

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

**REGIONAL ROAD INTEGRATION PROGRAM AND PROPOSED
REFORMULATION OF LOAN 2470/BL-HO**

(HO-L1104)

LOAN PROPOSAL

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ABBREVIATIONS

CABEI	Central American Bank for Economic Integration
COALIANZA	Comisión para la Promoción de la Alianza Público – Privada [Commission for the Promotion of Public-Private Partnerships]
ESMR	Environmental and Social Management Report
IERR	Internal economic rate of return
IHAH	Instituto Hondureño de Antropología e Historia [Honduran Institute of Anthropology and History]
INSEP	Secretaría de Infraestructura y Servicios Públicos [Secretariat of Infrastructure and Public Services]
INVEST-H	Inversión Estratégica de Honduras [Strategic Investment-Honduras]
km	Kilometer(s)
LIBOR	London Interbank Offered Rate
MCC	Millennium Challenge Corporation
MCA-H	Millennium Challenge Account-Honduras
MPC	Mesoamerican Pacific Corridor
OEL	Optional electronic link
POM	Program Operations Manual
PPP	Public-private partnership
RICAM	Red Internacional de Carreteras Mesoamericanas [International Network of Mesoamerican Highways]
RVN	Red Vial Nacional [National Road Network]
SCF	Single Currency Facility
SIAFI	Sistema Integrado de Administración Financiera [Integrated Financial Management System]
SOPTRAVI	Secretaría de Obras Públicas, Transporte y Vivienda [Secretariat of Public Works, Transportation, and Housing]
TEU	Twenty-foot equivalent unit
VOC	Vehicle operating cost

PROJECT SUMMARY

HONDURAS REGIONAL ROAD INTEGRATION PROGRAM AND PROPOSED REFORMULATION OF LOAN 2470/BL-HO (HO-L1104 and 2470/BL-HO)

Financial Terms and Conditions (HO-L1104)								
Borrower: Republic of Honduras Executing agency: Inversión Estratégica de Honduras [Strategic Investment-Honduras] (INVEST-H)				Ordinary Capital Single Currency Facility (SCF)	Fund for Special Operations			
			Amortization period:	30 years	40 years			
			Disbursement period:	4 years	4 years			
			Grace period:	72 months	40 years			
Source	Amount	%	Interest rate:	SCF-Fixed ^(a)	0.25%			
IDB (Ordinary Capital):	US\$12 million	60	Inspection and supervision fee:	(b)	N/A			
IDB (Fund for Special Operations):	US\$ 8 million	40	Credit fee:	(b)	N/A			
Total:	US\$20 million	100	Currency of approval:	United States dollars				
Structure and Financing of the Regional Road Integration Program								
			Amount	%				
HO-L1104 – new resources:			US\$ 20 million	13				
Reformulation of loan 2470/BL-HO: ^(c)			US\$134 million	87				
Total:			US\$154 million	100				
Project at a Glance								
Project objective: The program's general objective is to improve regional physical integration and road connectivity in Honduras, as well as road safety. The specific objectives are to reduce vehicle operating costs and travel times for people and goods on the integration corridors linking Honduras with El Salvador and Nicaragua. To achieve these objectives, the program includes, among other things, rehabilitation and improvement of the three road segments located on the Mesoamerican Pacific Corridor.								
Special contractual conditions precedent to the first disbursement of the loan: (i) presentation of a legal opinion on the validity and enforceability of the loan contract, as well as on the competency of INVEST-H to execute the project (paragraph 3.1); (ii) presentation of evidence of the entry into force of a Program Operations Manual (POM), pursuant to the terms previously agreed on with the Bank (paragraph 3.2); and (iii) presentation of evidence that the operation has been incorporated in the Integrated Financial Management System (SIAFI) and the Executing Units for Externally Financed Projects (UEPEX) module (Annex III, Section 4.2).								
Special contractual conditions for execution: (i) along with the bidding documents for each of segment of program works, the executing agency will present, to the Bank's satisfaction: (a) the Environmental and Social Management Plan for the corresponding road segment, as provided for in the Environmental and Social Management Report (ESMR); (b) the Involuntary Resettlement Plan, in the event that the works require the relocation of persons or economic activities (paragraph 2.6); and (c) other environmental and social conditions set forth in the ESMR (paragraph 2.6); (ii) a condition previously met, the executing agency has an administrative unit made up of personnel with the skills required to execute the program; any changes to key personnel identified in the POM must be submitted for the Bank's consideration to determine that this capacity is maintained at all times (paragraph 2.9); (iii) the supervision of works will be contracted prior to the signing of the corresponding works contracts (paragraph 1.26); (iv) the term for the material start of all program works will be three years from the entry into effect of the loan contract (paragraph 2.1); and (v) before works begin in each of the stretches of road: the borrower will present, to the Bank's satisfaction, evidence that: (a) it has obtained the environmental permits required by national legislation; (b) it has carried out at least one public information and public consultation process; and (c) it has secured the rights of way for at least 70% of the length of the road segment involved (paragraph 2.6).								
Exceptions to Bank policies: None.								
Project qualifies as: ^(d)								
	SV	<input checked="" type="checkbox"/>	PE	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>	CI	<input checked="" type="checkbox"/>

^(a) The borrower will pay interest on the outstanding balance of this portion of the Ordinary Capital loan at a LIBOR-based rate. Once the outstanding balance reaches 25% of the net amount approved or US\$3 million, whichever is greater, the base rate will be set on this balance.

^(b) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the corresponding policies.

^(c) The financial terms will not be modified, and the Republic of Honduras will assume all of the financial obligations. See paragraphs 1.31, 1.32, 1.33, and 1.34.

^(d) SV (small and vulnerable countries), PE (poverty reduction and equity enhancement), CC (climate change, sustainable energy, and environmental sustainability), CI (regional cooperation and integration).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Context.** With a population of 8.72 million¹ and per capita income of US\$2,236,² Honduras is one of the poorest countries in the region.³ Its gross domestic product (GDP) in 2014 was US\$19.506 billion, representing approximately 12% of the GDP of the Central American region.⁴ Since the economic crisis of 2008-2009, Honduras has experienced a moderate recovery, driven by the country's more dynamic sectors such as agriculture and manufacturing, complemented by a growth in exports.⁵ This recovery was reflected in average GDP growth of 3.3% in 2010-2014, equal to the historical average for the last three decades. However, the recovery has occurred in a context of low productivity and fiscal deterioration, limiting the country's growth potential.⁶ Adding to this problem is inequality, which continues to prevent the country's growth from being inclusive.⁷
- 1.2 These fiscal constraints, together with significant institutional deficiencies, have resulted in a road network with a low percentage of paved roads and poor maintenance (paragraph 1.10), thus limiting national connectivity and regional integration, increasing logistics costs, and restricting the potential integration of the country's production into international markets (paragraph 1.4). Data from the World Economic Forum for 2013-2014 places Honduras 111th (among 148 countries) in the Global Competitiveness Index, and 114th in the "quality of roads" subcategory, within the important category of infrastructure. Similarly, the World Bank's 2014 Logistics Performance Index ranks Honduras 103rd out of 160, below most Central American countries and below the Latin American average.
- 1.3 In order to address the economic growth challenges, the Government of Honduras has been implementing medium- and long-term plans that, in addition to seeking macroeconomic stability, promote the country's competitiveness.⁸ Thus, areas of intervention with the greatest ability to affect growth and development, such as investment in human capital, basic infrastructure, and business climate, have been

¹ Instituto Nacional de Estadística [National Statistics Institute] (INE) (<http://www.ine.gob.hn/>).

² Central Bank of Honduras (http://www.bch.hn/pib_base2000.php).

³ Honduras is a lower middle income country that faces significant challenges, with nearly two-thirds of the country's population living in poverty and more than four in every 10 people living in extreme poverty (2013). In rural areas, 5.6 of every 10 households experience extreme poverty (IDB: Country Strategy with Honduras 2015-2018, document GN-2769-2).

⁴ Central American Monetary Council (<http://www.secmca.org/simafir.html>).

⁵ Honduras is pursuing a growth strategy aimed at global trade, which allows it to diversify its productive sector and seek greater access to regional and international markets. In 2004, it signed the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), which expanded economic opportunities among the countries involved, starting with the elimination of tariffs, the opening of markets, and the reduction of trade barriers.

⁶ The main factors accounting for low growth and scant increases in productivity relate to the low accumulation of human capital, road and electric power infrastructure gaps, limited global integration, and scarce technological innovation (IDB: Country Strategy with Honduras 2015-2018, document GN-2796-1).

⁷ The country has a high degree of income inequality, with a Gini coefficient of 0.54—one of the highest in Latin America and the Caribbean.

⁸ Visión de país y el Plan de Nación 2010-2022 [Country Vision and National Plan 2010-2022], in effect since 2010.

given priority. Particularly notable with regard to transportation infrastructure, which is considered one of the foundations of the national development strategy,⁹ is the country's link to, and active participation in, the regional integration initiative known as the Mesoamerica Project (paragraph 1.4), the objective of which is to foster physical, economic, and trade complementarity and cooperation between countries.

