

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

DIGITAL TRANSFORMATION FOR INCREASED COMPETITIVENESS

(HO-L1202)

LOAN PROPOSAL

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REQUIRED LINKS	
1.	Multiyear execution plan / Annual work plan
2.	Monitoring and evaluation plan
3.	Environmental and social management report
4.	Procurement plan

OPTIONAL LINKS	
1.	Project economic analysis / Computations in Excel
2.	Planning instruments
3.	Analysis of compliance with the Public Utilities Policy (document GN-2716-6)
4.	Project Operating Regulations
5.	Environmental and social management analysis, plan, and framework
6.	Smart City conceptual design for San Pedro Sula
7.	Digital District conceptual design
8.	Safeguard Policy Filter and Safeguard Screening Form

ABBREVIATIONS

ASPS	Alcaldía de San Pedro Sula [San Pedro Sula Municipal Government]
BIM	Building Information Modeling
CCD	Comayagüela Ciudad Digital [Comayagüela Digital City]
CEDITE	Centro de Diseño e Innovación Tecnológica para Emprendedores [Technological Design and Innovation Center for Entrepreneurs]
C3i	Smart City Control Center
DGSC	Dirección General de Servicio Civil [Civil Service Bureau]
DNBE	Dirección Nacional de Bienes del Estado [National State Assets Directorate]
DPTMGD	Dirección Presidencial de Transparencia, Modernización y Gobierno Digital [Presidential Directorate of Transparency, Modernization, and e-Government]
ESA	Environmental and social analysis
ESMP	Environmental and social management plan
ESMR	Environmental and social management report
FFF	Flexible Financing Facility
GPCU	General project coordination unit
IHCIETI	Instituto Hondureño de Ciencia, Tecnología e Innovación [Honduran Institute of Science, Technology, and Innovation]
ITU	International Telecommunication Union
MEeL	Mi Empresa en Línea [My Online Business]
MEP	Multiyear execution plan
OC	Ordinary Capital
ONCAE	Oficina Nacional de Compras y Adquisiciones del Estado [National Government Procurement Office]
PEU	Project execution unit
QCBS	Quality- and cost-based selection
SCGG	Secretaría de Coordinación General de Gobierno [Secretariat of General Government Coordination]
SEFIN	Secretaría de Finanzas [Secretariat of Finance]
SEP	Secretaría de Estado de la Presidencia [State Secretariat of the Presidency]
SIAFI	Sistema de Administración Financiera Integrada [Integrated Financial Administration System]
UNAH	Universidad Nacional Autónoma de Honduras [National Autonomous University of Honduras]

PROJECT SUMMARY

HONDURAS DIGITAL TRANSFORMATION FOR INCREASED COMPETITIVENESS (HO-L1202)

Financial Terms and Conditions					
Borrower:			Regular OC (FFF) ^(a)		Concessional OC
Republic of Honduras			Amortization period:	25 years	40 years
Coexecuting agencies:			Disbursement period:	5 years	
Secretariat of General Government Coordination (SCGG), Secretariat of Finance (SEFIN), and San Pedro Sula Municipal Government (ASPS)			Grace period:	5.5 years ^(b)	40 years
Source	Amount (US\$)	%	Interest rate:	LIBOR-based	0.25%
IDB (Concessional OC):	29,055,000	55	Credit fee:	^(c)	N/A
IDB (Regular OC):	15,645,000	30	Inspection and supervision fee:	^(c)	N/A
Local:	8,000,000	15	Weighted average life (WAL):	15.25 years	N/A
Total:	52,700,000	100	Currency of approval:	United States dollars	
Project at a Glance					
Project objective/description: The general objective of the project will be to help increase competitiveness in Honduras through digital transformation. The following specific objectives have been established in order to achieve this: (i) increase connectivity coverage and use; (ii) reduce transaction costs for citizens, enterprises, and government agencies by developing e-government; and (iii) increase innovation by developing the digital economy.					
Special contractual conditions precedent to first disbursement of the loan: The first disbursement of loan proceeds will be contingent on fulfillment, to the Bank's satisfaction, of the following conditions: (i) a subsidiary agreement has been signed between SEFIN, on behalf of the borrower, and the ASPS, specifying: (a) the terms and conditions for the transfer of the resources needed to execute Subcomponent 3.2; (b) the ASPS has committed to make the necessary contributions for the complete and uninterrupted execution of Subcomponent 3.2, including the local contribution; and (c) the ASPS has committed to comply with the project Operating Regulations ; (ii) a general project coordination unit has been created and put into operation under the SCGG and, at a minimum, the following key staff appointed: (a) a general project coordinator; and (b) a financial specialist; and (iii) the project Operating Regulations have been approved and entered into effect in accordance with the terms and conditions previously agreed upon by the Bank and the SCGG (see paragraph 3.9).					
Special contractual conditions of execution: Disbursement of the loan proceeds for the execution of Subcomponents 2.2 and 3.2 will be contingent on fulfillment, to the Bank's satisfaction, of the following conditions: (i) the ASPS and SEFIN have created and put into operation the corresponding project execution unit, appointing the following staff: (a) a PEU coordinator; and (b) a financial specialist; (ii) prior to contracting preliminary studies for construction of the Digital District in San Pedro Sula under Subcomponent 3.2, the ASPS will: (a) have presented, to the Bank's satisfaction, evidence of having the necessary rights for using the land, building the works and their use; and (b) have complied with the special environmental and social contractual conditions set forth in Annex B of the environmental and social management report ; and (iii) as a special condition precedent to construction of the Digital District in San Pedro Sula provided for in Subcomponent 3.2, there will be an economic analysis of the construction that examines and determines the feasibility of the works, based on the final Master Plan. Prior to starting the execution of Subcomponent 3.1, the SCGG will also sign, to the Bank's satisfaction, an interagency agreement with the Honduran Institute of Science, Technology, and Innovation, the subexecuting agency, setting out the terms and conditions for the transfer of resources and the commitments that the latter is to fulfill (paragraph 3.10).					
Exceptions to Bank policies: None.					

