forth in the Program Procurement Plan and its results indicated that the PMU has the necessary installed capacity. An output of this assessment is that MCC indicated to the MCA Board that the condition precedent of having an Acquisitions Program Supervision firm is suspended. This MCC decision has generated savings for the amount of US \$2.0 million originally estimated for paying said services. MCA-Honduras proceeded to notify the firms that submitted their expression of interest since November 2006 of its appreciation for their interest in the process and the decision to cancel the same.

B.1.4 Review of Program data quality.

MCA-Honduras reviewed the Program's implementation plan, including the time required for all procedures to contract the implementing firms. According to this plan, the procurement process could be completed in the first quarter of Fiscal Year 2. Taking this into consideration, MCA-Honduras included the modification of the term to comply with this condition precedent.

In response to this disbursement request, MCC has deferred this condition for the fourth quarter of Fiscal Year 2 (July to September 2007), pursuant to Plan 1 of the modified Conditions Precedent, in the letter of 09/25/06.

B.1.5 MCA-Honduras has contracted the Transportation Project Manager pursuant to an agreement duly approved by the Board of Directors and MCC that is in full force and effect.

Nevertheless the new term for this condition was reprogrammed for the second quarter of Fiscal Year 2007, MCA-Honduras Board of Directors approved the contract signature on 12/6/06, and the official signing was programmed for January 2007.

B.1.6 Workshop with banks and intermediate finance institutions regarding the MCA-Honduras Access to Agricultural Credit Program.

According to the reviewed work plan, the a Farmer Access to Credit Activity is still in the process of selecting a firm and therefore the necessary information to develop the workshop for divulging the credit plan has not been contemplated. Since this Credit Access activity has not begun, the

respective funds will not be disbursed for the time being, according to the response given to the request for second disbursement to MCC in the letter of September 25, 2006.

B.1.7 FONADERS subscribes an agreement acceptable to MCA-Honduras and MCC for the Access to Agricultural Credit RFP.

Condition eliminated by MCC. The assessment of the MCA-Honduras installed capacity for acquisitions conducted by MCC in November included the assessment of FONADERS as the Acquisitions Agent for Agricultural Development Project. MCC concluded that although FONADERS has the capacity to conduct acquisitions, it is local and not for international acquisitions required by the Compact. The output of this assessment is that MCC indicated the elimination of this condition precedent as well as the elimination of the acquisitions supervising firm (see the above discussion).

B.1.8 Approval of a Law for Credit Access within the Agricultural Development Project.

According to Plan 1 of Conditions Precedent, modified in the response to the request for the second disbursement on 9/25/06, this condition has been deferred to Fiscal Year 3. Nevertheless, the PMU will propel a dissemination and promotion program of the draft bill now named “Movable Property Laws” during the second and third quarters of Fiscal Year 2. This activity will be carried out in close coordination with the Secretariat of the Presidency, the National Commission of Banks and Insurance, the Secretariat of Industry and Trade, and with cooperating entities in the country, particularly with the Inter-American Development Bank. Consultants from the National Law Center for Inter-American Free Trade, affiliated to the University of Arizona in Tucson, will provide technical-legal support.

B.1.9. MCC approval of the structure, personnel, compensation structure, operating plan, and additional material of the Agricultural Development Program’s Public Grants Project.

MCA-Honduras remitted the manual for managing the Public Grants to MCC for its approval on 12/11/06, which includes, in general, the Project’s organic structure, needed to originate the personnel, compensation structure and operating plan for the grants. Since the Grants Program has not started, the funds for this activity will not be disbursed at this time, according to the response given to the request for the second disbursement by MCC in the letter of September 25, 2006.

B.1.10 MCC approval of the CA-5 Environmental Management Plan.

After the concurrence of MCA-Honduras and MCC on the scope and general content of the CA-5 North Environmental Management Plan, the Terms of Reference for contracting the firm were prepared, receiving comments from MCC and the “Environmental and Ecology” firm, associated MCC consultant, in December. The comments were discussed and analyzed during the second week of February 2007 with the environmental specialists from the External Manager of the Transportation Project to define the definite scope of responsibilities for the project contractors, for MCA- Honduras and for the External Manager in implementing the CA-5 North Environmental Management Plan, and proceeding to the immediate engagement of the person responsible for its preparation and have it ready once the actual work on the segments begins.

B.1.11 MCC is satisfied that all construction permits for the North and South segments of CA-5 are in proper order.

The required permits will be processed once the External Manager of the Transportation Project reviews and updates the designs for the CA-6 Segments. According to Plan 1 of the Conditions Precedent modified in the second MCC disbursement request on 09/25/06, funds will not be disbursed for this activity due to not being initiated

B.1.12 MCC is satisfied that the MCA-Honduras has submitted all of the required requests for obtaining any other necessary permit (For example, to access to sand banks)

MCA-Honduras arranged the incorporation of materials for the CA-5 with SOPTRAVI in a executive order for the declaration of reserve areas signed by President Manuel Zelaya Rosales, and the Ministers SOPTRAVI and SERNA on 11/8/06. The Executive Order declares the areas identified for the reserve of material banks required for expanding and improving CA-5 Segments 1 and 2 in the corresponding engineering studies. Other required permits will be processed once the External Manager of the Transportation Project reviews and updates the designs.