- 1.4 **The Mesoamerica Project.** Under the Mesoamerica Project, Honduras and the countries of the region (Guatemala, El Salvador, Nicaragua, Costa Rica, Panama, Belize, Colombia, Mexico, and the Dominican Republic) identified the need to promote the development of the most commercially important road corridors, to be carried out at the national level, according to standards consistent with the demands of international traffic.¹⁰ This set of trunk and complementary corridors today makes up the International Network of Mesoamerican Highways (RICAM), the most important transportation program of the Mesoamerica Project ([OEL#4](#)). It consists of the Pacific (paragraph 1.6) and Atlantic Corridors and a series of complementary branch and connecting roads. Together, they are the basis of a coordinated plan for developing the sector and addressing the high costs of transportation. Studies¹¹ indicate that highway transportation costs in Central America represent between 30% and 35% of total logistics costs. Moreover, according to a gravitational model for Central America developed by the World Bank in 2012, which uses an econometric study to evaluate the relation between freight volumes and distances between centers of production and centers of consumption, a 1% increase in road transportation time and costs could reduce Central American exports by 1.65%.¹²
- 1.5 **Regional integration.** Honduras has a favorable geographic position, making it an essential land and maritime corridor for Mesoamerica. The country's important role in Central American integration, in terms of roads, is based on its relation to the region's principal land corridors, such as the Mesoamerican Pacific Corridor (MPC) (paragraph 1.6), the Pan American Corridor, and the corridors of the Northern Triangle. In the maritime realm, Honduras has one the largest port infrastructures in the region (Puerto Cortés, paragraph 1.31), with access to both the Caribbean Sea and the Pacific Ocean. Geopolitically, the country is important by virtue of its long border with three of the five countries of Central America: Guatemala, El Salvador, and Nicaragua. The Government of Honduras, aware of this potential, included as part of its strategic guidelines on productive infrastructure, within its National Plan 2010-2022, the challenge of taking maximum advantage of the country's geographic location, with the aim of becoming the most important circuit for inter-oceanic land transportation of freight in Central America. The goal is to achieve a 285% increase in tons of freight transported for export between 2009 and 2038 ([OEL#3](#)).
- 1.6 **The Mesoamerican Pacific Corridor.** The MPC is considered the region's main logistical corridor for transportation and trade integration. It constitutes the shortest

⁹ Government of Honduras Strategic Plan (2014-2018).

¹⁰ Highway transit is the predominant means of moving freight intraregionally in Central America.

¹¹ *Five Explanations to High Costs of Service Provision*. Ruiz Olmedo, 2007; WTO, 2010.

¹² Gordillo, Stokenberga, and Schwartz, 2010, state that transportation cost and time produce an effect equivalent to an increase in "real" distance between markets.

route between Puebla (Mexico) and Panama City, at the lowest average altitude above sea level,¹³ accommodating 95% of the region's road freight¹⁴ (see map at [OEL#5](#)). Due to its characteristics, it is considered the most efficient means of road integration, hence the priority that its consolidation has been given by the region's countries.¹⁵

- 1.7 **The MPC in Honduras.** In passing through Honduras, the MPC serves as the structural axis for the southern portion of the country, facilitating its link with the consolidated logistics corridor of Tegucigalpa-San Pedro Sula-Puerto Cortés (paragraph 1.10), via route CA5 South and the Dry Canal. Totalling 137 kilometers (km), it crosses the country, from the border town of El Amatillo (in El Salvador) to Guasaule (in Nicaragua), and includes the international routes CA1 (from El Amatillo to Choluteca) and CA3 (from Choluteca to Guasaule) (see map at [OEL#5](#)). Its direct area of influence is over 6,000 km² in the departments of Choluteca and Valle, with total population of more than 600,000, the great majority of which is poor¹⁶ ([OEL#6](#)), while its indirect area of influence extends over some 28,000 km² in the departments of La Paz, Francisco Morazán, El Paraíso, Comayagua, and Cortés, whose inhabitants, numbering 3.7 million, are potential beneficiaries.¹⁷
- 1.8 The fact that the MPC in Honduras links the borders of two Central American countries makes it a natural land corridor that is a must for intraregional trade. Approximately 6% of the volume of all MPC freight and roughly 23% of goods imported to and exported from Honduras moves through this corridor.¹⁸ The major influence of the MPC on the population and on the Honduran economy highlights the importance of reducing inefficiencies associated with the main road system, as reflected in the high cost of highway transportation in Central America, which represents 30% to 35% of total logistics costs.¹⁹ In this context, having an efficient MPC road infrastructure in Honduras, capable of sustaining the continual increase in demand, is a prerequisite to furthering territorial and regional integration, helping develop productive activities, facilitating the movement of people and the exchange of goods and services, and reducing costs, thus making the country more competitive.
- 1.9 Improvements to the road infrastructure of Honduras's Pacific Corridor will have a synergistic effect on the work that the Bank is doing to improve and optimize the border crossings of Guasaule and El Amatillo. Through operation NI-L1083 (loan

¹³ From the city of Arriaga, it follows the Pacific coast route until it reaches Panama City, a total distance of 3,244 km.

¹⁴ Based on the information provided by all of the customs services of the Mesoamerican countries in 2011, the main freight flows through the corridor were found to amount to approximately 7.9 million tons, equivalent to US\$11.2 billion (Pacific Corridor: Origin-Destination Matrix, ALG 2011).

¹⁵ Mesoamerican Pacific Corridor Acceleration Program ([Mesoamerican Pacific Corridor](#)).

¹⁶ The poverty rates in the departments of Choluteca and Valle are 70.7% and 76.4%, respectively, above the national average of 64.5%. In terms of extreme poverty, the rates are 51.3% and 57.8%, respectively, exceeding the national average of 42.6%.

¹⁷ Source: National Statistics Institute, 2014.

¹⁸ Ten percent of the country's exports and 13% of its imports pass through the border at El Amatillo and Guasaule (IDB, 2013).

¹⁹ *Five Explanations to High Costs of Service Provision*. Ruiz Olmedo, 2007; WTO, 2010.

3484/BL-NI), the Bank is financing a Border Integration Program in Nicaragua designed to improve infrastructure and enhance management of the border at Guasaule (with virtual integration of border controls between Honduras and Nicaragua). At the same time, through FOMILENIO II, infrastructure improvements at the El Amatillo border crossing (on the El Salvador side) are being made, with the aim of optimizing national controls between the two countries, in line with studies conducted by the Bank. The Central American countries are in the process of approving the Regional Trade Facilitation and Competitiveness Strategy, with implementation of five short-term actions (already begun, and due to be completed by mid-2016), including a commitment to develop National Trade Facilitation Plans involving coordinated border management. The simultaneous optimization of road and border infrastructure is making a decisive difference in ensuring that reductions in travel time and costs on the Pacific Corridor in Honduras have a regional impact.

- 1.10 **The status of transportation infrastructure in Honduras.** Due to its importance for connectivity and competitiveness, Honduras's main road network is an integral part of RICAM. It is made up primarily of the network of interurban highways and the Atlantic seaport of Puerto Cortés (paragraph 1.31). The total length of the road network is 15,159.6 km.²⁰ Of this, 3,305.5 km (21.8%) constitute the main road network, while 2,897.5 km (19.1%) consist of a secondary road network, with 8,956.5 km (59.1%) made up of local roads. Of the main road network, 85.8% is paved, while 29.1%²¹ of the secondary network is paved. With a surface area of 112,000 km² and a road density²² of 0.13 km/km,² Honduras has one of the least developed road networks in Central America. The Tegucigalpa-San Pedro Sula-Puerto Cortés corridor (300 km), part of RICAM's Atlantic Corridor (paragraph 1.4), is the only consolidated logistics axis, connecting more than 30% of the nation's population, and accounting for 80% of exports, 40% of GDP of the services sector, and 30% of GDP of the industrial sector. It includes the main Atlantic port of Puerto Cortés, which accounts for 580,000 TEU/year, approximately 85% of total maritime freight traffic, and 50% of the value of the country's foreign trade.
- 1.11 **The problem.** In the particular case of the MPC in Honduras, the regional freight transportation demand is exerting increasing pressure on the conditions of service, limiting greater physical intraregional integration and road connectivity for the country and worsening the conditions for transporting people and goods. Moreover, due to the fact that its roads have already reached their useful design life,²³ the corridor is physically and functionally sub-optimal, with deteriorating

²⁰ Twenty-three percent of the road network is in good condition, 52% in fair condition, and 25% in poor condition.

²¹ Data: Red Vial Nacional [National Road Network] (RVN). These highways consist of the network's trunk roads, secondary roads that link cities and towns to the RVN, and local roads that link towns and villages to the RVN or to the secondary road network.

²² This is an indicator of the development of the highway network, according to international standards, obtained by dividing the number of kilometers in the national road network by the country's surface area.