Strategic Alignment						
Challenges: ^(d)	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI	<input type="checkbox"/>
Crosscutting themes: ^(e)	GD	<input checked="" type="checkbox"/>	CC	<input checked="" type="checkbox"/>	IC	<input checked="" type="checkbox"/>

^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original WAL of the loan or the last payment date as documented in the loan contract.

^(c) The credit fee and the 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 relevant policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 From 2010 to 2018, Honduras had one of the best performing economies in Latin America and the Caribbean, with average annual growth of 3.8%, similar to the average for Central America and the Dominican Republic and higher than that of the region as a whole (2.2%).¹ This growth was driven mainly by the agricultural sector and is therefore very dependent on fluctuations in international commodity prices. Unfortunately, this strong growth did not lead to structural changes, such as an increase in growth potential, or to a workforce shift toward better quality jobs.
- 1.2 Consequently, Honduran economic activity has a low level of productivity (according to the [Global Competitiveness Index 2018](#), the country scored 52 for competitiveness on a scale of 0 to 100, placing it in the 101st position among 140 countries).² This is due to, among other factors,³ human capital deficiencies, low innovation levels, institutional weaknesses, complex bureaucratic processes,⁴ and delays in adopting and generating information technology (IT) in terms of both connectivity⁵ and digitalization in general.⁶ In particular, the National Plan 2010-2022⁷ outlines the contribution that e-government makes to competitiveness.
- 1.3 The aforementioned factors are interrelated, creating an ecosystem. For example, IT talent determines digital organizational capacities and the level of innovation; a low digitalization level hinders the streamlining of government agency transactions and internal processes; low broadband connectivity coverage prevents the benefits of a digital economy from reaching the entire country; reciprocally, a poor e-government offering or low digital demand by enterprises discourages the investment necessary to increase connectivity coverage.

¹ International Monetary Fund, World Economic Outlook, April 2019.

² In comparison, Guatemala and El Salvador both have a score of 53 and are in the 96th and 98th positions, respectively. Chile, the region's top scoring country, has a score of 70 and ranks 33rd.

³ See [Honduras: Retos de Desarrollo del País. 2018](#).

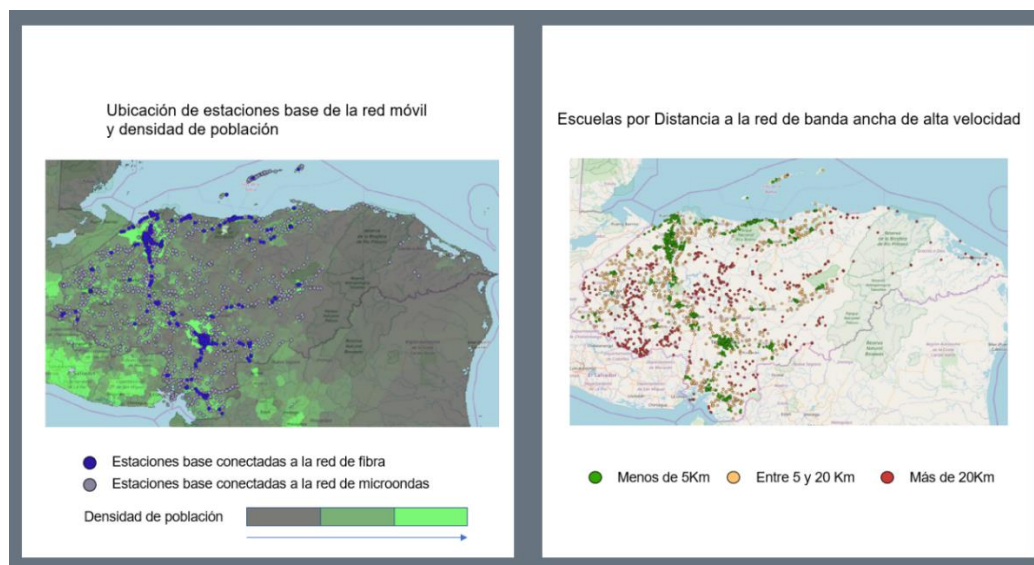
⁴ See the World Bank's [Doing Business](#) indicator on the regulatory burden for businesses. Honduras ranks 121st out of 190 countries.

⁵ See [Percentage of Individuals using the Internet, International Telecommunications Union](#). In Honduras, this proportion is 32%, which is lower than Guatemala (41%), Panama (58%), and Costa Rica (72%).

⁶ See [UN E-Government Online Service Index](#). Honduras ranks 113th out of 194 countries.

⁷ See [Country Vision 2010-2038 and National Plan 2010-2022](#) for indicators associated with strategic guideline 10, "Competitiveness, country image, and productive sectors."

Figure 2. Digital infrastructure gap



- 1.6 **High transaction costs both for citizens and businesses completing transactions¹² and in internal government processes.** Two examples of costs associated with this problem are: (i) criminal record checks, which take about 10 hours to complete, entail an average direct cost in terms of travel and time of approximately US\$23, and are in very high demand, as they are required for any new job, among other cases;¹³ and (ii) business startups, especially in those departments where the Mi Empresa en Línea [My Online Business] portal is unavailable (in other words, all but Francisco Morazán and Cortés), which have an average cost of US\$1,850 and take 13 days.¹⁴
- 1.7 The high costs are driven by the following, among other determinants: (i) poor capacity of the lead entity for the digital strategy (Presidential Directorate of Transparency, Modernization, and e-Government, DPTMGD), with a very low allotment of human and budget resources,¹⁵ which limits the fulfillment of its functions and is the main reason for the very narrow implementation of past digital strategies; (ii) complex transactions, with long completion times, little predictability in terms of requirements, and very low digitalization levels;¹⁶ (iii) inadequate and inefficient internal processes;¹⁷ (iv) an outdated regulatory framework for

¹² Completing a transaction in Honduras takes 5.8 hours, compared to 3.1 in Costa Rica. See [Wait No More](#).