B.1.13 MCC has approved the secondary roads that MCA-Honduras has selected for construction / rehabilitation using MCC funds.

At the request of MCA-Honduras, SOPTRAVI proceeded to gather the technical and economic feasibility studies of several segments with the potential of being selected in the asphalt road component. This documentation will be reviewed by the External Manager of the Transportation Project. According to Plan 1 of the Conditions Precedent modified in the second MCC disbursement request on 09/25/06, funds will not be disbursed for this activity due to not being initiated

B.1.14 MCA-Honduras develops a support plan and documentation acceptable for MCC for one or more of the contractors to build and operate the weight control system on the national road network.

For further details of the advance of the Weight Control system, please see Section C.2 (b) of this report. According to Plan 1 of the Conditions Precedent modified in the response to the second MCC disbursement request on 09/25/06, funds for this activity will be disbursed once MCA-Honduras obtains indication from SOPTRAVI of the financial sustainability mechanism of the Weight Control System.

B.1.15 In the Credit Access activity, less than 4 to 6% of the MCA-Honduras loan portfolio is at risk.

MCA-Honduras and MCC are still discussing the design of the mechanism to allocate the US \$6 million for the Credit Access Program. MCA-Honduras has started preparing a trust fund proposal for MCC consideration. An MCC mission has been programmed for the second week of January 2007 with the objective of defining the final mechanism to allocate the resources.

B.1.16 MCA-Honduras presents a plan to MCC: i) detailing the actions to provide road maintenance for the primary and secondary network in a manner congruent with the commitment to deliver adequate maintenance to the highways and pursuant to generally accepted technical standards; ii) defining the content of the annual maintenance reports, and iii) the annual budget for the “Road Maintenance Plan” for a 20-year period, including costs and funding sources.

The plan was prepared by the Road Fund, submitted to MCC in November and accepted by the Corporation in December. However, the National Congress of the Republic approved US \$5 million less than the amount agreed between MCC and the Government for the 2007 Road Fund Budget. The budget was approved on December 28, 2006. The PMU will inform the MCA-Honduras Board of Directors of the possible impacts that this situation could generate in executing the Transportation Project.

B.2 Additional implementation arrangements

B.2.1 Selection and contracting additional personnel for the MCA-Honduras PMU.

Applications will be received during the month of September for the following positions:

- Rural Roads Officer
- Communications Officer
- Accountant
- Auxiliary Accountant
- Procurement and Contracting Specialist
- Internal Auditor
- Receptionist

Candidates for the position of Officer of Farm to Market Roads were interviewed on 10/2/06. The candidate selected was remitted to MCC for its clearance on 12/19/06. The Roads Officer is expected to begin prior to January 15, 2007. The following are among the main functions that will be performed by the Farm to Market Road Officer:

- Coordinate implementation of the Rural Roads Selection Committee established in the Agreement with MCC and follow-up the co-funding commitments of the participating municipalities.
- Review the reports of the External Manager of the Transportation Project and recommend actions to solve any delays that might occur.
- Review the rural road supervisors' reports, confirming that all works comply with the engineering design, technical specifications and other contractual documents.
- Review and modify, as necessary, the costs estimates prepared by the implementers or contractors after due approval by the External Manager of the Transportation Project.
- Contractual control and management of contractor claims, in consultation with the External Manager of the Transportation Project, the MCA Procurement Specialist for payment extensions or additional payments.
- With the Director of Environmental and Social Impact, assure the coordination among the parties and appropriate implementation of the Environmental Management Plans.
- Coordinate the monitoring of the component's implementation with the MCA-Honduras M&E Director.

Candidates for the position of Communications Officer were interviewed during the month of October. The main functions of this position include circulating the Program's results, keep the main stakeholders informed, manage the MCA –Honduras communications strategy and support the Environmental and Social Director in implementing the Resettlement Program of persons affected by the CA-5 Highway Project. The Communications Officer is expected to start in the first week of January.

Concerning the positions of Auxiliary Accountant and Accountant, candidates for both positions were interviewed during the month of November. The auxiliary Accountant started on 12/01/06 and the Accountant on 01/02/07. The Accountant and Auxiliary Accountant are responsible for payment verifications and for charging the commitment quota in the SIAFI System for each quarterly execution.

As for strengthening the Program's capacity for the acquisition of works, goods and services, the PMU interviewed the candidates for the Procurement and Contracting Specialist post in September 2006. Two applications were selected of the 30 that were received, one for the Rural Development Project and the other with the responsibility of PMU Acquisitions and to supervise

the acquisitions of the External Manager of the Transportation Project. Both specialists began their functions in November 2006.