²³ Highways were constructed in the 1950s and rehabilitated in the 1990s, and have deformations in the roadway, along with cracks and potholes. The average International Roughness Index (IRI) for the El Amatillo-Jícaro Galán and Jícaro Galán-Choluteca segments is 3.68 and 4.99, respectively; these figures are expected to drop to around 2.2 once the works are completed. The corridor has average daily traffic of 2,592 vehicles between El Amatillo and Jícaro Galán, 7,429 vehicles between Jícaro Galán and Choluteca, and 1,904 vehicles between Choluteca and Guasaule.

conditions that increase overall transportation costs (vehicle operating costs and travel times) for its users,²⁴ with effects, as well, on road safety.²⁵ These conditions, coupled with the sharp imbalance in the freight mix in favor of rail (paragraphs 1.6, 1.7, and 1.8), limit the development and consolidation of the MPC as a logistics corridor for transportation and trade integration in the region, making its immediate rehabilitation and improvement a necessity.²⁶

- 1.12 In order to reduce how far behind the Honduran road network is relative to the rest of Central America and to not limit economic activity and productive development, there need to be sustainable improvements in freight and passenger transportation in the network's priority corridors, and they need to be integrated with the rest of the country and with neighboring countries, so as to avoid high transportation costs, which limit the country's growth and development. The government has been promoting various financing modalities, including arrangements such as public-private partnerships (PPPs) for the construction, rehabilitation, and improvement of the road network, according to their levels of traffic, as a means of ensuring that Honduras positions itself in the region as a logistics hub, with competitive transportation costs. To date, under PPPs, concessions involving the logistics corridor have been granted for construction, operation, and maintenance of the Goascorán-Villa de San Antonio segment, and for operation and maintenance of the CA5 North (linking Tegucigalpa-San Pedro Sula-Puerto Cortés), as well as for the upgrading, operation, and maintenance of the tourism corridor (La Barca-Progreso-Tela-La Ceiba), among others.
- 1.13 In September 2010, the Commission for the Promotion of Public-Private Partnerships (COALIANZA) was established as a deconcentrated entity of the Office of the President of the Republic, with legal status and its own assets, charged with managing and promoting PPP projects and processes. COALIANZA oversees bidding procedures and the awarding of works (paragraph 1.12). In regard to road projects, the Secretariat of Infrastructure and Public Services (INSEP)—formerly the Secretariat of Public Works, Transportation, and Housing (SOPTRAVI)—signs the corresponding contracts and, as the granting body, assumes responsibility for ensuring contract compliance. In light of this new responsibility, in August 2013 SOPTRAVI, through Agreement 0244, established the Concession Execution Unit to ensure that concession contracts were carried out satisfactorily.²⁷ These are the first road concessions granted in Honduras, and they require a unit that has been trained and strengthened (with the necessary personnel and equipment) to take on these responsibilities and ensure that work is carried out according to international standards.

²⁴ Program interventions on MPC road segments are expected to reduce vehicle operating costs by 7% to 14%, with a 2% to 5% reduction in travel times for people and freight.

²⁵ The death rate from traffic accidents in Honduras is 27.3 per 100,000 inhabitants. The average for Latin America and the Caribbean is 16.3 per 100,000 inhabitants.

²⁶ International experience in implementing road rehabilitation and improvement projects indicates that such projects result in: (i) reduced vehicle operating costs; and (ii) shorter travel times. Similar projects in Honduras show reductions of around 35% in VOC and 20% reductions in travel times. Source: [World Bank Project Implementation Report](#) and [Final Report on CA5 North](#).

²⁷ In the Secretariat of Finance (SEFIN), a Fiscal Contingencies Unit was created in 2014, to properly identify and manage fiscal risk, particularly risks related to PPPs, thereby ensuring greater consistency in fiscal targets. With resources from the MCA-H Threshold Program, that office is being strengthened.

- 1.14 **Road safety.** In 2012, there were 44,881 traffic accidents in Honduras, of which 2,166 involved fatalities, with a death rate of 27.3²⁸ per 100,000 inhabitants, compared with the Latin American and Caribbean average of 16.3 per 100,000 inhabitants. Accidents are caused primarily by human behavior, vehicles, and deficient infrastructure. It is therefore essential to improve current road safety conditions and ensure that there is compliance with adequate road safety standards in the engineering designs of all new road investment projects (paragraph 1.25).
- 1.15 **Institutional framework.** INSEP,²⁹ created in early 2014, through its Dirección General de Carreteras [General Directorate of Highways] (DGC), is responsible for planning, rehabilitating, improving, and expanding the National Road Network. The Road Fund is a deconcentrated body that began operation in 2001, with the main objective of ensuring sustained financing and appropriate, ongoing maintenance of the network. The Road Fund is responsible for routine, periodic, and emergency maintenance³⁰ of the road network. Due to the poor management capacity of the entity that was responsible for roads in Honduras (SOPTRAVI), in 2012 the government requested that Inversión Estratégica de Honduras (INVEST-H), formerly the Millennium Challenge Account-Honduras (MCA-H), be the executing agency for the Bank's transportation portfolio. That entity was created by the government to administer and supervise the implementation of projects covered by the Millennium Challenge Corporation (MCC) and has executed MCC and CABEL projects and now the Bank's portfolio in a satisfactory and timely manner. Moreover, it has extensive experience in the socio-environmental aspects of road works. The executing agency's governance structure consists of a board of directors, made up of various government and civil society institutions, and an administrative unit coordinated by an executive director, who is assisted by a high-level technical team contracted through open public competitions.
- 1.16 **Government initiative.** The National Plan 2010-2022, aimed at achieving integral economic and social development for Honduras, includes in its guidelines "productive infrastructure as an engine of economic activity." Under this guideline, the main challenge is to facilitate road links between centers of production and consumer and export markets, taking advantage of the country's geographical location to make it Central America's most important circuit for the interoceanic land transport of goods. Moreover, the MPC is part of the Plan of the Alliance for Prosperity in the Northern Triangle, which envisages improving and expanding logistics corridors (paragraphs 1.4, 1.5, 1.6, 1.7, and 1.8).
- 1.17 At the same time, in line with Strategic Plan 2014-2018,³¹ the government has prioritized road infrastructure programs as a crosscutting element for economic development in the country. In this connection, INSEP proposes to oversee rehabilitation of the three road segments that make up the MPC in Honduras

²⁸ Data from the National Road Safety Council of Honduras.

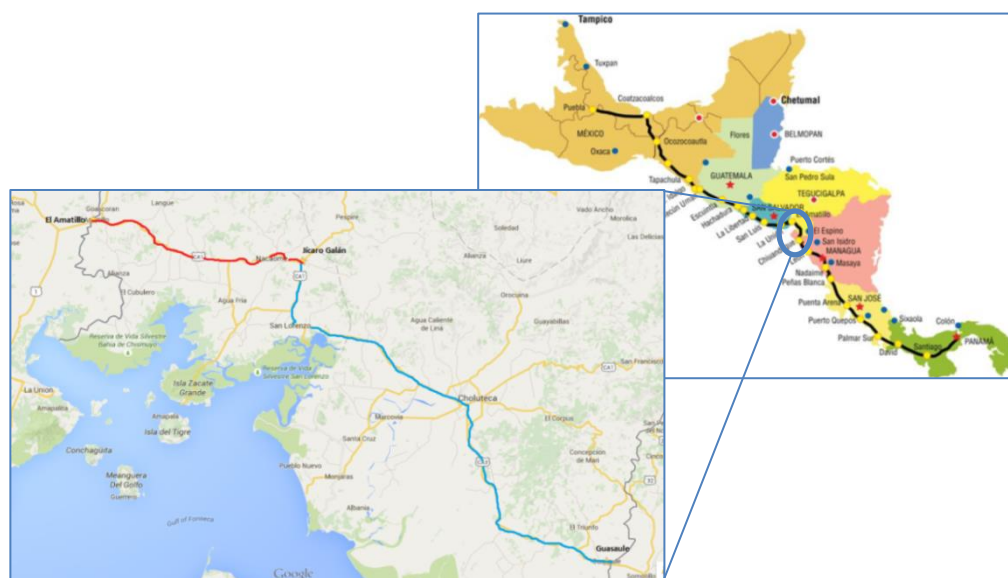
²⁹ Program HO-L1033 (loan 2155/BL-HO) is strengthening INSEP's planning capacity.

³⁰ Eight percent of maintenance of the road network is done by microenterprises.

³¹ Strategic Plan 2014-2018.

(paragraph 1.7), along with routine maintenance³² of the feeder roads for that corridor. The proposal includes incorporating women heads of household in the activities,³³ as a means of supporting the development of the region's productive sectors, creating interfaces and connections to enable and support territorial articulation between areas of production and centers of demand. While there are roads that link productive areas, their use is quite inefficient, due to the lack of adequate maintenance, with serviceability issues during the rainy season. Thus, it is essential to complement investments with strategic conservation activities, in order to enable and support territorial articulation between production areas and demand centers.

Figure 1. Map of the Pacific Corridor in Honduras



- 1.18 **The Bank's country strategy.** This project is consistent with the Bank's country strategy with Honduras 2015-2018 (document GN-2796-1), which emphasizes the importance of roads for regional integration as one of its five priority areas, including within that area the consolidation of the Pacific Corridor, as part of improving national and regional integration and reducing operating and transportation costs for the region.

³² This work is done by road maintenance microenterprises created with inhabitants from the area. Other Bank-financed programs have shown that routine maintenance by microenterprises produces very good results, while at the same time creating jobs and acting as a catalyst for other local development initiatives at the community level.

³³ Since 2014, the government has been promoting the Road Maintenance Program for a Better Life, by contracting microenterprises, with participation by women. To date, there are approximately 30 such microenterprises, made up of 234 microentrepreneur partners, of which 30% are women. Moreover, the Agricultural Corridor Road Program (HO-L1033, loan 2155/BL-HO) funded the creation of three microenterprises, servicing 134 km of the Agricultural Corridor; 50% of the members of these microenterprises were women heads of household from the corridor's area of influence.