¹³ See more details in the [project economic analysis](#).

¹⁴ See [Doing Business](#).

¹⁵ It has just eight civil servants dedicated to modernization and e-government. With similar competencies, Uruguay's Agency for e-Government and the Information and Knowledge Society has some 400 employees.

¹⁶ Not only can no transaction currently be completed in its entirety electronically, but the various steps involved are often carried out in different entities, multiplying transaction costs.

¹⁷ For example, the government does not have a system for managing human resources, which is handled by the Civil Service Bureau (DGSC) (it uses mainly paper and electronic spreadsheets). This requires the physical transfer of documents, meaning that civil servants must travel to Tegucigalpa to complete internal transactions.

e-government development (among other things, a review is required of the regulations on e-government in general, digital identity and e-signature as a country project, data protection and exchange (interoperability), and digital and automated administrative procedures); (v) digital space highly vulnerable to cyberattacks;¹⁸ (vi) poor government procurement information system capacity and coverage (in 2018, just 17.5% of goods and services procurements were processed using the HonduCompras online platform); and (vii) limited capacity of the Integrated Financial Administration System (SIAFI).¹⁹

- 1.8 The SIAFI is a key tool for efficient, effective, and transparent fiscal management, which is a basic condition for creating an attractive business environment. Weak financial management determines the quality of service delivery and makes it difficult to eliminate red tape. This is due to the effects on expenditure quality as well as budget planning and execution efficiency, which drive up internal transaction costs, reducing the productivity of public management. The main causes associated with this problem are: (i) the obsolescence of the technological platform implemented in 2005, with components that have since been discontinued by manufacturers and are no longer supported; (ii) the outdated legal framework, processes, and methodologies relative to current best practices on the public resource management cycle (the government has resolved to adopt the International Public Sector Accounting Standards, which is not possible with the current technological infrastructure); (iii) the lack of appropriate tools to protect the integrity of public financial data (especially because of the absence of anti-intrusion mechanisms); and (iv) the variety of systems implemented by the various financial management processes all operating separately. Most of these systems were developed with different and, in some cases, obsolete technologies, which causes problems with fixing or adding functionalities and integrating them.
- 1.9 **Low innovation level.**²⁰ The low level of innovation affects the performance of productivity in Honduras due, in part, to the limited development of its digital economy (poor digitalization in enterprises, slow pace in creating tech startups),²¹ which is mainly a consequence of a still weak entrepreneurship ecosystem²² characterized by: (i) insufficient financing instruments and technical assistance focused on innovation (incubators, for example), for both established companies and startups (although there are some preincubation initiatives for startups, linked to competitions and universities, there are no incubation and acceleration bodies);²³ (ii) limited digital talent (about 30% of enterprises indicate that computer

¹⁸ See [Cybersecurity: Are We Ready in Latin America and the Caribbean?, IDB, 2016](#). Honduras has the lowest score in 41 of the 49 variables analyzed by the study.

¹⁹ Integrated Financial Administration System.

²⁰ The [Global Innovation Index 2019](#) ranks Honduras 104th out of 130 countries. Its level of investment in research, development, and innovation (a generally accepted indicator of a country's innovation effort) was 0.02% of GDP in 2015, far below that of countries such as El Salvador (0.13%) and Costa Rica (0.49%).

²¹ For example, in San Pedro Sula, just 12 enterprises were created in the digital sector in 2018; of these, 3 (25%) were registered by women. Source: Mi Empresa en Línea.

²² Honduras ranks 107th out of 137 countries on the [Global Entrepreneurship Index 2018](#). In particular, it has a score of 0.18 for the startup indicator, whereas the regional average is 0.27.

²³ This is reflected in the [Global Entrepreneurship Index 2018](#) indicator on the quality institutions that support entrepreneurship. Honduras obtained 33%, which is low compared to Costa Rica (54%) and Guatemala (38%).

- knowledge is the skill most difficult to find in the country's labor market);²⁴ and (iii) failures in coordination between the public sector, private sector, and academia to develop initiatives that promote innovation and competitiveness. To address these failures, various cities inside and outside the region, such as Recife, Medellín, and Toronto, have developed innovation districts, i.e., defined geographic areas where infrastructure, institutional, scientific, technological, and educational assets are concentrated in order to facilitate coordination between actors, create synergies, and attract entrepreneurs, qualified talent, and e-business.
- 1.10 **Gender gap.** Not only is digital talent limited, but it also has a gender gap: while women represent 64% of university graduates, they account for just 30% of graduates from IT programs.²⁵ This is consistent with the fact that 65% of employed Honduran women work in low productivity sectors.²⁶ These figures show the need to raise the level of women's digital talent and entrepreneurship.
- 1.11 At the municipal level, San Pedro Sula has significant potential to contribute to the country's competitiveness. Notably, the Puerto Cortés free-trade zone and the surrounding area of San Pedro Sula generate more than 60% of the country's GDP and 80% of maquiladora activity.²⁷ However, various factors dependent on the effectiveness of municipal management can negatively affect that potential, namely mobility, citizen security, and environmental sustainability.²⁸ San Pedro Sula does not currently have coordinated decision-making mechanisms for these elements, its planning and management capacity is limited, and there is little collaboration between departments on economic, productive, environmental, and social activities. This is primarily due to the fact that even when there are geographic information and management systems, these systems work in a disintegrated manner, and it is difficult to access and properly use their data.²⁹
- 1.12 Given the problem described above and the considerations regarding the high degree to which the issues are inter-related (see paragraph 1.3), an integrated approach (in parallel) is proposed to advance the country's connectivity and digitalization. This will bring greater certainty to the complementarity of all actions, generating broadband supply and demand, digital public services and better access to those services, and demand for digital talent while developing the offering within the framework of an innovation ecosystem.
- 1.13 **Institutional framework and current status of the digital agenda in Honduras.** The body responsible for leading the digital agenda is the DPTMGD, a directorate of the Secretariat of General Government Coordination (SCGG). Its duties include developing modernization plans for a more efficient, effective, and transparent

²⁴ See [Honduras Business Survey 2017](#), Honduran Private Business Council (COHEP).