Additionally, the PMU published job opportunity notices in search of a Financial Manager for the Agricultural Public Goods Grants Program. The main functions of this position include coordination of the process to evaluate grant proposals, promote the Program among eligible institutions and organizations, establish conditions and contracts for grant beneficiaries, and monitor and evaluate the beneficiary projects. This position will also coordinate and inform the project's Administrative Board. Applications were received in December and the selection and contracting of this officer is expected before the month of March 2007.

Contracting the auditor and receptionist positions is still pending. The receptionist position is expected to be filled in the first week of February 2007. In the case of the internal auditor, and given the various and ongoing fiscal and control instances (bi-annual external audits, supervision of the Fiscal Agent, and the processes carried out by the Acquisitions and Contracting Specialists), this engagement has been postponed until after receiving the external audit results, covering July to December 2006, to confirm the need of this post at that time.

B.2.2 Definition of the MCA-Honduras Communications Strategy.

This activity will start-up with the arrival of the social communications specialist mentioned in Section B.2.1 above.

C. IMPLEMENTATION AT PROJECT/ACTIVITY LEVEL

C.1 Progress of the Rural Development Project

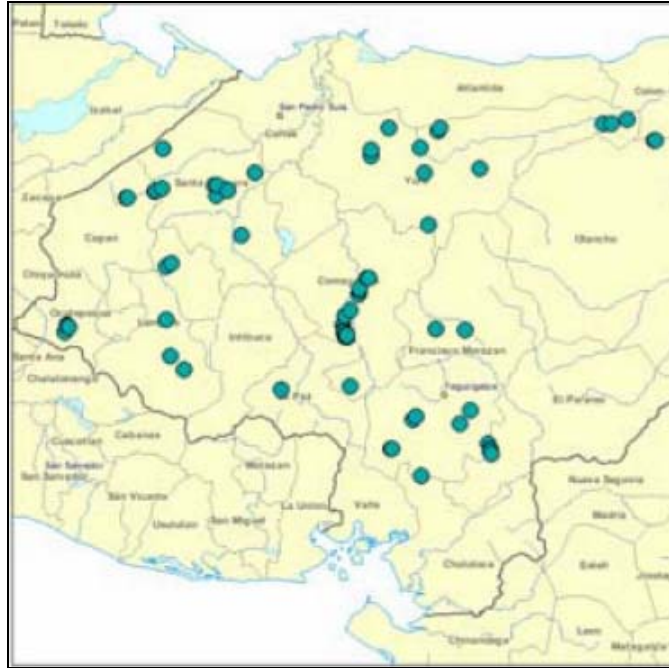
C.1.1 Activity: Farmer Training and Development (FTDA).

Preliminary arrangements. Fintrac completed the project's Gender Plan as part of the deliverables programmed for this quarter. The project, approved by MCA-Honduras on 11/3/2006, includes the gender integration strategy. "The Gender Plan consists of a total approach to integrate gender and assure the participation of men and women in the program" and in where "the interests of women shall be well represented in all of the Project's decision making processes, structures and an analysis of the gender role and responsibilities, access and control of resources, compliance, and opportunities for their participation in the Program".

Technical assistance for farmers. Up to December 2006, 241 farmers have registered and are receiving weekly technical assistance; another 113 farmers were identified and are undergoing the process to be selected as agricultural leaders. Contact has also been made with 81 buyers, 41 service and input providers and 10 partner organizations. Selection of the first group was initiated in **weekly** visits to the parcels, by direct contact in the area, and through meetings held with farmer associations and groups.

Presentations of the project's services have also been given to producer groups through vendor associations. The majority of producers are working with crops to retail in the local market using low levels of production technology.

FTDA ACTIVE CLIENTS



64 of 139 clients with recorded GPS coordinates

Capacity building activities. Despite that the formal capacity building will begin in January 2007, FTDA has commenced the group training of beneficiary producers on the parcels of leader producers. Trainings have covered topics such as installation and maintenance of drip irrigation systems, greenhouse production, basic practices, integrated plague management, and production of sweet potatoes and Valencia yucca.

Market activities. The FTDA production activities are requirement driven set by the market. FTDA initiated the market activities by establishing 64 contacts with exporters, local distributors in supermarkets, wholesalers, sellers association, farming distributors and local processors in order to determine opportunities for products, volume, trends, and terms. Additionally, logistic assistance was facilitated for two international buyers interested in Honduran agricultural products.

Business skills. Meetings were held with BANADESA, BANHCAFE, Banco de Occidente and BANPROVI regarding the project activities, the program, and future collaboration. Forms and a computerized instrument were prepared for the beneficiary producers' business plans for the credit programs. The process to review the production costs of several crops was started, particularly peeled plantains and yucca. The first loan was obtained from COVELO for an FTDA client for cultivating sweet potatoes.

Incentives for converting the farms. The bid documents for agricultural input such as irrigation systems, sand filters, backpack pumps and nursery trays for seedlings, were prepared in coordination with Fintrac as an incentive for the participating producer clients.

