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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
SECOND HONDURAS ROAD REHABILITATION AND IMPROVEMENT
PROJECT
IDA CREDIT 4466-HO
MAY 8, 2008
TO THE
REPUBLIC OF HONDURAS
AUGUST 9, 2011

ABBREVIATIONS AND ACRONYMS

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**HONDURAS
SECOND ROAD REHABILITATION AND IMPROVEMENT PROJECT**

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HONDURAS
SECOND ROAD REHABILITATION AND IMPROVEMENT PROJECT
(IDA CREDIT 4466-HO)
RESTRUCTURING PAPER

SUMMARY

The proposed changes are: (i) a change in the date of the legal covenant in the Financing Agreement in regard to the adoption of the Strategic Sector Plan and the revised Road Maintenance Plan; and (ii) an amendment to the Financing Agreement and to the Supplemental Letter in regard to Advance Conservation Measures.

In view of various initial delays in the implementation of the project, the Recipient was unable to complete - after due consultation with stakeholders - the preparation of the two key sector documents: (1) the Strategic Sector Plan; and (2) a revised Road Maintenance Plan, by the stipulated date of December 31, 2010. The Recipient and the Bank have agreed on a revised schedule by which the documents will be completed no later than June 30, 2012. Their completion remains an important contributory factor to the achievement of the project development objectives in regard specifically to improved governance and enhanced road management capacity.

The amendment to the Supplemental Letter dated October 13, 2008 would change the minimum area of thorn forest habitat to be conserved from approximately 2,000 to approximately 1,400 hectares. The Recipient and the Bank have agreed that the reduced minimum area can be considered viable for the conservation of flora and fauna species at risk. The revised area includes about 800 hectares of privately owned land parcels where long term conservation of thorn forest will be managed through a Decree and for which contracts providing payment for environmental services (PES) have been signed. A financially sustainable and operationally viable system of management of these lands is under preparation and will need to be up and running prior to the contracting of the San Lorenzo to Olanchito road improvement works.

There are no changes to the project development objective.

PROJECT STATUS

The project has yet to start implementing any of the planned works, although bid documents for two major road work contracts are expected to be issued in the third quarter of 2011. Progress has been made towards strengthening institutional capacity and implementation arrangements. Progress is also being made on the implementation of all Advance Conservation Measures stated in the Supplemental Letter, and an action plan has been agreed upon with the Government to complete the remaining critical steps which include the formal adoption of the Decree.

PROPOSED CHANGES

(i) Implementation schedule

The implementation schedule is modified to allow an extension for the preparation and subsequent consultation of the Strategic Sector Plan and of the revised Road Maintenance Plan to be completed by June 30, 2012 (Financing Agreement Schedule 2 Section I E.).

(ii) Advance Conservation Measures

The Financing Agreement Schedule 2 Section IV B 1 (b) and the Supplemental Letter dated October 13, 2008 will be amended such that: references made to the conservation of a total of approximately 2,000 hectares of thorn forest habitat in the Recipient's Upper Aguan Valley will be changed to approximately 1,400 hectares; and references made to the conservation area on currently privately owned land will be changed from 1,400 hectares to 800 hectares.