²⁵ See <http://data.uis.unesco.org/>.

²⁶ See [Economic Commission for Latin America and the Caribbean: Social Panorama \(2018\)](#).

²⁷ http://www.exteriores.gob.es/Documents/FichasPais/HONDURAS_FICHA%20PAIS.pdf.

²⁸ With regard to the impact of these three aspects on competitiveness, consideration should be given to the following: (i) a reduction in travel time is a reduction in unproductive time, especially in cities with poor public transit systems; (ii) security is one of the components of competitiveness indexes; and (iii) see [Defining Sustainable Competitiveness](#).

²⁹ An extensive study on these weaknesses was conducted by the municipal government. See [optional link 6](#), page 39.

government and promoting the digitalization of the public sector. The connectivity policy and plans are carried out by the State Secretariat of the Presidency (SEP), whereas digital economy matters are the responsibility of the Honduran Institute of Science, Technology, and Innovation (IHCIETI).

- 1.14 Over the past few years, the government has done strategic work in this area, including developing the Digital Agenda 2014-2018 in 2013, the E-Government Master Plan in 2014, and a new connectivity expansion plan more recently. These have made modest progress.
- 1.15 **The Bank's experience in Honduras and lessons learned.** The IDB has worked with the government in the areas addressed by this project through technical cooperation operations: in relation to connectivity, technical cooperation operation ATN/KK-12721-HO on "Support for the Development of the Telecommunications Sector in Honduras," completed in 2014, determined the extent of the digital gap in Honduras and identified the technical, social, environmental, and financial conditions that drove this project's design; in relation to e-government, technical cooperation operation ATN/IP-9098-HO on the "Program to Establish e-Government," completed in 2010, identified weaknesses in the strategic vision, planning, administrative processes, and availability of technical resources; and in relation to the digital economy, regional technical cooperation operation ATN/FI-15263-RG on "Institutional Strengthening through the Creation of an Innovation Ecosystem Development Accelerator" identified challenges and gaps specific to Honduras, such as the need to implement business incubators and accelerators to improve the likelihood of success for digital startups.
- 1.16 **The Bank's experience in the region and lessons learned.** This project takes into account the lessons learned from the Bank's experience in the region, in particular the following:
 - a. Connectivity: The preparation and start of execution of loan 4650/OC-PR to support the digital agenda in Paraguay shows that early involvement by the private sector can strengthen and speed up initial execution. Therefore, in designing this project, dialogue was initiated and information collected on the infrastructure of private actors, thereby promoting their future participation in project bidding processes.
 - b. Modernization and e-government: The series of e-government projects in Uruguay (loans 1970/OC-UR, 2591/OC-UR, and 3625/OC-UR) shows that the leadership of a strong lead agency, in both technical and budgetary terms, is a key success factor for the sound, sustainable digital transformation of the government. The projects mentioned above supported the gradual creation of such an agency, over more than a decade, from a very weak starting point. Taking this into account, this project aims to gradually strengthen the lead e-government agency.
 - c. Digital economy: The series of entrepreneurship support projects in Uruguay (loans 2775/OC-UR and 4329/OC-UR) shows the importance of institutions that provide a wide range of business services and resources to increase the likelihood of success for digital startups. To this end, this project will finance the creation and strengthening of business incubators that can provide such services to local startups.

- d. Projects with multiple executing agencies: the execution arrangement put in place for loan 3723/BL-HO (Program to Support the Social Inclusion Network with Priority in Western Honduras) showed that greater independence on fiduciary matters when there are several executing agencies translates into better execution. In this project, the aim is to follow a similar fiduciary execution arrangement.
- 1.17 **Complementarity with other Bank operations.** The project will complement technical cooperation operation ATN/ME-17151-HO “Naranja Republik: A Digital Creative District,” which is headed by IDB Lab and is being implemented in Tegucigalpa and Comayagüela. Also, the school connectivity to be established by this project will further extend the reach of virtual education platforms and projects provided for in the Youth Project (loan 4449/BL-HO). The project will also aim to coordinate connectivity for educational modules being built as part of said project. In addition, this operation complements technical cooperation operation ATN/OC-17319-HO on “Support for Program Preparation for the Digital Transformation of Services for Citizens and the Promotion of a Digital Economy in Productive Sectors” through the design of pilots for streamlining and digitalizing transactions, which will help adjust the respective strategy once project execution begins.
- 1.18 **Strategic alignment.** This project is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is strategically aligned with the development challenges of: (i) Productivity and Innovation, by improving the quality of government services, increasing IT access and use, and strengthening knowledge and innovation ecosystems; and (ii) Social Inclusion and Equality, by reducing barriers to guarantee greater access to connectivity services for the public. The project is also aligned with the following crosscutting themes: (i) Gender Equality and Diversity, as digital talent activities focused specifically on narrowing the gender gap in this area are being considered, in particular the digital technology bootcamps for women; (ii) Climate Change and Environmental Sustainability, as 9.09% of operation resources will be invested in climate change mitigation activities, in accordance with the [joint methodology of multilateral development banks](#), contributing to the IDB Group’s target of increasing the financing of climate change-related projects to 30% of all operation approvals by the end of 2020, as the project is expected to help reduce 28,570 tCO₂ of greenhouse gas emissions; and (iii) Institutional Capacity and Rule of Law, as it will strengthen the leadership and operational capacity of the Secretariat of Finance (SEFIN), the DPTMGD, the DGSC, and other bodies. It is also aligned with the Corporate Results Framework 2016-2019 (document GN-2727-6), through the following indicators: (i) reduction of emissions with support of the IDB Group financing; (ii) students benefited by education projects; (iii) government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery; (iv) projects that support innovation ecosystems; and (v) enterprises supported by innovation activities. The project is also consistent with the Innovation, Science, and Technology Sector Framework Document (document GN-2791-8), particularly Dimension of Success 2 (Latin American and Caribbean economies become able to take full advantage of the potential of the digital economy), and is aligned with the Sector Strategy on

