

Policy Reforms Matter: Promoting the Sustainability of MCC Programs in Honduras

The Millennium Challenge Corporation's investments aim to address poverty reduction by breaking down fundamental barriers to growth and generating additional income for beneficiaries both during and after MCC compact programs end. To achieve a full and lasting impact, MCC's investments cannot happen in isolation. That is why MCC and its partner countries look closely at the environment in which MCC investments are being made, and plan reforms to policies that might limit the investment's impact and sustainability. These can be changes to national policies, laws, regulations, or even ways of doing business. Below are some examples of reforms that have accompanied MCC investments in Honduras. These reforms are necessary to unlock the full potential of MCC programs and are designed to help improve the broader conditions for sustainable growth and investment in Honduras.

Rural Development Project

By improving the productivity of small farmers and enhancing the country's transportation network, the MCC Compact with Honduras recognizes that both infrastructure and improved agricultural and business practices will help Hondurans reach their potential for long-term poverty reduction. The Rural Development Project is designed to enhance the business skills, productivity, market access, and risk management practices of producers who own small and medium-sized farms by providing technical assistance, small grants, and access to credit and improving rural roads so that goods can be transported to markets more effectively.

Increasing Access to Credit through a Movable Property Registry

New but inaccessible lines of credit do little for poor farmers. That is why legal reform is an integral part of the rural development project in Honduras. Accessing credit is a challenge for those who do not have real property or other real estate assets that banks require as collateral. As part of the Access to Credit Activity in the Rural Development Project, micro-, small and medium-sized business owners and non-land owners, including farmers

and women entrepreneurs, have increased access to credit thanks to the newly-enacted Secured Transaction Law and implementation of a movable property registry system.

In order for this activity to succeed, MCC and the Government of Honduras (GOH) assessed the existing legal framework for secured transactions, and supported a draft law that was passed by the Honduras Congress in August 2009 and ratified in January 2010. This law improves the process for credit seekers to use an entirely new set of property (movable, non-real estate)—such as equipment, shop inventory, future crops, tractors, supply contracts, sewing machines, and more—as collateral, as well as a registry system to monitor the property and allow lenders to collect in the case of default.

In addition to these legal reforms, the Compact also funded the implementation of the movable property registry system, which is linked with the land registry system that holds information on real estate and mortgages. Now managed by the Chamber of Commerce and Industry in Tegucigalpa, the registry will be fully functional and banks can start registering these alternative property pledges, such as tractors, by the end of 2010. The expected impact is an increase in credit availability with better terms for micro-, small- and medium-sized business owners and entrepreneurs due to: 1) a reduction in lending risk with diversified collateral; and 2) lenders' ability to verify and recover pledged collateral.

Transportation Project

MCC funds are supporting the improvement of 107 km of the CA-5 North Highway, over 60 km of secondary roads, and close to 500 kilometers of rural roads throughout the country. The CA-5 North Highway is the most important road connecting Port Cortes, the main port for goods exported from Central America to the United States, to San Pedro Sula and Tegucigalpa, the two largest cities in Honduras. Two sections of the CA-5 and the rural and secondary roads will be completed by September 2010 and the two remaining sections of the CA-5, co-financed by the Central American Bank for Economic Integration, are scheduled for completion by June 2012.

The transportation project aims to reduce the cost of transportation for people using the road, which will help them get their goods to markets more cheaply. Equally important for MCC was ensuring that people who would be impacted by the construction were treated fairly and that improved road conditions would be maintained long after MCC-funded road construction was complete. To achieve both of these goals, MCC and country partners sought several policy reforms to complement the transportation project.

Ensuring Proper Resettlement to Meet Project Timelines and Provide Fair Compensation

When improving or constructing roads, project developers often must clear and sometimes expand the road Right of Way in order to prepare the site for new construction and to help ensure public and traffic safety. This clearing and expansion may result in families being moved away from the project site or losing access to productive assets,

such as agricultural crops, located within the project site. In these cases, it is important to ensure that those being resettled are compensated in a manner that ensures that their livelihoods are fully restored.

Resettlement done poorly can often have significant impacts on local economies and livelihoods while good resettlement planning can help reduce project timelines and costs. To enable MCA-Honduras, the entity implementing the compact, to carry out a comprehensive resettlement program, the GOH recognized the need to pass a special decree providing MCA with full authority to carry out proper resettlement planning and implementation. The passage of this decree allowed MCA to go beyond what current Honduran law allows so that it could provide affected parties with timely and fair market-value compensation. The decree also facilitated MCA's ability to quickly and responsibly purchase and acquire additional land in some portions for a wider Right of Way. Thanks to the GOH decree, resettlement activities in Honduras took place quickly and effectively, which allowed road construction to begin within project timelines. Compared to other projects investing in the same roads and facing the same resettlement needs, MCA-Honduras compensated affected parties, cleared the Right of Way, and started construction more quickly, in large part because this decree was in place. Given the speed, quality and success of the MCA-led resettlement, the GOH Roads Ministry, SOPTRAVI, is now considering how to adopt MCA's approach in future roads projects.

Making Sure that Roads Last

Normal wear and tear on roads is made worse by overloaded and overweight trucks. To help ensure the sustained maintenance of improved roads, MCC funded the design of a weight control system and promoted passage of legislation that creates the legal framework to pursue an effective vehicle weight control system in Honduras. Although MCC terminated assistance for the weight control system activity in 2009 as a result of actions by the government of Honduras that are inconsistent with MCC's eligibility criteria, MCC supported efforts by the GOH and other donors to implement the MCC-funded design of a weight control system. Other donors are currently working with the GOH to construct and operate a weight control system that will help maintain roads so that they last longer and allow for more farmers to export their goods in a timely and safe manner.

To ensure sustainability of these roads, MCC supported GOH efforts to develop legislation to empower Fondo Vial, the national road maintenance authority, to better address road maintenance issues by becoming the responsible entity for weight control. The GOH previously maintained a road maintenance budget of less than \$40 million per year in the time leading up to the MCC compact. As part of the MCC compact, the GOH increased its road maintenance budget from \$37 million in 2005 progressively to \$64 million in 2010, and recognized the importance of protecting the investments made in the national road network