- 1.19 **Strategic alignment.** The program will contribute to the priorities of the Ninth General Increase in the Resources of the IDB (document AB-2764), namely: (i) support for small and vulnerable countries; (ii) poverty reduction and equity enhancement, according to geographic criteria, given that the project's benefits are directed at areas identified as poor regions of the country ([OEL#6](#)); and (iii) support for regional cooperation and integration, through financing the rehabilitation of road segments that are part of a Central American integration corridor, recognized by the regional integration initiative known as the Mesoamerica Project (paragraphs 1.5 and 1.9), thus meeting the criteria of multinational targeting and regional additionality³⁴ ([OEL#3](#)). The program will contribute to the regional targets on infrastructure for competitiveness and social welfare, and on the following outputs: kilometers of interurban road constructed, maintained, or improved, as defined in the Results Matrix. The program is aligned with the Transportation Sector Framework (document GN-2740-3), the lines of action of which include the rehabilitation of road systems to ensure the full utilization of existing assets, incorporating new technologies and strengthening institutions responsible for maintaining those assets. The operation is also aligned with the Strategy on Sustainable Infrastructure for Competitiveness and Inclusive Growth (document GN-2710-5), specifically in the priority area of support for constructing and maintaining socially and environmentally sustainable infrastructure. At the same time, the program is aligned with the Bank's strategic objective of improving national and regional integration, and reducing operating and transportation costs. Lastly, the MPC is part of the Plan of the Alliance for Prosperity in the Northern Triangle, which is aimed at improving and expanding infrastructure and logistic corridors.
- 1.20 The present operation is part of the Bank's Road Safety Strategy. Since the launch of that strategy in 2010, the Bank has been working to incorporate road safety components in its transportation operations, as well as promoting intersector dialogue among concerned organizations, in order to make road safety a priority on the countries' policy agendas. The Road Safety Strategy consists of: (i) building the technical and institutional capacities of the region's countries with regard to road safety; (ii) mobilizing financial resources for road safety through transportation operations that the Bank finances; and (iii) promoting knowledge about, and a culture of, responsibility regarding roads, and good practices in road safety.
- 1.21 **Bank strategy and participation in the sector.** The Bank's knowledge of the sector comes from its participation in financing infrastructure and transportation projects in Honduras. In the last 15 years it has been supporting operations, at a total cost of US\$486.3 million,³⁵ to improve the main road network (Atlantic, Logistics, and Agriculture Corridors) and the secondary network, and to modernize the urban transportation system, among other projects. The proposed program also takes into account lessons learned in executing similar operations financed by the Bank, with particular emphasis on updating project designs prior to the start of the bidding process, so as to adjust the number of works and the corresponding

³⁴ According to Bank classification guidelines set forth in documents GN-2650 and GN-2733, the present operation belongs to the TR-INT subsector involving transportation network connectivity, which, by its nature, contributes to the target of financing regional integration ([OEL#3](#)).

³⁵ [Transportation Sector Operations in Honduras 2000-2015](#).

budget and thus avoid the need for subsequent modifications of the works, execution delays, and cost over-runs. This is of vital importance for roads that are in service, since in normal use their deterioration continues in the period leading up to the intervention (paragraph 1.22).

- 1.22 **Lessons learned.** The proposed program takes into account the following lessons learned in preparing and executing previous programs:

Table 1. Integration of lessons learned

Main lesson learned	Reflection in the program design
It is important to include costs related to rights of way in the project's financing. Use of a trustee and a consulting firm to oversee implementation of resettlement plans has proven to be the best option for securing rights of way.	The program would finance and contract a firm to implement the resettlement plans.
The bidding process for projects should take place as close as possible to the time when the engineering designs are completed, so that construction costs in the field do not vary significantly from initial estimates.	At least one sample road segment is expected to be put out for bid in the last quarter of 2015.
Projects should be submitted to public comment before beginning construction, so that those affected can express their opinions and indicate whether they agree on the proposed measures.	This is one of the contractual conditions (paragraph 2.6).
Technical and financial autonomy of the executing agency has been shown to contribute to orderly execution of the projects. On-time decision-making, timely responses to contractors, appropriate supervision, and making payments on time help reduce the risk of cost over-runs.	INVEST-H is being retained as the executing agency for this program (paragraph 3.1).
Audits of road safety should be preventive rather than corrective in nature, and should be conducted during the design and construction stages, so as to detect potential critical points and make the necessary corrections during construction.	Designs for the sample include measures to improve road safety, and these requirements are included in the contracts' terms of reference.

B. Objectives, components, and cost

- 1.23 **Objectives.** The general objective of the program³⁶ is to improve regional physical integration and road connectivity in Honduras, as well as road safety. The specific objectives are to reduce vehicle operating costs (VOC) and travel times for people and goods on the integration corridors linking Honduras with El Salvador and Nicaragua. To achieve these objectives, the program includes, among other things, rehabilitation and improvement of the three road segments located on the MPC. The proposed works will reduce vehicle operating costs, travel times, and traffic accidents. At the same time, the program will help increase exports, imports, and international shipment of goods passing through the southern part of the country via the customs posts of El Amatillo, Guasaule, and Puerto de Henecán.
- 1.24 **Eligibility criteria for works.** The program includes a representative sample, amounting to 37.5% of the program total, consisting of: (i) the El Amatillo-Jícara Galán stretch of approximately 40 km, with works costing an estimated

³⁶ Reformulated, and including new resources from loan HO-L1104.

US\$21.4 million; and (ii) the Jícaro Galán-Cholulteca stretch of 57 km, with works costing an estimated US\$36.4 million (see map at [OEL#5](#)). Since it is a multiple works operation, any works included in the program must: (i) be part of the MPC and/or be feeder or connecting roads to the MPC; (ii) have in place socioeconomic viability studies and demonstrate an internal economic rate of return (IERR) equal to or above 12%; (iii) choose the most cost-efficient technical solution; and (iv) meet the program's socio-environmental requirements. To achieve the proposed objective, the program includes the following components.

- 1.25 **Component 1. Civil works (US\$142 million).** The aim of this component is to rehabilitate and improve road segments based on the eligibility criteria cited above (paragraph 1.24). It includes constructing new layers of asphalt pavement, patching potholes and sealing cracks in the existing asphalt; upgrading embankments to address hydrological issues, as well as sewers and gutters; rehabilitating and improving longitudinal and crosswise drainage systems; road signs and pavement markings; and concrete structures. Also included are activities to improve the horizontal and vertical standards of the roads, as well as their width, alignment, curvature, and longitudinal slope, in order to increase road capacity, traffic speed, and road safety in population centers. This includes the installation of pedestrian crossings and road safety devices to dissipate energy and reduce speed. Similarly, the program will finance works for environmental and social mitigation, and for the purpose of procuring and implementing resettlement plans.
- 1.26 The component will also finance technical-environmental supervision of the above-mentioned works, to be performed by independent firms. As a special condition of execution, the supervision of works will be contracted before signing the corresponding works contracts. Financing will also be provided for technical, socioeconomic, and socio-environmental studies of works not included in the representative sample or in other, future studies.
- 1.27 **Component 2. Institutional strengthening (US\$2 million).** In order to support INSEP in the new responsibilities it faces in regard to PPPs (paragraph 1.13), this component provides resources to finance INSEP's Concession Execution Unit, including any necessary consulting services, additional personnel, equipment, furniture, and alteration of existing office space.
- 1.28 **Component 3. Maintenance (US\$5 million).** This component will finance the maintenance of secondary and/or local roads in the departments of Cholulteca and Valle that feed the MPC. Maintenance will be carried out through maintenance microenterprises,³⁷ formed and trained³⁸ for the purpose, for a period of 36 to 40 months. Upon completion of the program, the Road Fund will assume responsibility for ongoing maintenance of these roads. The eligibility criteria are as follows: (i) the roads must be in a condition such that they can be maintained; (ii) they must feed the MPC; (iii) a works supervisor must have been selected; and (iv) the microenterprises must be composed of local inhabitants living along the road stretch, preferably involving the participation of women heads of household.

³⁷ Experience in the use of microenterprises for maintaining Agricultural Corridor feeder roads (HO-L1033, loan 2155/BL-HO) has had positive results, which this project seeks to replicate.

³⁸ Training will include topics and procedures specific to creating jobs for women.

- 1.29 **Other expenses (US\$5 million).** This will finance the operating costs of administering and managing the program, program evaluation and monitoring, and audits. It will also cover the finance charges.
- 1.30 **Costs.** The program's total cost is US\$154 million, consisting of: (i) the reformulation of US\$134 million of loan 2470/BL-HO (paragraphs 1.31, 1.32, and 1.33); and (ii) resources from a new loan for US\$20 million. The table below shows a breakdown of costs by investment category.