Institutions for Growth and Social Welfare (document GN-2587-2), particularly the “Institutions for Innovation and Technological Development” component.

- 1.19 The project is also aligned with the IDB Group Country Strategy with Honduras 2019-2022 (document GN-2944), especially: (i) the strategic objective of improving the quality and efficiency of public expenditure, by contributing to the increased use of IT in the public sector; and (ii) the crosscutting theme of “innovation and use of new technologies to achieve greater relevance and efficiency in interventions.” It is also aligned with the Plan of the Alliance for Prosperity in the Northern Triangle, particularly its strategic pillar of “Strengthening Institutions and Improving Transparency” and the line of action that falls under it, namely “improving the transparency and effectiveness of public spending,” by strengthening the SIAFI. Lastly, the project is included in the Update of the Annex III of the 2019 Operational Program Report (document GN-2948-2).
- 1.20 **Compliance with the Public Utilities Policy.** The project is consistent with the Public Utilities Policy (document GN-2716-6). With respect to its objectives: (i) the project will foster broadband access for communities with lower penetration rates; (ii) reliable, quality service will be provided; (iii) the service will be provided at the lowest possible cost for the offering; and (iv) financial, environmental, and social sustainability will be promoted. With respect to its principles: (i) the conditions for access by both the rural and the urban population will be improved through cost-efficiency measures and more suitable technological solutions; and (ii) governance over broadband service delivery will be improved through support for a revision of the regulatory framework, generating appropriate conditions for private participation and promoting greater use of the existing infrastructure. Lastly, the project fulfills the financial sustainability and economic evaluation conditions (see profitability in paragraph 1.33) (see [optional link 3](#)).

B. Objectives, components, and cost

- 1.21 The general objective of the project will be to help increase competitiveness in Honduras through digital transformation. The following specific objectives have been established in order to achieve this: (i) increase connectivity coverage and use; (ii) reduce transaction costs for citizens, enterprises, and government agencies by developing e-government; and (iii) increase innovation by developing the digital economy. The operation is structured in three components.
- 1.22 **Component 1. Broadband coverage and use (US\$10.29 million).** The SCGG will be the executing agency for this component. The following activities will be financed: (i) broadband connection in approximately 760 public spaces (schools and health facilities); (ii) revision of the regulatory framework to promote the connectivity of public spaces;³⁰ and (iii) fit-out of a broadband network operation center.³¹ A public-private partnership supply subsidy model will be implemented for infrastructure development that, instead of subsidizing users’ service payments, involves cofinancing investments together with the private sector. The objective is

³⁰ Changes will be proposed to promote the development of digital infrastructure and improve competitive conditions, service quality oversight, and the principles for interconnection with existing infrastructure.

³¹ The function of these network operation centers is to monitor the national broadband network in order to ensure service continuity and quality.

to take advantage of the infrastructure that private operators already have (thus minimizing the subsidy volume) and to complement its development by extending its level of capillarity (through the subsidy). This will make it more feasible for operators to connect households and businesses in the vicinity of connected government buildings, providing a bigger incentive for them to take part in cofinancing. To achieve the greatest impact possible with the available resources, the following selection criteria were adopted for points to be connected: (i) proximity to existing infrastructure (last-mile connections); (ii) buildings that already have a power supply; and (iii) spaces that already have computer equipment or a digital pedagogy plan.³²

1.23 Component 2. Digital transformation of the government (US\$17.55 million). This component is divided into two subcomponents.

1.24 Subcomponent 2.1. Quality and efficiency in the delivery of government services to citizens and enterprises (US\$11.55 million). The SCGG will be the executing agency for this subcomponent. The following activities will be financed: (i) strengthening of the technical and operational capacity of the DPTMGD³³ to build on the current piecemeal digital efforts; (ii) design and implementation of the communication and change management strategy; (iii) prioritization, streamlining, and digitalization of citizen and business services;³⁴ (iv) streamlining and digitalization of both vertical³⁵ and shared back office services (encompasses interoperability framework,³⁶ national transaction portal, data analytics, and e-signature, among others); (v) implementation of a payment gateway system for public institutions; (vi) proposals to update the e-government regulatory framework;³⁷ (vii) enhancement of the security of government digital assets;³⁸ (viii) expansion of the HonduCompras platform;³⁹ and (ix) digital literacy and awareness raising regarding the use of online transactions.

1.25 Subcomponent 2.2. Strengthening of government financial management (US\$6 million). SEFIN will be the executing agency for this subcomponent. Financing will be provided for SIAFI infrastructure upgrades, which will include strengthening: (i) perimeter security; (ii) server infrastructure; (iii) financial information analysis capacity; and (iv) IT management capacities. All of these activities will help improve performance and increase the efficiency of public

³² More details on private-sector participation and building selection criteria are provided in the [project Operating Regulations](#).