RESUMEN DE PRODUCTORES DE EDA POR DEPARTAMENTO

Departamento	Cientes Líderes Registrados	Cientes Beneficiarios Registrados	Cientes en Proceso de Selección
Atlántida	3		7
Choluteca	11	4	
Colón	2	15	4
Comayagua	20	12	21
Copán	2	5	
Cortés	1		8
El Paraíso	15	20	19
Francisco Morazán	33	1	32
Intibucá	3	8	3
La Paz	6		6
Lempira	5		1
Ocatepeque	11	5	6
Olancho	6		1
Santa Bárbara	11	17	1
Valle	2		
Yoro	11	12	4
Total	142	99	113

C.1.2 Farmer Access to Credit

Progress was made in the procurement process to invite the firms interested in the Development of the MCA-Honduras FACA. The program will have the services of a consulting firm for the following activities: (i) diagnostic of the financial services provided to the agricultural sector; (ii) assist in establishing and monitoring the loan fund for the program's producers; (iii) technical assistance for finance institutions for product development; and (iv) technical assistance for intermediate finance institutions in the provision of financial services for the agricultural sector.

The letters of invitation for Expressions of Interest for consulting firms were prepared for this purpose on 10/05/06, receiving the MCC No Objection to the EOI setter on 10/11/06. The notice of invitation was published on 10/16/06.

The Expressions of Interest were received and opened on 11/14/06. The EOIs were assessed and the assessment report and short list were forwarded to MCC on 12/08/06. The MCC issued its No Objection to the short list on 12/18/06 and the short list results were published on 12/27/06. At the same time, the procurement documents were prepared and forwarded to the MCC on 12/15/06 and the panel to assess the technical economic tenders was formed.

C.1.3 Activities for the Farm to Markets Roads.

The selection and hiring of a consulting firm specializing in Geographic Information Systems to prepare a GIS tool for supporting the selection of the roads from farm to markets was started. This GIS tool will integrate models used by the World Bank to estimate the Economic Return Rate (ERR) and allow prioritizing rural roads for potential MCA funding and the municipalities interested in participating in the Program. Engagement of the consulting firm is expected for the beginning of January 2007, and tool implementation is anticipated for the month of April, 2007 meanwhile.

At that time, the MCA- Honduras PMU submitted the Compact's scope to the AMHON Board of Directors on 11/9/2006, particularly regarding the Farm to Markets Road Activity. The information event dealt specifically with AMHON's participation in the Rural Roads Consultation Committee, with the Farm to Market Roads component of the Rural Development Project. Regarding the road eligibility conditions, several AMHON members expressed that, given that the projects generally require municipal co-funding, they recommend the analysis of assigning a percentage less than 20% of this project's cost, pointing out that they also wanted to participate in selecting the roads, and manifesting to MCC officers that the Municipalities have a direct participation because at the time of requesting any work on their roads they must commit to contributing 20% of the resources prior to initiating the works, making the decision of the Municipal Corporation a fundamental element.

Additionally, the Rural Roads Selection Committee was put in place. The council is the instance established in the Compact to approve the selection of roads that will be financed through grant resources. SERNA, SAG, SOPTRAVI, FHIS, and AMHON, institutions members of the Council, with MCA-Honduras, have appointed their respective representatives. The Council's first work event is programmed for the end of January 2007.

C.1.4 Public Agricultural Goods Activity.

The Disbursements and Grants Manual was prepared and submitted on December 15, 2006 for the respective MCC No Objection. The Manual contains operational procedures, eligibility criteria and drafts for the summons and grant requests. It is expected that the first round of applications will be published in March 2007, and that the first grant will be allocated in June. These grants include funding for promoting germ plasma research and development, processes to enhance parcel productivity and actions directed toward increasing the efficiency of agricultural services.

C.2 Progress of the Transportation Project

Preliminary arrangements for the Transportation Project

a. Hiring the External Transportation Project Manager (TPM).

Once the bid evaluation for the TPM was completed, the technical evaluation report was submitted to the MCC for its respective No Objection on 11/1/2006. The bid envelopes were opened on 11/6/2006.

The MCC No Objection was obtained for the financial-technical report on 1/22/2006 and the contract was negotiated with the Louis Berger Group, obtaining the highest technical and financial qualifications. The contract was negotiated on 11/28/2006 for the amount of US\$ 2.96 million, 38% lower than the estimated US\$ 4.77 million, US\$ 3.27 for the Transportation Project Management and US\$ 1.509 for Administration of the Farm to Market Roads component, in accordance to the independent assessment provided by MCC during the Compact's preparation. The MCA-Honduras Board of Directors approved the contract on 12/5/2006. The contract will be signed with the Louis Berger Group during the month of January 2007.

b. Weight Control System.

The closing date is near for the consultation regarding technical support for economic, planning and legal aspects for implementing the Weight Control system, contracted by SOPTRAVI with World Bank support, and the results and output will be concurred with MCA-Honduras.