Table 2. Program financing (US\$ thousands)

Component		2470/BL-HO	HO-L1104	Total
1. Civil works		126,000	16,000	142,000
1.1	Works	118,000	13,000	131,000
1.2	Supervision	8,000	2,000	10,000
1.3	Technical studies	-	1,000	1,000
2. Institutional strengthening		1,000	1,000	2,000
3. Maintenance		3,000	2,000	5,000
4. Other expenses		4,000	1,000	5,000
4.1	Program management	2,000	1,000	3,000
4.2	Finance charges (interest)	2,000	-	2,000
Project total		134,000	20,000	154,000

- 1.31 **Reformulation of loan 2470/BL-HO, Puerto Cortés Expansion and Modernization Program.** The general objective of this program was to finance the expansion and modernization of Puerto Cortés. On 1 December 2010, the Bank adopted Resolutions DE-199/10 and DE-200/10, approving loan 2470/BL-HO for US\$135.0 million (US\$94.5 million from the Ordinary Capital and US\$40.5 million from the Fund for Special Operations) to finance expansion and modernization works for Puerto Cortés.
- 1.32 Also in 2010, the legal framework for forming a PPP in Honduras was also approved (paragraphs 1.12 and 1.13), and in 2012 the government decided to begin a process for granting a concession to handle containers and general freight at Puerto Cortés, and to include in that process, as a public contribution, works financed through the above-mentioned operation. Lastly, on 21 March 2013, the concession contract was signed with a private operator, Operadora Portuaria Centroamericana S.A. de CV. Subsequently, between 2013 and 2014, the executing agency fulfilled the loan's eligibility conditions and prepared the bidding documents for the program's main works. At the end of 2014, the government decided, and subsequently communicated to the Bank, that the financing of all of the works envisaged in the contract for loan 2470/BL-HO would be financed under that concession.³⁹
- 1.33 Based on the foregoing, the government is seeking to reformulate the Puerto Cortés Expansion and Modernization Program, to redirect the uncommitted resources from that loan for US\$134 million to a program that will help improve

³⁹ On 29 October 2015, an amendment to the concession contract with Operadora Portuaria Centroamericana S.A. de CV was signed, including the works cited here.

regional physical integration and road connectivity in Honduras⁴⁰— approximately 99% of total loan resources. The borrower and executing agency for this loan is Empresa Nacional Portuaria; however, the government, as joint and several guarantor, is making the corresponding loan service payments, including fees and other costs agreed in the loan contract, until the date on which the modified contract for reformulating the project enters into effect, with the understanding that thereafter it will do so in its capacity as borrower. See [OEL#8](#), “Summary of the Reformulation of Loan 2470/BL-HO,” for further details.

- 1.34 This reformulation would create new investment categories, in accordance with the table of costs (paragraph 1.30).

C. Key outcome indicators

- 1.35 The program seeks to obtain the following outcomes, which will be evaluated based on the indicators proposed in the Results Matrix: (i) reduction in vehicle operating costs, which in the sample projects was between 7% and 14%; (ii) reduction in travel times, which in the sample projects came to between 2% and 5%; and (iii) improvements in road safety, which in the representative sample projects amount to a 5% decline in the death rate per vehicle-kilometer travelled on these road segments. In addition, an analysis will be made of the impact of the road improvements on volumes of freight transportation vehicles with respect to the corridor’s total traffic volume, which in the case of the Jícaro Galán-Nacaome segment is projected to increase from 28% currently to 30% in 2019.
- 1.36 **Economic viability.** For the economic evaluation, a cost-benefit analysis was conducted for each of the road projects from the representative sample ([OEL#1](#)). This evaluation is based on a comparison of costs and benefits, at economic prices, in scenarios with and without the road interventions. The estimate of the benefits for each individual project used an analytical methodology widely employed for road projects (consumer surplus), quantifying both the overall savings in transportation costs for normal traffic, imputed and generated/induced, and the savings from lower road maintenance costs. The Highway Design and Maintenance Standards Model (HDM-4) was used to calculate the return of each project considering the investment costs indicated by the engineering studies, including the costs of mitigating direct socio-environmental impacts, vehicle operating costs, and annual time and costs involved in maintenance, for scenarios with and without the project.
- 1.37 The analysis, using a discount rate of 12%, produced an IERR for each project of 33.5% and 83.7%, respectively, under the conditions and assumptions of the baseline scenario. Additionally, the robustness of each project under less favorable scenarios was determined using a sensitivity analysis for: (i) a combined 10% increase in investment cost and a simultaneous 10% reduction in benefits; and (ii) a combined 20% increase in investment cost and a simultaneous 20% reduction in benefits. Table 3 summarizes the results.

⁴⁰ The Government of Honduras plans to execute the rehabilitation and improvement works for all segments of the highway that make up the MPC in Honduran territory (paragraph 1.7) as a whole. In response to the limits established in the Bank’s programming with the country and the allocation of resources available for the Bank-country programming period, it has asked the IDB to reformulate loan 2470/BL-HO and requested additional resources to address the overall financing of those segments.

Table 3. Results of cost-benefit analysis and sensitivity analysis

Project	Length (km)	Investment cost (US\$ thousands)	ENPV (US\$ thousands)	IERR (%)		
				Base-line	Sensitivity analysis	
					IC: +10% B: -10%	IC: +20% B: -20%
Segment I: El Amatillo-Jícaro Galán	40	21,377.5	27,080	33.5	28.6	24.1
Segment II: Jícaro Galán-Cholulteca	57	36,425.0	110,150	83.7	69.2	57.1

IC: Investment cost; B: Benefits.

- 1.38 There are additional benefits that were not quantified, resulting from the strategic nature—relating to socioeconomic development and integration of the MPC's area of influence—and from: (i) the impact on local productive supply and increased value added of agricultural production; (ii) development of the tourism sector; and (iii) cost savings in health from fewer road accidents, among other factors. Added to these, improved serviceability will create increased access to social services (schools, health centers, markets, etc.).
- 1.39 **Technical viability.** During preparation of the operation, the technical designs for the sample road segments were reviewed, and it was confirmed that information on flooding in recent years was taken into account in designing the concrete structures; measures were also included to improve road safety.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financial instruments

- 2.1 The program is an investment loan structured as a multiple works program (paragraph 1.24) that includes works that have similar characteristics but are mutually independent, totaling US\$154 million, with financing broken down as follows: (i) US\$20 million from operation HO-L1104, which includes: US\$12 million from the Ordinary Capital and US\$8 million from the Fund for Special Operations; and (ii) US\$134 million from the reformulation of loan 2470/BL-HO. The term for the material start of the program's works will be three years from the entry into effect of the loan contract. The disbursement period is expected to be within four years of the date of entry into force of the corresponding contract, as indicated in the following schedule.

Table 4. Tentative schedule of disbursements (US\$ thousands)

Source	2016	2017	2018	2019	2020	Total
IDB	23,865	54,445	53,730	21,910	50	154,000

- 2.2 It is therefore requested that the Board of Executive Directors approve the amendment to Resolutions DE-199/10 and DE-200/10 for the use of available

resources, totaling US\$134 million, as requested by the government and described in this document.

B. Environmental and social risks

- 2.3 Pursuant to the provisions of the Environment and Safeguards Compliance Policy (document GN-2208 and operational policy OP-703), this has been classified as a category “B” operation. The program includes works involving the reconstruction and rehabilitation of priority consolidated road segments of the existing corridor. No lanes will be added, and the segments do not cross protected areas, areas of cultural heritage, or areas with indigenous populations. The potential adverse environmental impacts caused by the construction and operation of the works are deemed to be of medium to low magnitude, and will be localized and of short duration, for which there are effective mitigation measures. These management measures are very familiar to the Honduran government’s road sector institutions, and in particular to the executing agency (INVEST-H), which has well-trained personnel with broad experience carrying out Bank-financed road projects in Honduras.
- 2.4 The socioeconomic study and inventory of buildings indicate that the rehabilitation associated with the sample projects will affect a total of 10 homes along the route. In addition, 92 buildings will be partially affected or altered but will not require the relocation of housing, and 60 lots will be affected, but in a minor way. Details on eligibility, compensation, and implementation periods are set forth in the Involuntary Resettlement Plans specific to each segment of the MPC. These have been prepared in accordance with the Bank’s Policy OP-710. The program includes a budget for carrying out the Involuntary Resettlement Plans.
- 2.5 The risk of random archeological findings along the roads where work is to occur is considered low, since the works are to be executed on consolidated corridors already in service, as certified by the Honduran Institute of Anthropology and History (IHAH), and according to Ruling 06-SGP-2015 of 12 June 2015. Nevertheless, in the event that such findings occur, IHAH is to be informed, so that the appropriate procedures can be followed to rescue or mitigate harm to Honduran cultural heritage.
- 2.6 In order to guarantee the environmental and social sustainability of program works, a special condition of execution is that the borrower will be required to present, to the Bank’s satisfaction: (i) along with the bidding documents for each segment of the works: (a) an Environmental and Social Management Plan for the segment involved, as stipulated in the Environmental and Social Management Report (ESMR); and (b) an Involuntary Resettlement Plan, in the event that the works require the relocation of persons or economic activities; and (c) the other environmental and social conditions established in the ESMR; and (ii) prior to the start of work on each segment, evidence that: (a) the environmental permits required by Honduran law have been obtained; (b) at least one public information and public consultation process has been carried out, as per Directive B.06 of the Environment and Safeguards Compliance Policy (document GN-2208 and operational policy OP-703); and (c) the rights of way have been secured for at least 70% of the length of the segment where the intervention is to occur.

C. Fiduciary risks

- 2.7 An institutional capacity assessment, conducted using the Institutional Capacity Assessment System, concluded that INVEST-H has adequate procedures in all key areas, as well as human resources with experience in program execution, and that its activities are well-planned and organized. These qualities give INVEST-H the institutional capacity for financial execution and for ensuring the proper management of resources. The fiduciary team gauged the overall program risk associated with financial management and procurement to be low.