³³ This activity includes a strategic plan, the establishment and implementation of new positions and profiles, incremental staffing, training, technical assistance, and equipment.

³⁴ Prioritization will be based on three criteria: (i) usage frequency; (ii) particular relevance to women; and (iii) relevance to the business life cycle.

³⁵ Includes improvements to the processes of the SGCC, DGSC, and Honduran Association of Municipios.

³⁶ It is a framework for the efficient internal exchange of information. Governance, coordination, and technological platform elements will be strengthened for this framework.

³⁷ Focus will be placed on the areas identified in paragraph 1.7.

³⁸ Activities (iv) through (vii) focus on creating shared crosscutting services that are key enablers for the digitalization and automation of transactions and internal processes. They thus contribute to greater efficiency and quality and the optimization of public investment in IT.

³⁹ This platform is managed by the National Government Procurement Office (ONCAE), which reports to the DPTMGD.

- financial management, primarily as concerns planning, execution, decision-making, and accountability in connection with government resources.
- 1.26 **Component 3. Digital economy (US\$21.05 million).** This component is divided into two subcomponents.
- 1.27 **Subcomponent 3.1. National scope (US\$2.12 million).** The SCGG will be the executing agency for this subcomponent, with the IHCIETI as the subexecuting agency for the last two activities. Financing will be provided for: (i) the development of the Comayagüela Digital City (CCD) master plan;⁴⁰ (ii) the fit-out of the Technological Design and Innovation Center for Entrepreneurs (CEDITE) at the National Autonomous University of Honduras (UNAH), a space for the development of technological innovation, research, and development initiatives, where potential entrepreneurs can receive training and produce prototypes;⁴¹ (iii) support for strengthening and establishing entrepreneurship incubators⁴² (to strengthen the digital entrepreneurship ecosystem); and (iv) digital talent promotion activities (digital technology bootcamps and technology camps⁴³), 37.5% of which will target women exclusively (the others will not have this restriction).
- 1.28 **Subcomponent 3.2. San Pedro Sula scope (US\$18.93 million, including US\$8 million in local counterpart funding).** The San Pedro Sula Municipal Government (ASPS) will be the executing agency for this subcomponent. Financing will be provided for: (i) the design (master plan) and construction of the Digital District,⁴⁴ which will bring together digital innovation and training centers, laboratories, technology institutes, and spaces related to the orange economy under a public-private governance model and where the public sector will collaborate with the private sector and academia; (ii) the launch of an entrepreneurship center;⁴⁵ (iii) digital talent promotion initiatives;⁴⁶ (iv) capacity-building in the application of Building Information Modeling (BIM);⁴⁷ and (v) the opening of a Smart City Control Center (C3i; this is an expansion of the current ASPS Urban Mobility Center where data captured by various types of

⁴⁰ The CCD is a Government of Honduras initiative seeking to revamp an area of the Distrito Central municipio (Comayagüela) by establishing a center for entrepreneurship and innovation based on digital technologies.

⁴¹ This activity as well as the previous one will be coordinated with the Naranja Republik Project (ATN/ME-17151-HO). CEDITE is part of the CCD initiative and will be located in the UNAH Arts and Cultural Center. The criteria for accessing the various services provided by CEDITE are defined by Naranja Republik.

⁴² Incubators are institutions that provide technical assistance, support, and mentoring services to business ventures in their various phases of development.

⁴³ IHCIETI heads the Honducamp.tech initiative, a technology camp with lectures, classes, and workshops. Over 10,000 young people participated in its latest round. The project will finance its expansion to other cities across the country.

⁴⁴ Name of the innovation district in San Pedro Sula.

⁴⁵ This center will be created while work is being carried out and, once finished, will be transferred to the Digital District.

⁴⁶ Includes the development of digital specialization programs and bootcamps.

⁴⁷ BIM is the process of generating and managing the data of a work, throughout its life cycle, using a software platform, allowing for the interoperability of all actors involved in that life cycle.

sensors scattered around the city will be processed in real time, involving a territorial information system and a municipal asset management system).⁴⁸

- 1.29 The project finances eligible expenditures as follows: works (US\$11,092,000), goods (US\$8,934,950), nonconsulting services (US\$10,009,000), consulting services from firms and individuals (US\$16,244,570), and resource transfers (US\$1,235,000).
- 1.30 **Administration, audit, and evaluation.** An estimated US\$3.81 million in project administration costs should be added to the amounts specified in the preceding paragraphs. This includes the cost of creating execution units (staff salaries and administrative expenses), conducting audits, and evaluating the project.
- 1.31 **Beneficiaries.** The main beneficiaries will be citizens and enterprises as users of more efficient government services. Improved broadband quality and coverage will have a special positive effect on the students of the 700 schools to be connected. Citizens and entrepreneurs, particularly women, will also benefit from activities that strengthen the national digital ecosystem. Civil servants and agencies, particularly those involved in the project, will also benefit from the modernization processes and new capacities arising from the project.

C. Key results indicators

- 1.32 **Expected impact and outcomes.** The main impact that the operation is expected to have is increased competitiveness through digital transformation development, measured by the Global Competitiveness Index. This should be achieved through the following outcomes: (i) greater territorial coverage and use of broadband connectivity, measured as a percentage of users connected to the Internet; (ii) greater use of digital media in transactions between citizens, enterprises, and public agencies, measured by three indicators: (a) percentage of businesses started up online; (b) percentage of criminal record checks requested online; and (c) percentage of goods and services procurements through HonduCompras; and (iii) increase in digital economy business ventures measured as a the number of new digital companies registered in San Pedro Sula.
- 1.33 **Economic evaluation.** It is estimated that the project would have an acceptable economic return, with a net present value of US\$10.1 million, an internal rate of return of 48.1%, and a cost-benefit ratio of 1.38.⁴⁹ The benefits were estimated based on four factors: (i) transaction costs saved by citizens as a result of fewer in-person interactions required to complete a transaction; (ii) savings as a result of the elimination of intermediation in the startup of new enterprises; (iii) improved public procurement efficiency due to the greater competition enabled by the HonduCompras platform; and (iv) lower cost of connectivity services for households and users in the vicinity of government buildings that the project will

⁴⁸ The expectation is that the capacity to manage urban services tied to security, mobility, and environment will be improved with the C3i. It will be accompanied by a digital literacy program to encourage digital interaction between citizens and the municipal government.