Definition of the strategy with MCC and other CA-5 donors for implementing the System to submit to SOPTRAVI is pending.

c. Multi-year plan for Road Maintenance

Letters of commitment were obtained from the President of National Congress and President of the Infrastructure Committee within that same power of State for allocating \$45 million dollars in the Road Fund Budget, the minimum amount concurred with MCC during a mission in November 2006?.

As well, the Road Fund submitted the 2007 – 2010 Multi-year Maintenance Plan for the amount of US \$214.0 million, distributed yearly, as follows:

Investment Program per Year

2007	2008	2009	2010	2007-2010
45.0	50.0	55.0	64.0	214.0

The Plan was submitted to SEFIN and SDP for the corresponding funding prioritization in the 2007 General Budget of the Republic. It was submitted to MCC and accepted on December 22, 2006.

C.2.1. Activity: Highway CA-5.

The Third Meeting of the Inter-oceanic Corridor Cooperation Table, MECO – CI, was held on October 4, 2006 with the participation of the MCC Infrastructure Mission comprised by Johannes Abebe and Burak Inanc, Director and Associate Director of Infrastructure, respectively, accompanied by Leah Sullivan from the Environmental and Social Team.

The following are among the topics addressed by the Mission with the MCA Team:

- Review of conditions precedent established in the Compact
- Technical requirements of the Road Maintenance Plan and funds allocation by the Honduran Government for road maintenance activities in 2007
- Resettlement Plan and engagement of the individual consultant to review the stipulations set forth in the OP 4.12, concerning the contents and constraints of national regulations to propose the fastest procedure to implement the Plans
- Detailed implementation plan of the Transportation Program
- On site review of the preliminary SOPTRAVI design for the CA-5 and the Tegucigalpa exchange to verify the implementation difficulties due to the effect on the area. similar

At the same time, four meetings were held with the Permanent Council constituted to support the Cooperation Table, with the objective of coordinating and exchanging information among the different Implementing Units in charge of the Inter-oceanic Corridor works. The most relevant issues discussed in this instance were:

- Quality of the works. Contracting an asphalt road specialist by SOPTRAVI to analyze the pavement situation in Honduras.
- Preparation of the Road Maintenance Plan for the next five years by the Road Fund. This document was adapted to the amounts concurred between MCC and SEFIN, and incorporates the observations made by the MCC Infrastructure Team, submitting the adjusted version in December 2006.
- Weight Control system. The consultants contracted by the World Bank have submitted two reports on the work progress.

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- Review of the Executive Agreement for the reserve of materials banks that will be used in the CA-5 sections funded by IDB, CABEI and MCC.
 - Road Safety. Review by the SOPTRAVI Road Safety Unit of the designs and identification of the blind points in the sections.

C.2.2 Secondary Roads.

This activity will start with contracting the External Manager of the Transportation Project in January 2007.

C.2.3 Weight and Dimensions Control System

Coordination was initiated with the SOPTRAVI Direction of Highways, particularly with the World Bank Projects Implementing Unit. The WBPU contracted a consulting service to prepare a proposal for a weight and dimensions control system. The study includes, among others, a joint review with the GDT of the laws in force and law reforms that shall be proposed in order to allow implementing an efficient system for weight control in the national road network and the recommendation of a master mechanism to establish these regulations; an analysis and recommendation of the Legal Framework that will govern the function of Dimension Control Booths, as well as the review of Central American treaties that govern the highway circulation of heavy vehicles; proposal of a more convenient alternative to implant the weight and dimension control system which could include the analysis of service contracts, concessions, etc; and an Implementation Plan for an experimental Pilot Program to operate the weight control system once the first stage is built with MCC funding. On its part, MCA- Honduras is reviewing the need to complement the studies funded by the World Bank with the purpose of assuring the system's sustainability once it is installed, through the most effective implementation proposal.

C.3 Financial Administration Performance of the MCA-Honduras PMU

The Price Waterhouse Cooper auditing firm performed the audit that corresponds to the February 22 to June 30, 2006 period. The audit began on the 10/10/2006 and the findings were presented to the PMU on 5/12/2006. The audit produced three reports: (i) Report of the audit. Planning, (ii) Report of Internal Controls and (iii) Report on Stages and Follow-up. The final audit report is awaiting MCC approval at the beginning of January 2007.

Regarding the subsequent audit for the period of June 2006 to June 2007, the PMU forwarded the request for proposals to the firms pre-selected by MCC. The audit request for proposal contains an optional period to June 2008, subject to MCA and MCC decision. It is expected that this audit will begin in February 2007.

Additionally, the following results were obtained during the report period:

- Preparation of the third concurrent disbursement request to MCC for the First Quarter of Fiscal Year 2007 (January - March 2007) at MCC, for a total of US \$1,594,660.
- Final joint discussion of the "Financial Accountability Plan- FAP" and the Memorandum of Understanding for Fiscal Agent Services, MCC and SEFIN.
- The concerns and recommendations provided by the audit for February to June 2006 were responded to.
- Expressions of Interest for the audit period July 2006 to June 2008 were received.
- The Accountant and Auxiliary Accountant were hired.
- Eleven payment transactions were made through SIAFI during the first quarter.