D. Other program risks

- 2.8 **Other risks.** There are two risks related to the program's fiscal viability. First, the government needs to provide the fiscal space necessary to execute the works in the coming years, while at the same time honoring commitments to the International Monetary Fund to reduce the fiscal deficit. In this regard, the government has assured the Bank that the Pacific Corridor will be given priority in allocating fiscal space to execute the loan resources, in accordance with the execution targets envisaged in this financing. Second, the sustainability of the works in the medium term requires that resources be provided to maintain them. The government will address this need through a concession contract for the operation and maintenance of the highway, which it plans to put out for bid in 2017.
- 2.9 **Risks of execution and cost over-runs.** The main risks in implementing the program were identified during the preparation phase, along with proposed mitigation measures. Among the additional risks to be noted are possible changes in the executing agency, due to changes in its management. Though its personnel has not changed over the last four administrations, a contractual condition, to be fulfilled in advance, would be: that the executing agency have an administrative unit made up of personnel with the qualifications required to execute the program, and that any change in key personnel identified in the POM be notified to the Bank for its consideration in order to verify that, at all times, this capacity is maintained. The construction involved in this operation entails a low level of risk, since none of the works involve a high degree of technical difficulty.
- 2.10 In order to reduce the risk of cost over-runs, a detailed review of the engineering designs for the sample road segments has been conducted, including an updating of the associated costs, and the results have been taken into account in the program budget. Moreover, the processes for contracting the Jícaro Galán-Choluluteca sample segment will be carried out in the last quarter of 2015, so as to avoid increases in the number of works as a result of deterioration that might occur in the period between the final design stage and the start of construction, with consequent cost over-runs (paragraph 1.22).
- 2.11 The most significant program risks were identified using the Project Risk Management tool. The executing agency prepared a mitigation plan, which will receive follow-up attention.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Republic of Honduras, and the executing agency will be INVEST-H (paragraph 1.15), an entity within the Office of the President of the Republic, created by Legislative Decree 233-2005 and modified by Executive Decree PCM 006-2014. **As a special condition precedent to the first disbursement of the loan, a legal opinion on the validity and enforceability of the loan contract, as well as on the competence of INVEST-H to execute the project, will be presented.** INVEST-H will be responsible for: (i) programming the works and services to be contracted; (ii) preparing the bidding documents; (iii) carrying out the bidding processes; (iv) overseeing contracting processes; and (v) administering the program's works and ensuring compliance with all socio-environmental specifications and management plans. The executing agency will operate under the strategic coordination of the Productive Infrastructure Cabinet, maintaining its technical, administrative, and financial independence.
- 3.2 **Program Operations Manual (POM).** Since this is a multiple works program, execution will rely on a POM that includes, at a minimum, the following: (i) technical, economic, and socio-environmental eligibility criteria for projects; (ii) requirements for analyzing socio-environmental impacts, according to the category of the project and the vulnerability of the area of influence; (iii) the flow of procurement processes, particularly how external technical specialists hired by the Bank will advise the executing agency's procurement team in preparing the bidding documents and subsequent stages of the procurement process and the evaluation committees in examining proposals and bids, with a view to ensuring efficiency and quality in procurement processes; and (iv) a description of functions and responsibilities. **Entry into force of the POM, under the terms previously agreed on with the Bank, will be a special condition precedent to the first disbursement of the loan.**
- 3.3 **Procurements.** Program procurements and contracting will be carried out pursuant to the Bank's Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), both of March 2011. [Annex III](#) presents the general management framework regarding procurements. The Bank will supervise procurements pursuant to the Procurement Plan.
- 3.4 **Advance procurement.** The following advance procurements, to ensure the effective implementation of the program once the loan contract enters into effect, are anticipated: (i) contracting a firm to assist in resettling families located along the right of way, for a total of up to US\$500,000; (ii) contracting a fiduciary service for processing and paying for the right of way, for a total of up to US\$150,000; and (iii) implementation of the resettlement plan, for a total of up to US\$1.5 million. For these activities, the borrower will be able to begin contracting using its own funds to secure the right of way, thus ensuring that execution of the works is not delayed. The selection procedures required for (i) and (ii) must meet the procedural requirements set forth in the procurement policies cited in paragraph 3.3.

- 3.5 **Retroactive financing.** Using loan resources, the Bank may retroactively finance eligible expenditures made by the borrower prior to approval of the loan, for amounts up to US\$1.0 million (5% of the proposed amount of loan HO-L1104) for the services described earlier (paragraph 3.4) and included in Component 1, Civil Works (paragraph 1.25), provided that requirements substantially similar to those established in the loan contract have been met. These expenditures must have been made on or after 15 May 2015, but in no event will expenditures be included if made more than 18 months prior to the date on which the loan is approved. The required selection and contracting procedures must follow procedures similar to those established in the loan contract.
- 3.6 **Disbursements.** The loan will be disbursed under an advance of funds scheme, with the frequency of such advances to be determined based on the project's financial programming, which will be periodically updated by INVEST-H. The Bank may make a new advance of funds when at least 80% of the total funds advanced have been justified. The financial review of disbursement requests will be carried out on an ex post basis.
- 3.7 **Financial statements.** The borrower commits to submitting, through the executing agency and within 120 days following the close of each economic period of the executing agency, and during the original disbursement period or extensions thereto, the program's audited financial statements duly certified by external auditors acceptable to the Bank. The last of these reports are to be submitted within 120 days following the conclusion of the original disbursement period or extensions thereto. The selection and contracting of external auditing services will be in accordance with the procedures established in the bidding document for external audits (AF-200). The costs of audits will be financed with program resources.
- B. Summary of results monitoring arrangements**
- 3.8 **Monitoring and evaluation.** During execution, the executing agency will present to the Bank a consolidated semiannual status report indicating the progress achieved in each of the components and in overall project performance, based on the agreed indicators set forth in the [Results Matrix](#). The semiannual report will cover, at a minimum: (i) fulfillment of the contractual conditions; (ii) description of activities carried out; (iii) progress in relation to the agreed execution indicators and disbursement schedule, and updated physical execution and disbursement schedules; (iv) summary of the project's financial situation; (v) description of the bidding processes carried out; (vi) a section on the socioenvironmental management of the project, including timetables, results, and measures implemented in accordance with the ESMR; and (vii) a section identifying possible risks in program execution. The expected program results will be evaluated using a before and after methodology, as well as an ex post cost-benefit analysis. The Bank will monitor the program through inspection visits and administration missions. For further details, see the [Monitoring and Evaluation Plan](#).

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives		Aligned	
Lending Program	-Lending to small and vulnerable countries -Lending for poverty reduction and equity enhancement -Lending to support regional cooperation and integration		
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)	-Km of inter-urban roads built or maintained/upgraded		
2. Country Strategy Development Objectives		Aligned	
Country Strategy Results Matrix	GN-2796-1	To improve national and regional integration and reduce operating and transportation costs.	
Country Program Results Matrix		The intervention is not included in the 2015 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Evaluable	Weight	Maximum Score
	8.6		10
3. Evidence-based Assessment & Solution	8.4	33.33%	10
3.1 Program Diagnosis	3.0		
3.2 Proposed Interventions or Solutions	2.4		
3.3 Results Matrix Quality	3.0		
4. Ex ante Economic Analysis	10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.5		
4.3 Identified and Quantified Costs	1.5		
4.4 Reasonable Assumptions	1.5		
4.5 Sensitivity Analysis	1.5		
5. Monitoring and Evaluation	7.5	33.33%	10
5.1 Monitoring Mechanisms	2.5		
5.2 Evaluation Plan	5.0		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Medium		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B		
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting. Procurement: Information System.	
Non-Fiduciary			
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

The main objective of the program is to contribute to improving regional physical integration and road connectivity in Honduras, including road safety. The specific objectives are to reduce the vehicle operation costs (VOC) and travel times for people and goods in integration corridors that connect the country with El Salvador and Nicaragua.

The project presents a complete diagnosis; however, given the small amount of impact evaluations in the sector, the proposal lacks empirical evidence to justify its effectiveness for the impacts proposed. In terms of the results matrix, the main indicators reported are SMART and contain means of verification.

The economic analysis of the operation and monitoring plan are complete. The evaluation plan proposes the use of an ex post cost-benefit analysis. The risks identified are sound, include mitigation measures, and metrics to monitor progress.

RESULTS MATRIX / INDICATORS MATRIX

Project objective	The program's general objective is to improve regional physical integration and road connectivity in Honduras, as well as road safety. The specific objectives are to reduce vehicle operating costs and travel times for people and goods on the integration corridors linking Honduras with El Salvador and Nicaragua. To achieve these objectives, the program includes, among other things, rehabilitation and improvement of the three road segments located on the Mesoamerican Pacific Corridor (MPC).
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Impact: Improve regional physical integration and road connectivity in Honduras, as well as road safety.			
Impact Indicator	Baseline 2015	Target 2019	Means of Verification
Percentage of trucks of the total average annual daily traffic on the MPC between Jícaro Galán and Nacaome ¹	28%	30%	Traffic study Responsible entity: Inversión Estratégica de Honduras (INVEST-H) Baseline: Measured at Station 201 between Jícaro Galán and Nacaome Source: Final and design studies of the road preinvestment program for Honduras (Jícaro Galán-El Amatillo, Jícaro Galán-Choluteca, and Choluteca-Guasaule segments)
Number of fatalities on segments of the Mesoamerican Pacific Corridor (MPC) ² on which program interventions take place, per 1 million vehicle-kilometers (number of deaths)	0.102	0.097	Annual monitoring system reports of the National Traffic Directorate Responsible entity: INVEST-H Police count

¹ This indicator is included as a proxy for the impact that the planned program interventions will have on the volume of international freight transport traffic (medium, heavy, and articulated trucks) using the MPC. Measurements are for the Jícaro Galán-Nacaome segment, since it adequately captures international freight transport traffic on the Honduran MPC.