⁴⁹ Although it is reasonable to assume that the Digital District project will be feasible (since the Bank approved loan 4650/OC-PR in Paraguay, which has similar characteristics), as there is not sufficient data to evaluate ex ante the expected benefits, it was decided to exclude that from the economic analysis. However, the estimated economic return was included in the loan contract as a special condition of execution, to be fulfilled prior to the corresponding bidding process.

connect to the fixed broadband network owing to less expensive service delivery for the operator. For more details, including a sensitivity analysis showing that the economic return estimate is robust in less favorable scenarios, see the [project economic analysis](#).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation is structured as a specific investment loan in the amount of US\$44.7 million, financed from the Bank's Regular Ordinary Capital (US\$15,645,000) and Concessional Ordinary Capital (US\$29,055,000). The operation will have a local contribution of US\$8 million, bringing it to a total of US\$52.7 million.

Table 1. Estimated project costs (US\$ millions)

No.	Component	Bank	Local contribution (ASPS)	Total	%
1	Component 1: Broadband coverage and use	10.3	-	10.3	19.5
2	Component 2: Digital transformation of the government	17.6	-	17.6	33.4
2.1	Subcomponent 2.1: Quality and efficiency in the delivery of government services to citizens and enterprises	11.6	-	11.6	22.0
2.2	Subcomponent 2.2: Strengthening of government financial management	6.0	-	6.0	11.4
3	Component 3: Digital economy	13.0	8.0	21.0	39.9
3.1	Subcomponent 3.1: National scope	2.1	-	2.1	4.0
3.2	Subcomponent 3.2: ASPS scope	10.9	8.0	18.9	35.9
4	Administration, audit, and evaluation	3.8	-	3.8	7.2
4.1	SCGG administration and audit	2.0	-	2.0	3.8
4.2	SEFIN administration and audit	0.4	-	0.4	0.8
4.3	ASPS administration and audit	1.2	-	1.2	2.3
4.4	Project evaluation	0.2	-	0.2	0.4
	TOTAL	44.7	8.0	52.7	100

- 2.2 The project disbursement period will be five years.

Table 2. Project disbursement schedule (US\$ millions)

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	2.7	15.4	12.6	7.6	6.4	44.7
Local contribution (ASPS)	-	-	1.6	4.8	1.6	8.0
Total	2.7	15.4	14.2	12.4	8.0	52.7
Percentage (%)	5.12	29.2	26.9	23.5	15.2	100.0

B. Environmental and social safeguard risks

- 2.3 In accordance with the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this has been classified as a Category "B" operation,

as it is expected that the construction and operation of the Digital District in San Pedro Sula will have negative environmental and social impacts tied mainly to the generation of noise, dust, and solid and liquid waste, vehicle and pedestrian mobility restrictions, traffic congestion, and risks to worker and community health and safety. The Digital District will be built on currently vacant government-owned land in the urban center of San Pedro Sula, which is why no physical or economic displacement of the population and no impacts on indigenous peoples, critical habitats, or cultural sites are anticipated. In accordance with the Disaster Risk Management Policy (Operational Policy OP-704), the operation was deemed to be at moderate risk for natural disasters, mainly the risk of earthquakes and hurricanes to which San Pedro Sula is exposed. No environmental or social risks related to other components of the operation are expected.

- 2.4 An [environmental and social analysis \(ESA\)](#) and an [environmental and social management plan \(ESMP\)](#) were developed for the Digital District works, in compliance with the procedures established by Bank policies for their publication, including a public consultation held in August 2019 in the neighborhoods of influence of the Digital District. The overall perception of the project is very positive, as it is considered to increase citizen security in the area and create economic opportunities. The consultation report was incorporated into the final version of the ESA/ESMP, available on the Bank's website.

C. Fiduciary risks

- 2.5 Based on the institutional capacity assessment of the coexecuting agencies (see paragraphs 3.1 to 3.4), the following fiduciary risks were identified (the first being high and the others, medium-high): (i) that due to insufficient technical rigor in selecting teams for the ASPS and SEFIN project execution units (PEUs), both the implementation of activities and the disbursements will be delayed; this risk will be mitigated through support for the SCGG DPTMGD by way of: (a) technical assistance, during the compliance with conditions precedent phase, to define positions and profiles to be validated by the IDB; and (b) the selection of the SCGG general project coordination unit (GPCU) team and compliance with the other conditions precedent; (ii) that due to the lack of formal approval of the management tools for their sound performance, the ASPS and SEFIN PEUs will be unable to fulfill their tasks as smoothly as expected; this risk will be mitigated by formally creating the PEUs in each entity, assigning all the expertise required for project execution, developing operating and procedure manuals governing their workings, and, for the ASPS PEU, guaranteeing the timely installation of the SIAFI UEPEX module⁵⁰ for use in the project; and (iii) if technology procurement does not follow a defined plan, with a correct read of the local market's limitations (especially with respect to technical human resources), or they are not performed with sufficient technical rigor, procurement processes could be delayed or inappropriate solutions purchased. To mitigate this risk, the project will: (a) strengthen coordination between the technical and fiduciary areas of the ASPS and SEFIN PEUs; and (b) hire consultants for more complex procurement to provide support during the process.