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- Resources in the amount of US \$3.1 million were executed by 12/31/06, corresponding to 79% of the resources programmed for 2006.
 - The final MCA Procurement Manual is expected at the end of January 2007 and will contain the MCC PMU comments

C.4 Program's Environmental and Social Management

Environmental and Social Management of the Transportation Program

During this period, the scope was defined of the social strategy work in the CA-5 North Highway Transportation Project, including the preparation of the Final Request for Proposal Document (RFP) for Preparation of the Resettlement Policy Frame, Resettlement Action Plans and Complementary Social Impact Studies Plans in CA-5 North.

- The analysis of the Honduran Juridical Framework for applying the Policies for Involuntary Resettlement of Populations and Clearing the Right of Way for improving the CA-5 North Highway was concluded. The analysis of the Policies Framework includes a proposal for mechanisms used in resettlements, relocation, and compensation of those possibly affected by the project.
- The draft for a Legislative Bill of Law to support mechanisms for negotiation, affectation, compensation and payment for the possibly affected by the project for improving the CA5 North was started.
- Assessment of the Expression of Interest (EOI) for the process of Preparation of Policies and Action Plans for Involuntary Resettlement in the CA-5 North was completed, finalizing with the selection of a short list of seven (7) firms that will be invited in January 2007 to present their technical and economic offers to execute the consultation.
- The draft of the Terms of Reference for contracting the Environmental Management Plan for the project to improve the CA-5 North was concluded
- The SOPTRAVI Environmental Management Unit was supported for it to initiate the process to renew the Environmental Licenses of the section in CA-5 North.

Environmental and Social Management of the Rural Development Project:

- With the MCA-Honduras Communications Officer, the development of an information and public consultation strategy to accompany, particularly, the Capacity Building Program for Producers was initiated, as well as the guidelines for applying the Gender Policy approved by the MCC in December 2006.
- The following instruments for Environmental and Social Management of the Capacity Building Program for FTDA Producers were reviewed and approved: Information, Communications and Education Plan, Environmental Plan, and the Gender Plan.
- The FTDA Environmental and Social Plan includes the generation of skills and capacities in beneficiaries in terms of sustainable production techniques containing conservation practices, plague control, adequate pesticide management and soil and water conservations practices to assure compliance with environmental standards and guidelines, safety in the work area, environmental protection and safe products for markets.
- Preparation of the FTDA Program Environmental and Social Follow-up Plan that will be implemented in January 2007 was started.

D. PROGRAM GOVERNANCE AND ADMINISTRATION

The majority of activities identified in the Program Implementation Plan have started. This section summarizes the main challenges encountered during the report period.

D.1 Resources approved by National Congress for Highway Maintenance through the Road Fund in the 2007 Budget.

National Congress approved the equivalent of US \$40 million for the Road Fund in the 2007 budget, amount that is US \$5 million less than the agreement between the Government and the Millennium Challenge Corporation. SEFIN expressed to MCC its willingness to incorporate the required US \$5 million as part of the Secretariat's multi-annual planning. The PMU manifested its concern to the MCA-Honduras Board regarding the MCC restrictions to the Transportation Project disbursement due to the non-compliance of this condition precedent.

This condition was concurred between MCC and the Government of Honduras as part of the Compact signed in June 2005 as a condition precedent for the Transportation Project disbursements. MCC has indicated that it will request the Government to identify a specific date to reflect the agreed Road Fund budget in the General Budget of the Republic.

D.2 Approval of the Credit Access Law.

The MCA-Honduras Board was very satisfied with the initiative provided by the PMU to support a Bill of Law to regulate the registry of collateral property (securities). The initiative intends to foment the access to credit, particularly for agriculture. Securities include collateral or guarantee property, inventories, and brands, among others. The PMU began the coordination of activities jointly with the Secretariat of the Presidency, the National Bank and Insurance Commission, with support from the Inter American Development Bank. During the second quarter of Fiscal Year 2007, the SDP and the NBIC with MCA-Honduras support, will disseminate the law, including in workshops with the main stakeholder groups. The workshops are also a platform to discuss the progress regarding the bill of law and defining the needs for technical assistance and other resources to strengthen the Property Registry System programmed in the Grants Agreement of the Millennium Challenge Account.

Although the initiative has been well accepted by the main stakeholders, its implementation requires additional PMU resources and expertise that were not originally contemplated in the Program's implementation activities. The PMU has incorporated the engagement of an expert consultant in its disbursement programming as well as visits to property registry models to serve as examples for designing the registry system on Honduras.

D.3 SEFIN Performance as Fiscal Agent.

