
CREDIT NUMBER 1 HO

**Development Credit
Agreement**

(Western Highway Extension Project)

BETWEEN

REPUBLIC OF HONDURAS

AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

DATED MAY 2, 1961

Columbia, United States of America, as of the day and
year first above written.

REPUBLIC OF HONDURAS

By

Pérez Davila
~~Authorized Representative~~

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

H. A. B. W. J.

~~Vice President~~

FOR IMMEDIATE RELEASE



INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H STREET, N.W., WASHINGTON 25, D. C. TELEPHONE: EXECUTIVE 3-6360

PRESS RELEASE NO. 4
May 12, 1961

SUBJECT: First IDA Development Credit

The International Development Association (IDA) today extended its first development credit, marking the beginning of active financing operations by this new affiliate of the World Bank. The credit will make \$9 million equivalent available to Honduras to assist in carrying out a program of highway development and maintenance.

IDA, which was created by member countries of the World Bank in the fall of 1960, now has 42 members and initial subscriptions equivalent to \$863 million. It is an independent legal entity with financial resources separate from those of the World Bank. It is intended to assist countries which for reasons beyond their control are not able to achieve a satisfactory rate of economic development on the basis of their own resources and conventional external financing. The terms of IDA's financing are not specified in its charter, which prescribes only that they shall be flexible and shall bear less heavily on the balance of payments of underdeveloped countries than do orthodox loans. The terms of the credit announced today, while not necessarily indicative of the general pattern of future IDA credits, are strikingly different from the terms on which development funds have hitherto been available.

The credit is for a term of 50 years, interest-free. It is repayable in foreign exchange, amortization to begin after a 10-year period of grace. Thus the first payment will be due in September 1971. Thereafter, 1% of the principal

will be repayable annually for 10 years and 3% will be repayable for the final 30 years. A service charge of 3/4 of 1% annually on the amounts withdrawn and outstanding will be made to meet IDA's administrative costs.

IDA is presently investigating projects situated in countries of Africa, the Middle East, South Asia and the Far East, as well as in Latin America. They include not only projects of the type the World Bank finances, such as road development, port facilities and irrigation works, but a much broader range, such as industrial estates, municipal improvements and technical training programs. IDA is specifically designed to finance projects which contribute most to the development of the country concerned, whether or not they are directly productive. In determining which projects to finance, IDA will apply the same standards of project preparation and execution as the Bank does. This will be facilitated by the fact that its affairs and those of the Bank are jointly administered. Mr. Eugene R. Black as president of the World Bank is ex officio President of IDA, and the officers and staff of the Bank serve in their same capacities in IDA.

This first development credit of IDA will assist in the further development of Honduras' highways. The program being financed includes a 62-mile extension of the Western Highway of Honduras, from its present terminus at Santa Rosa de Copan to the border of El Salvador; the construction of feeder roads in Western Honduras; the continuation for two years of a highway maintenance program; and a highway planning survey.

The new extension will traverse a region which, although it is one of the most populous in Honduras, is still not accessible by road. The products of the region move out mainly by muleback and to a limited extent by air transport. As a result, agriculture has been restricted mainly to subsistence

farming. The project will both stimulate production on existing farms and open new land to settlement.

Furthermore, when the extension of the Western Highway is complete, there will be a direct route linking Puerto Cortes on the Caribbean in the north with El Salvador and Guatemala in the south. The provision of a shorter route between the rapidly developing northwestern region of Honduras and the countries to the south will effect large economies in the transportation of goods between these regions and will contribute to the economic integration of the three countries. The new extension will also encourage agricultural production on lands served by the existing Western Highway.

This phase of the program is a further step in road development undertaken by Honduras with the assistance of the World Bank. A Bank loan of \$4.2 million made in 1955 for a program of highway maintenance also financed preliminary engineering studies of the Western Highway extension; and a Bank loan of \$5.5 million in 1958 (made concurrently with a loan of \$5 million from the U.S. Development Loan Fund) helped to finance the construction of a 45-mile section of the Northern Highway and of bridges and other works on the Western Highway to make it an all-weather road.

Substantial progress has already been made in achieving the purposes of the highway maintenance program assisted by the earlier Bank loans. The IDA development credit will finance the purchase of additional maintenance equipment and the continuation of consultants' services for a period of two years. The highway planning survey is needed to enable Honduras to plan the further development of her highway system on sound lines.