² Honduran MPC Segment I: El Amatillo-Jícaro Galán (40 km); Segment II: Jícaro Galán-Choluteca-Libramiento (57 km). The indicator does not take into account secondary or local roads feeding the MPC.

Outcome: Reduce vehicle operating costs and travel times for people and goods on integration corridors linking Honduras with El Salvador and Nicaragua, including MPC road segments in Honduras.																																																														
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Vehicle operating cost (VOC) on MPC ³ road segments on which program interventions take place (constant US\$/veh.-km) Highway CA1 Segment I: El Amatillo-Jícara Galán Segment II: Jícara Galán-Choluteca-Libramiento		<table><tr><th rowspan="2">Type of Vehicle</th><th colspan="2">VOC (US\$/veh-km)</th></tr><tr><th>Segment I</th><th>Segment II</th></tr><tr><td>Automobiles</td><td>0.42</td><td>0.44</td></tr><tr><td>Buses</td><td>0.54</td><td>0.59</td></tr><tr><td>Pickups and trucks</td><td>0.27</td><td>0.28</td></tr><tr><td rowspan="3"><table><tr><td rowspan="3"></td><td>Medium (C2)</td><td>0.38</td><td>0.40</td></tr><tr><td>Heavy (C3)</td><td>0.77</td><td>0.80</td></tr><tr><td>Articulated</td><td>1.47</td><td>1.55</td></tr></table></td><td rowspan="3">Average:</td><td rowspan="3">0.57</td><td rowspan="3">0.60</td></tr></table>		Type of Vehicle	VOC (US\$/veh-km)		Segment I	Segment II	Automobiles	0.42	0.44	Buses	0.54	0.59	Pickups and trucks	0.27	0.28	<table><tr><td rowspan="3"></td><td>Medium (C2)</td><td>0.38</td><td>0.40</td></tr><tr><td>Heavy (C3)</td><td>0.77</td><td>0.80</td></tr><tr><td>Articulated</td><td>1.47</td><td>1.55</td></tr></table>		Medium (C2)	0.38	0.40	Heavy (C3)	0.77	0.80	Articulated	1.47	1.55	Average:	0.57	0.60	<table><tr><th rowspan="2">Type of Vehicle</th><th colspan="2">VOC (US\$/veh-km)</th></tr><tr><th>Segment I</th><th>Segment II</th></tr><tr><td>Automobiles</td><td>0.39</td><td>0.39</td></tr><tr><td>Buses</td><td>0.47</td><td>0.47</td></tr><tr><td>Pickups and trucks</td><td>0.24</td><td>0.23</td></tr><tr><td rowspan="3"><table><tr><td rowspan="3"></td><td>Medium (C2)</td><td>0.34</td><td>0.34</td></tr><tr><td>Heavy (C3)</td><td>0.70</td><td>0.69</td></tr><tr><td>Articulated</td><td>1.36</td><td>1.35</td></tr></table></td><td rowspan="3">Average:</td><td rowspan="3">0.51</td><td rowspan="3">0.50</td></tr></table>		Type of Vehicle	VOC (US\$/veh-km)		Segment I	Segment II	Automobiles	0.39	0.39	Buses	0.47	0.47	Pickups and trucks	0.24	0.23	<table><tr><td rowspan="3"></td><td>Medium (C2)</td><td>0.34</td><td>0.34</td></tr><tr><td>Heavy (C3)</td><td>0.70</td><td>0.69</td></tr><tr><td>Articulated</td><td>1.36</td><td>1.35</td></tr></table>		Medium (C2)	0.34	0.34	Heavy (C3)	0.70	0.69	Articulated	1.36	1.35	Average:	0.51	0.50	Traffic study Highway Design and Maintenance Standards Model (HDM-4) Ex post economic evaluation report Responsible entity: INVEST-H / Secretariat of Infrastructure and Public Services (INSEP)
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³ The indicator does not take into account segments of secondary or local roads that feed the MPC in Honduras.

Outcome: Reduce vehicle operating costs and travel times for people and goods on integration corridors linking Honduras with El Salvador and Nicaragua, including MPC road segments in Honduras.			
Outcome Indicators	Baseline 2015	Target 2019	Means of Verification
Average annual daily traffic on the MPC ⁴ road segment between Jícaro Galán and Nacaome (veh./day)	4,888	6,913	Traffic study Responsible entity: INVEST-H Baseline: Measured at Station 201 between Jícaro Galán and Nacaome Source: Final and design studies for the road preinvestment program for Honduras (Jícaro Galán-El Amatillo, Jícaro Galán-Choluteca, and Choluteca-Guasaule road segments)
Number of days per year when unpaved secondary or local MPC feeder roads are impassable. ⁵	30	15	Responsible entity: INVEST-H Semiannual reports Measurements will be carried out based on official precipitation records and monthly reports by the person supervising maintenance by microenterprises

Output Indicators	Component 1: Works						Means of Verification
	Baseline 2015	2016	2017	2018	2019	Target	
Km of highway in Segment I, El Amatillo-Jícaro Galán (CA1), rehabilitated ⁶ by the program	0	4	20	16	0	40 km	Field supervision report and certification of delivery/receipt of works Responsible entity: INVEST-H - Consulting firm supervising works
Km of highway in Segment II, Jícaro Galán-Choluteca (CA1), rehabilitated by the program	0	5.7	28.5	22.8	0	57 km	Field supervision report and certification of delivery/receipt of works Responsible entity: INVEST-H - Consulting firm supervising works

⁴ Consistent with the earlier impact indicator, "Percentage of trucks of the total average annual daily traffic on the MPC between Jícaro Galán and Nacaome," the measurement is made on the same road segment.

⁵ Based on official rainfall records at the Choluteca Station (average for 2009-2010-2011), overseen by the Permanent Contingency Commission (COPECO). Applies to unpaved secondary and/or local roads in the departments of Choluteca and Valle.

⁶ Rehabilitation means selective patching and subsequent overlay of additional pavement on the roadway. This also includes pavement markings (lines on the sides and between lanes); signage (signs for general information, reduced speed, and information about upcoming destinations); platforms for the boarding and disembarking of passengers; speed-reduction devices; separate bike lanes; and other measures to improve road traffic safety.

Output Indicators	Component 1: Works						
	Baseline 2015	2016	2017	2018	2019	Target	Means of Verification
Km of highway in Segment III, Choluteca-Guasaule (CA3), rehabilitated by the program	0	0	16	24	0	40 km	Field supervision report and certification of delivery/receipt of works Responsible entity: INVEST-H - Consulting firm supervising works
Additional km of highway rehabilitated in integration corridors complementary to the MPC	0	0	12	8	0	20 km	Field supervision report and certification of delivery/receipt of works Responsible entity: INVEST-H - Consulting firm supervising works

Output Indicators	Component 2: Institutional Strengthening						
	Base 2015	2016	2017	2018	2019	Target	Means of Verification
Concession Execution Unit (UEC) equipped	0	0	1	0	0	1	Contracts and receipt of the equipment acquired and contracted Semiannual report Responsible entity: INVEST-H
Number of contracted professionals with professional backgrounds ⁷ appropriate to the UEC	0	0	13	13	13	13	Leasing services contracts signed Semiannual report Responsible entity: INVEST-H

Output Indicators	Component 3: Maintenance						
	Baseline 2015	2016	2017	2018	2019	Target	Means of Verification
Km of secondary or local roads that feed the MPC on which microenterprises have provided maintenance ⁸	0	650	650	650	650	650	Field supervision report Semiannual report Responsible entity: INVEST-H and consultants supervising microenterprises

⁷ Appropriate professional background is defined according to the criteria that have been agreed with the Bank and set forth in the terms of reference for contracting these professionals, to be included in the program's Operating Regulations.

⁸ Intervention refers to routine maintenance, which includes, among other things, grass-cutting on the right of way, cleaning of sewers, ditches, and longitudinal drainage, positioning replacement materials for pothole repairs, and removal of loose and/or hazardous material deposited on the road.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Honduras
Project number:	HO-L1104 and loan 2470/BL-HO
Name:	Regional Road Integration Program and Proposed Reformulation of Loan 2470/BL-HO
Executing agency:	Inversión Estratégica de Honduras (INVEST-H), formerly Millennium Challenge Account-Honduras
Fiduciary team:	Nalda Morales (Financial Management FMP/CHO); and Juan Carlos Martell (Procurement FMP/CHO)

I. EXECUTIVE SUMMARY

- 1.1 The fiduciary management of the executing agency, INVEST-H, was evaluated. It has had extensive experience in the last three years executing operations in Honduras financed by the Inter-American Development Bank (HO0207, HO-L1018, HO-L1020, HO-L1033, and HO-L1089). The results of these efforts have been very satisfactory in fiduciary terms. The evaluation concluded that INVEST-H has sufficient capacity to carry out fiduciary management activities and to administer the loan proceeds.
- 1.2 With regard to fiduciary management systems, the most recent assessments of the public financial management systems in Honduras indicate major advances in implementing good practices and international standards, principally in terms of modernizing the institutional framework and implementing the Integrated Financial Management System (SIAFI) and the Single Treasury Account (CUT), decentralizing the treasury function, and utilizing the UEPEX (Executing Units for Externally Financed Projects) module. There is also a goods subsystem for controlling assets. The auditing system is not used in executing the Bank's portfolio; instead, external auditing services are employed. In 2014, a strategic partnership with the Superior Audit Office (TSC) was established; this will make it possible to gradually transition to using that entity to oversee external control services for Bank-financed operations in the country. In terms of the public contracting system, there are challenges in meeting the standards that would allow the Bank to use the country system for operations it finances. Therefore, Bank policies will be applied in executing procurements.