The activities to strengthen SEFIN to perform as Fiscal Agent for MCA -Honduras have been implemented. During the period, SEFIN, MCC and the PMU completed the Fiscal Accountability and Memorandum drafts between SEFIN and MCA-Honduras for the Fiscal Agent services, discussing the final version on 12/14/06. Once approved by the MCA-Honduras Board of Directors, the version will be officially forwarded to SEFIN for signing. As well, SEFIN, MCC and the PMU prepared the job description and profiles of the technicians that will comprise the Fiscal Agent Unit. MCC will again assess the Fiscal Agent functions in February 2007. At the same time, MCA-Honduras started the selection and hiring process of a fiscal supervision firm whose service scope will depend on the results obtained when evaluating SEFIN.

E. KEY M&E ACTIVITIES

Design and Implementation of the MCA-Honduras Program Assessment.

Progress was made by inviting the interested firms to participate in the bidding process. The proposed services include coordination and execution of the Monitoring and Evaluation Plan, including the following among its key activities: (i) technical assistance in hiring the services for data collecting, (ii) execution of the mid term evaluation and (iii) final evaluation of the MCA-Honduras Program. The invitation letter for Expression of Interest of consulting firms was prepared on 10/05/06, receiving the MCC No Objection to the EOI letter on 10/20/06. The notice of invitation was published on 10/27/06, and the EOI envelopes were opened on 11/15/06. The EOIs were assessed and the evaluation report and short list was submitted to MCC on 12/14/06. It is expected that the MCC will issue its No Objection to the short list in January 2007.

Data Quality. The proposed service is the provision of an independent review of data quality of the MCA-Honduras Program. The objective of the data quality reviews is to verify the data reported and data of any survey funded by MCA-Honduras. Progress was made in the process to engage the firm responsible for this component, receiving the MCC No Objection to the EOI letter on 12/06/06. The notice of invitation was published on 12/23/06, and reception of the EOI is expected on 01/24/07.

The Second Quarterly Program Report and the Annual Complementary Report for Fiscal Year 2006 were completed. Both reports were approved by the Board of Directors on 12/5/06. Final approval by MCC of the advance and complementary reports is pending.

In the Rural Development Project, the EDA executor (Fintrac) began the site visits to gather the base line information of leader clients, including sales, income, employment, crops, yield, crop area, and levels of technology. The MCA-Honduras accompanied Fintrac to observe the process to gather data from producer leaders in Francisco Morazan. As of this visit, a letter of recommendations was prepared for Fintrac to guide it in complying with the monitoring and evaluation contract requirements, specifically for conducting the base line survey.

F. IMPEDIMENTS FOR IMPLEMENTATION AND MITIGATION MEASURES

The reported activities and the status of each of the condition precedents described in the previous sections reflect the remedial measures adopted by the PMU to expedite the Program's aggressive implementation.

G. OTHER DOCUMENTATION

Rural Development Project

- Report on Assessment of Expressions of Interest for the Credit Access Program, approved by MCC 12/18/06
- Draft of the Public Agricultural Donations Program Operating Manual of Operation, forwarded for MCC approval on 12/11/06
- Multi-annual Road Maintenance Plan for 2006-2010
- Monthly EDA Newsletter - October 2006
- Monthly EDA Newsletter - November 2006
- Analysis of Rural Credit and Implementation Plan for the Credit Access Program, Consultation Report - Daniel Meza

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- Monthly EDA Newsletter - December 2006

Transportation Project

- Report on Assessment of Expressions of Interest for Preparation of the CA – 5 Resettlement Plan, approved by MCC 12/18/06
- Report on Assessment of Technical Services of the Transportation Project Management, approved by MCC 11/3/06
- Report of Assessment of Combined Services of the Transportation Project Management, approved by MCC on 11/22/06
- Minutes of Negotiation between LBG and the MCA Honduras PMU
- Analysis of the Regulatory Framework for Resettlements in Honduras, Consultation Report - Mario Vallejo

Monitoring and Evaluation

- Report on Assessment of Expressions of Interest of the Program Evaluation Services, approved by MCC on 11/01/07 (or forwarded for MCC approval MCC on 12/14/06)

Administration

- Fiscal Accountability Plan
- Memorandum of Understanding for SEFIN Services as Fiscal Agent
- 2006 Budget Execution 2006 (SIAFI Report)

Governance

- Minutes of the MCA Honduras Board of Directors Meeting No. 13
- Minutes of the MCA Honduras Board of Directors Meeting No. 14
- Minutes of the MCA Honduras Board of Directors Meeting No. 15

ANNEX A:
Indicators Follow-up Table

Indicator	Goals																					
	Year /Period Ending																					
	2006	2007	2008		2009		2010		2011		2012		2013		2014		2015		2020		2025	
	Sep-30	Sep-30	May-01	Sep-30	May-01	Sep-30	May-01	Sep-30	May-01	Sep-30	May-01	Sep-30	May-01	Sep-30	May-01	Sep-30	May-01	Sep-30	May-01	Sep-30	May-01	Sep-30
Goal																						
Income Increase of beneficiaries (annual US\$ million) ¹	n/a																					
Measured by																						
Benefits from CA-5 Road Improvement: ²	n/a																					
Benefits from improvement of Secondary Roads ³	n/a																					
Income Increase of Farm resulting from the Rural Development Project ⁴	n/a																					
Employment increase resulting from the Rural Development Project ⁵	n/a																					
Benefits of Farm to Market Roads ⁶	n/a																					
Benefits of the Public Goods Grant Facility ⁷	n/a																					