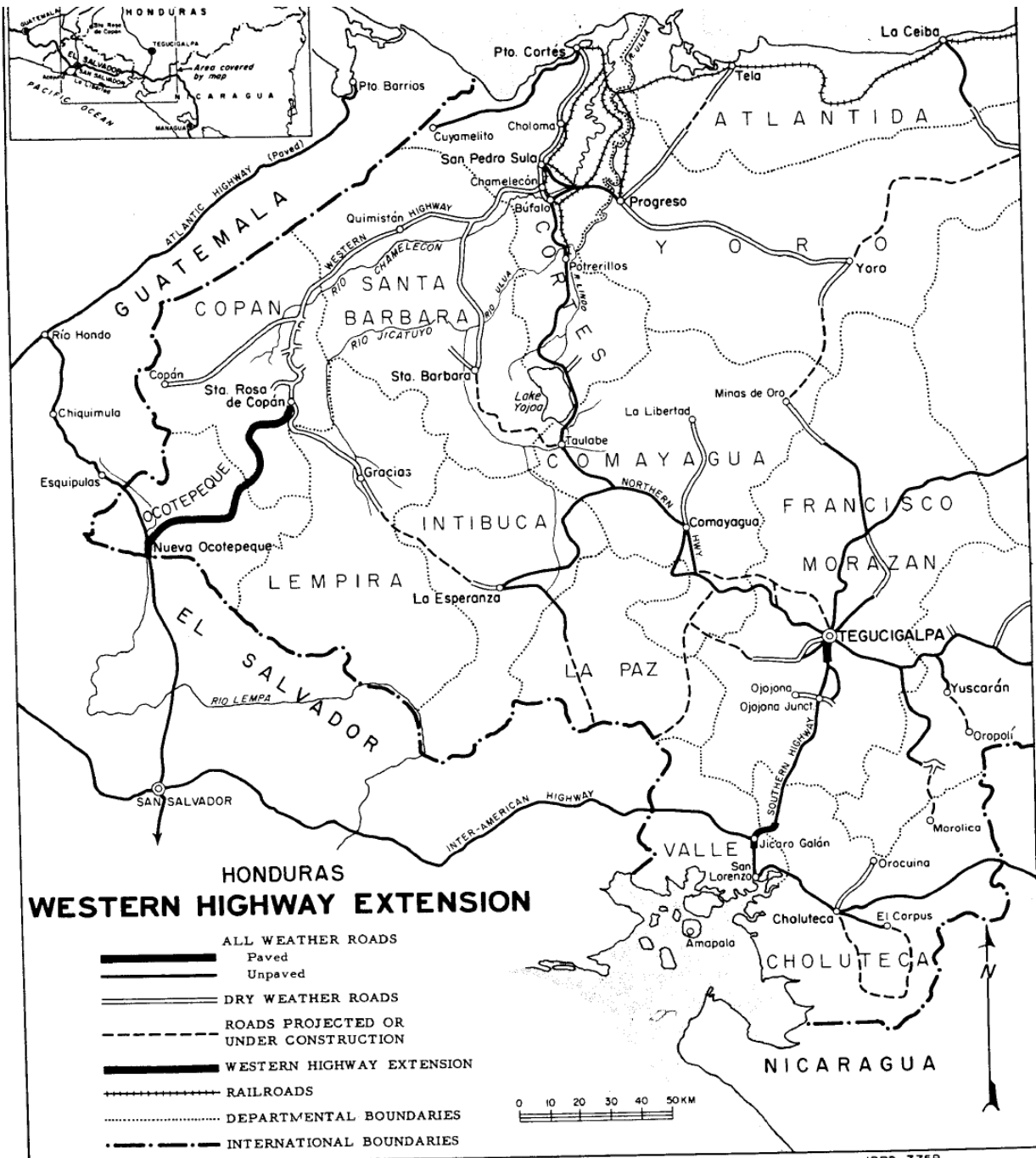
The estimated total cost of the project is equivalent to about \$13.5 million, of which the IDA credit will finance two thirds. The remaining costs will

be met by the Government from its own resources and from a loan of \$2.5 million from the Inter-American Development Bank. The construction work in the project will be carried out under contracts awarded on the basis of international competitive bidding.

Honduras is among the least developed of the Latin American countries, partly because mountains and rugged terrain constitute almost 90% of its land area and make communications difficult. Although only one quarter of the country is cultivated, the proportion of rural population is the highest in the Western Hemisphere, and per capita income is one of the lowest in Latin America. In recent years, Honduras has begun to provide some of the basic facilities, such as roads and electric power, needed to stimulate economic growth. A more satisfactory rate of growth, however, will require investment and capital imports on a substantially higher scale than in the past.

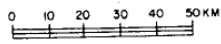
After having been approved by IDA's Executive Directors, the Development Credit Agreement was signed by His Excellency Celeo Davila, Honduran Ambassador in the United States, on behalf of Honduras, and by Sir William Iliff, Vice President, on behalf of the International Development Association.





**HONDURAS
WESTERN HIGHWAY EXTENSION**

- ALL WEATHER ROADS
 - Paved
 - Unpaved
- DRY WEATHER ROADS
 -
- ROADS PROJECTED OR UNDER CONSTRUCTION
 -
- WESTERN HIGHWAY EXTENSION
 -
- RAILROADS
 -
- DEPARTMENTAL BOUNDARIES
 -
- INTERNATIONAL BOUNDARIES
 -



FEBRUARY 1961

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