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 This program will be executed by INVEST-H, an entity within the Office of the President of the Republic, created by Legislative Decree 233-2005, under the name Millennium Challenge Account. On 10 April 2014, it changed its name to INVEST-H. In July 2012, the executing agency assumed responsibility for

executing 100% of the portfolio of road transportation operations in Honduras. The INVEST-H governance structure consists of a board of directors, made up of various government and civil society institutions, and an administrative unit coordinated by an executive director, who is assisted by a high-level technical team contracted through open public competitions. Its fiduciary staff meet the educational and experience requirements needed to execute the operation.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 Based on the updated evaluation of the executing agency's institutional capacity, the overall fiduciary risk was found to be low. This conclusion is based on the past experience of INVEST-H in executing contracts for the CA5 North highway, as well as on the nature of the operation (administration of road works) and experience in implementing the Law on the Simplification of Procedures for Investment in Public Infrastructure (Legislative Decree 58-2011). A Project Risk Management exercise was also conducted; the resulting analysis indicated a medium level of risk related to technical difficulties that could emerge in connection with the works, coordination of the different bidding processes for projects, and budgetary complexities of the country, all of which are detailed in an action plan agreed on with the borrower.
- 3.2 In regard to procurements, INVEST-H will be required to: (i) carry out procurements in accordance with Bank policies; (ii) publish Bank-financed procurements in Honducompras, the official government site for publicizing opportunities for State purchases and contracts; and (iii) use standard national competitive bidding and price comparison documents for the procurement of goods and works, as agreed by the Bank and the Regulatory Office of State Contracting and Procurements (ONCAE).

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 The official purchase rate published by the Central Bank of Honduras on the date of payment will be used. Annual financial audit reports will be required, with preliminary reports by 30 June of each year, certified by an external auditing firm acceptable to the Bank. After appropriate analysis, the Bank may consider employing Honduran transportation services to carry out some or all of the planned audits.
- 3.3 **Condition precedent to the first disbursement. Evidence that the operation has been incorporated in SIAFI and in the UEPEX module**

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The fiduciary arrangements and requirements for procurements establish the provisions applicable to carrying out all procurements envisaged for the project.
- 5.2 **Procurement execution.** INVEST-H will be responsible for carrying out procurements, which are to conform to the Bank's procurement policies set forth in documents GN-2349-9 and GN-2350-9 and to the provisions of the operation's procurement plan. The plan will cover all procurements required to execute the

operation. For purposes of timely planning and monitoring of procurements, the executing agency will update the procurement plan annually, or as needed. Any modification of the procurement plan is to be submitted to the Bank for approval.

- 5.3 **Procurement of works, goods, and nonconsulting services.** For contracts subject to international competitive bidding (ICB), procurements will be carried out using standard bidding documents (SBD) issued by the Bank. Bids subject to national competitive bidding (NCB) will use national bidding documents agreed on with the Bank and published on the ONCAE website.
- (i) **Selection and contracting of consulting services.** For the selection and contracting of consulting services, any of the methods described in the policies on consultants can be used, provided that it is identified in the procurement plan for the particular contract involved.
 - (ii) **Selection of individual consultants.** In the opinion of the executing agency, the contracting of individual consultants can be solicited through local or international announcements, to form a shortlist of qualified individuals.
- 5.4 **Recurring expenses.** The operation provides for the recognition of expenditures related to INVEST-H administrative services, involving payments to technical and fiduciary professionals for the sole purpose of managing this program, as well as pro rata expenses for the use of facilities, and logistical support for monitoring and administration. The sum of these recurring expenditures totals US\$4 million, distributed over the 48 months of planned operation. They will be recognized upon presentation of a statement of expenses prepared monthly by INVEST-H. Recurring expenses can be reimbursed by following INVEST-H procedures.
- 5.5 **Advance procurements.** The following advance procurements are anticipated in order to ensure effective implementation of the program once the loan contract takes effect: (i) contracting a firm to assist the process of resettling families located along the right of way, for up to US\$500,000; (ii) contracting a fiduciary service to process and pay for the right of way, for up to US\$150,000; and (iii) implementation of the resettlement plan, for up to US\$1.5 million. Using its own funds, the borrower may carry out the corresponding contracting to secure the right of way, thus ensuring that there will not be delays in executing the works. The selection and contracting procedures required for (i) and (ii) are to be conducted according to procedures established in the aforementioned procurement policies (paragraph 5.2).
- 5.6 **Retroactive financing.** The Bank may provide retroactive financing from the loan proceeds for eligible expenditures made by the borrower prior to the approval of the loan, for up to US\$1 million (5% of the total amount of loan HO-L1104) for the services described above (paragraph 5.5), including those in Component 1, Civil Works, provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been made as of 15 May 2015, but may in no case include expenditures made more than 18 months prior to the date on which the loan is approved. The required selection and contracting procedures employed must be similar to those established in the loan contract.

- 5.7 The thresholds that govern the use of ICB and formation of the shortlist of international consultants are to be made available to the executing agency on the Bank's public website. Below these thresholds, the selection method will be determined based on the complexity and characteristics of the procurement or contract, which will be reflected in the procurement plan approved by the Bank.
- 5.8 **Main procurements.** INVEST-H will be responsible for preparing the program procurement plan. The main contracts to be carried out with loan financing are as follows:

Table 1. Main procurements

Activity	Type of bidding	Estimated date (publication)	Estimated amount (US\$ thousands)
Works			
Rehabilitation and improvement of the Júcaro Galán-EI Amatillo segment (40 km)	ICB	May 2016	21,400
Rehabilitation and improvement of the Júcaro Galán-Choluluteca segment (57 km)	ICB	Nov 2015	36,400
Rehabilitation and improvement of the Choluluteca-Guasaule segment (40 km)	ICB	Aug 2016	41,000
Consulting			
Supervision of the rehabilitation and improvement of the Júcaro Galán-EI Amatillo segment	QCBS	Apr 2016	1,400
Supervision of the rehabilitation and improvement of the Júcaro Galán-Choluluteca segment	QCBS	Oct 2015	2,900
Supervision of the rehabilitation and improvement of the Choluluteca-Guasaule segment	QCBS	Jul 2016	3,300

- 5.9 **Supervision of procurements.** Procurements will be supervised using a mix of ex ante and ex post reviews, as defined in the procurement plan and its updates.
- 5.10 **Special provisions.** Measures to reduce the likelihood of corruption: the contracts envisaged for this program are to comply with the provisions of document GN-2350-9 with regard to prohibited practices.
- 5.11 **Records and files.** INVEST-H will be responsible for maintaining original files and supporting documentation for all procurements and payments.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 6.1 **Programming and budget.** The current version of SIAFI operates in real time for the budgeting stages of State institutions executing Bank projects. Budget execution takes place where the expenditure originates, in a deconcentrated manner, through the corresponding administrative management authorities, applicable also to projects. Budget reprogramming and/or expansions do not require legislative approval, but, rather, the approval of the Secretariat of Finance or of the President of the Republic. The Bank's financial criteria for the country allow for financing the entire program.

- 6.2 **Accounting and information systems.** For financial reports and rendering of accounts for Bank-financed projects, the SIAFI/UEPEX module will be used. Financial transactions and project accounting will follow the practices of this country system. A cash basis accounting method will be used for record-keeping.
- 6.3 **Disbursements and cash flow.** The treasury subsystem is adapted to Bank standards; thus, it is an appropriate means of managing income and disbursements, and is also suitable and reliable for administering project funds. A special account is to be opened at the Central Bank of Honduras in the project's name. Disbursements will be made using an advance of funds scheme, based on cash flow for commitments incurred for at least six months of execution.
- 6.4 **Internal control and internal audit.** This function is currently in development; therefore, responsibility for evaluating the project's internal control system will fall to the external auditing firm hired to carry out financial audits of the project.
- 6.5 **External control and reports.** The evaluation of external control and of the audit function for the operation will be carried out by an external auditing firm eligible for Bank operations. The estimated cost of the audit for the entire period is US\$180,000. Pursuant to the Access to Information Policy, the Bank will make publicly available the annual audited financial statements, which are to include information concerning the operation's sources and uses of cash, status of cumulative investments, explanatory notes, and an audit opinion. It is expected that as implementation of the strategic partnership progresses, it will be possible to consider the partial or total use of TSC services for this operation.
- 6.6 **Financial supervision plan.** Disbursements will be reviewed on an ex post basis by the auditing firm that is hired. The Bank will supervise the operation using information from the SIAFI country system and from the UEPEX and national goods modules. Audit reports will be reviewed, along with the implementation of action plans, to address any problems encountered. There will also be a review of the implementation and monitoring of mitigation measures to address identified risks, to be accomplished through on-site reviews at the offices of the executing agency and coexecuting agency. In addition, desk reviews will be conducted. Supervision will be conducted by the financial management specialist, with the support of external auditing services and consultants, in coordination with the project team leader, the other project team members, officials from the Bank's Country Office, and personnel from the Bank's Operations Financial Management and Procurement Services Office (VPC/FMP).
- 6.7 **Other financial management agreements and requirements.** There will be periodic follow-up on actions to mitigate fiduciary risks identified in the project risk management evaluation. Any strengthening measures needed to ensure reasonable security in the proper and efficient use of resources will be undertaken, and any necessary modifications to the fiduciary arrangements will be made.