¹ Disaggregated by level of income, gender, and age, where appropriate.
² Beneficiaries: CA-5 Road users, employees and businesses using the road
³ Beneficiaries: Paved secondary road users and employees and businesses using these roads.
⁴ Beneficiaries: Program Farmers
⁵ Beneficiaries: Employees of Program Farmers
⁶ Beneficiaries: Communities surrounding Farm to Market Roads
⁷ Beneficiaries: Public Goods Grant Facility users

		Goals Years											
			2006	2007		2008		2009		2010		2011	
Indicator	Baseline	Sep-30	May-01	Sep-30	May-01	Sep-30	May-01	Sep-30	May-01	Sep-30	May-01	Sep-30	May-01
Rural Development Project	Objective												
	No. of Program Farmers harvesting high value horticulture crops at year end		n/a										
	# of hectares harvesting high-value horticulture crops at year end		n/a										
	Outcome												
	# of business plans prepared by Program Farmers with assistance of T.A. provider (total for year)		n/a										
	Value of loans to Program Farmers (year end US\$ mil.)		n/a										
	% of MCA-Honduras loan portfolio at risk		n/a										
# Liens registered		n/a											

		Outcomes																			
		Year 1: Quarter				Year 2: Quarter				Year 3: Quarter				Year 4: Quarter				Year 5: Quarter			
Indicator		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Rural Development Project Activities	# of Technical Assistance visits to Program Farmers					2062															
	Funds lent by MCA Honduras to financial institutions																				
	Hours of Technical Assistance to financial institutions					0															
	Lien Registry equipment installed																				
	Kilometers of Farm to Market Road upgraded					0															

		Goal			
		Year			
	Indicator	Road	Baseline	FY 2008	FY 2010
Transportation Objective	Objective				
	Freight shipment cost form Tegucigalpa to Puerto Cortes	CA-5			
	Price of Basic goods basket	Farm to Market Roads			
	Number of days a Year the road is transitable				
	Average daily traffic volume in segments financed with MCC Funds	CA-5: T1			
		CA-5: T2			
		CA-5: T3			
		Secondary Roads			
		Farm to Market Roads			
	Outcome				
	Time Travel per journey	CA-5: T1			
		CA-5: T2			
		CA-5: T3			
		Secondary Roads			
Time Travel per journey	Farm to Market Roads				
Proportion of overweight vehicles on main highway network	CA-5				

ANNEX B

Infrastructure Project Technical Report

Infrastructure Project: CA-5 Road and Secondary Roads

1. Studies

Studies programmed carried out by the Outside Project Manager when starting activities in 12/2006:

CA-5

- Review design and update of Sections 3 and 4
- Feasibility Study and design Exit Las Flores to Villa de San Antonio
- Review pre feasibility four lanes option of in CA-5 sections
- Adjust exchange connection
- Review design and update Sections 1 and 2

Secondary Roads

- Review design and update

2. Civil Works

Civil Works Progress _____

Sub-Project	Studies (1)	Physical Progress in Quarter % Real/programmed	Physical Progress to date % Real/programmed	Financial Progress in this quarter – IPC Certificates (2) US\$/(% of contract)	Financial Progress to date – IPC Certificates (2) US\$/(% of Contract)
Total					

Notes: (1): Indicate status, as completed, underway, starting program date, not initiated, etc.
(2): IPC = Interim Payment Certificates

2.2 Civil Works(s) Contractor

Contract Breakdown and Progress Summary

Name of Contractor	
Contract original amount	
Contract amount reviewed	
Date starting note	
Starting date	
Initial Contract Period (in calendar days)	
Contract Period reviewed (in calendar days)	
Original finalization date	
Finalization date reviewed	
Time elapsed since initiation (calendar days)	
Time elapsed since initiation (% of contract period)	
Progress programmed to date (%)	
Real progress to date (%)	
Slippage (%)	
Work scope	Brief description of works

IPC Certificates Value for quarter (amount)	
IPC Certificates Value to date (amount)	
IPC Certificates Value for quarter (amount)	
Payments to date (% amount of contract)	
Withholdings to date (amount)	

2.3 Physical Works completed to date, main problems, and comments

Physical Works completed to date	Main problems encountered	Actions taken or proposed	Comments

3. Construction Works Supervision Consultants

Contract Details and Progress Summary

Name of Contractor	
Contract original amount	
Contract amount reviewed	
Date starting note	
Starting date	
Original finalization date	
Finalization date reviewed	
Time elapsed since initiation (calendar days)	
Time elapsed since initiation (% of contract period)	
Payments in this quarter (amount)	
Payments to date (amount)	
Payments to date (% amount of contract)	

3.1 Comments