⁵⁰ UEPEX is a module for the administration of external financing agreements. Its main objective is to facilitate the administration and recording of PEU income and expenditures.

D. Other key issues and risks

- 2.6 **Development.** Six development risks were identified, one high and five medium-high. The high risk is that if no changes are made to the policy on incentives and compliance with the obligation to use the HonduCompras technology platform, the platform will continue to be underused. This risk will be mitigated through coordination between SEFIN and the SCGG to link the availability of budget resources to HonduCompras use (see paragraph 3.6).
- 2.7 The medium-high risks are as follows: (i) if there is no connectivity model with appropriate incentives, providers might not be interested in bidding, resulting in delays (because the procurement process would have to be repeated); this risk will be mitigated by hiring an expert to design and carry out the bidding process, with a focus on supply subsidy incentives, encouraging access to areas that are not profitable for large operators (see paragraph 1.22); (ii) if sector strategies for digitalization and connectivity are not adopted soon, the benefits of connectivity for the quality and efficiency of education and health services cannot be fully tapped; this risk will be mitigated by developing a pedagogical and a health system management strategy that promote and incorporate digitalization and connectivity⁵¹ (see paragraph 3.8); (iii) if there is no solid project plan for implementing the new SIAFI with realistic timelines for the approval of the required regulatory budget adjustments (organic law, its regulation, and technical standards for the various subsystems), the relative complexity of interagency coordination and change management may lead to delays; to mitigate this risk, on the one hand, SEFIN will revise the Public Finance Modernization Plan (2018-2022), focusing on risks and designing and implementing internal and external communication and change management strategies and, on the other, a high-level committee will be created, comprising SEFIN, the SEP, and the SCGG, to supervise the implementation of Subcomponent 2.2 (see paragraph 3.3); (iv) if no business model is developed for the Digital District in San Pedro Sula to attract the private sector in the future, private supplementation of the public initiative would be weakened, limiting the possibility of reducing public financing of its operating costs or generating income for the municipal government; this risk will be mitigated by developing a master plan with a sound business model, validated with the private sector, that takes into account previous experiences from public investment projects in anticipation of future private complementation (see paragraph 1.28); and (v) if the DPTMGD does not have a good strategy for implementing its institutional strengthening, it would not develop the technical and operational capacities it needs to fulfill its mission, implement the project, and make its results sustainable; this risk will be mitigated through advisory services for the first phase of an institutional strengthening strategy (which will include the definition of positions and profiles and the estimation of costs for fees) (see paragraph 1.24).
- 2.8 **Public management and governance.** Three public management and governance risks were identified, two high and one medium-high. The high risks are as follows: (i) if the National Government Procurement Office's (ONCAE) management, budget, and human resource capacities are not improved, the full potential of the HonduCompras tools would not be reached; this risk will be mitigated by implementing the new ONCAE strategy and management plan (to be

⁵¹ Financing for this action will be coordinated with the Youth Project (loan 4449/BL-HO).

developed at the beginning of the project), encompassing the strengthening of its human resources (see paragraph 1.24); and (ii) if the roles, responsibilities, and mechanisms for coordination and management with the project's beneficiary organizations are not clearly defined, the necessary technical definitions would not be available in a timely and appropriate manner, potentially affecting the quality of the corresponding outputs and their adoption and sustainability levels; this risk will be mitigated by developing and establishing agreements (between the GPCU and said beneficiaries) and management instruments that define these aspects (see paragraph 3.8).

- 2.9 The medium-high risk is that, if by the end of the project, no financial resources have been identified to cover the operating costs of the new connectivity services in schools and health centers implemented through the project and the operating costs of keeping the DPTMGD strengthened, the connectivity services could be suspended (leading to a decline in the quality and efficiency of educational and health services); this risk will be mitigated by having the borrower commit to reserving the required budget items to ensure service continuity and to keep the DPTMGD strengthened, prior to the execution of the corresponding activities (see paragraph 2.11).⁵²
- 2.10 **Land ownership.** The Digital District will be located in a central part of the city (a property where a recently demolished prison had operated for decades). The current owner of this property is the national government, under the administration of the National State Assets Directorate (DNBE). The transfer to the municipal government will be in the form of a donation, a procedure that must be approved by the National Congress. Since this transfer is dependent on the approval of this project, an agreement was reached with the DNBE and the ASPS to submit both proposals, the donation and the loan, to Congress at the same time.
- 2.11 **Project sustainability.** The activities to strengthen the DPTMGD under Subcomponent 2.1 are expected to create, upon completion of the project, the managerial and technical capacity to lead and maintain the post-project process. The government also committed to gradually incorporating into the national budget the financing needed to maintain the technical equipment, the digital solutions implemented, and connectivity services, in anticipation of the growing need to protect digital assets.⁵³ As this financing does not entail an increase in budget, the various project actions are expected to generate greater savings for the Treasury (see paragraph 1.33). To maintain the vertical digital solutions, the agreements to be established with beneficiary agencies will include operational responsibilities according to their various capacities. SEFIN will be responsible for the sustainability of the outputs under Subcomponent 2.2 through the existing unit in charge of maintaining the current SIAFI, which is financed and has a high technical level. Lastly, the financial aspects of the development and maintenance of the outputs under Subcomponent 3.2 will be taken on by the ASPS. For the medium and long term, the country hopes to continue to develop digital talent and enterprises, deepening public-private collaboration. Plans to ensure this continuity

⁵² All the mitigation measures are set out in the [multiyear execution plan](#) (output code with prefix "GRP"), along with their start and end dates and the persons responsible.

⁵³ In particular, Hondutel, a State-owned enterprise, is expected to coordinate all aspects of the connectivity service in schools and health centers.

will be outlined in the strategic project committee (see paragraph 3.6), which comprises academic and private-sector representatives.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

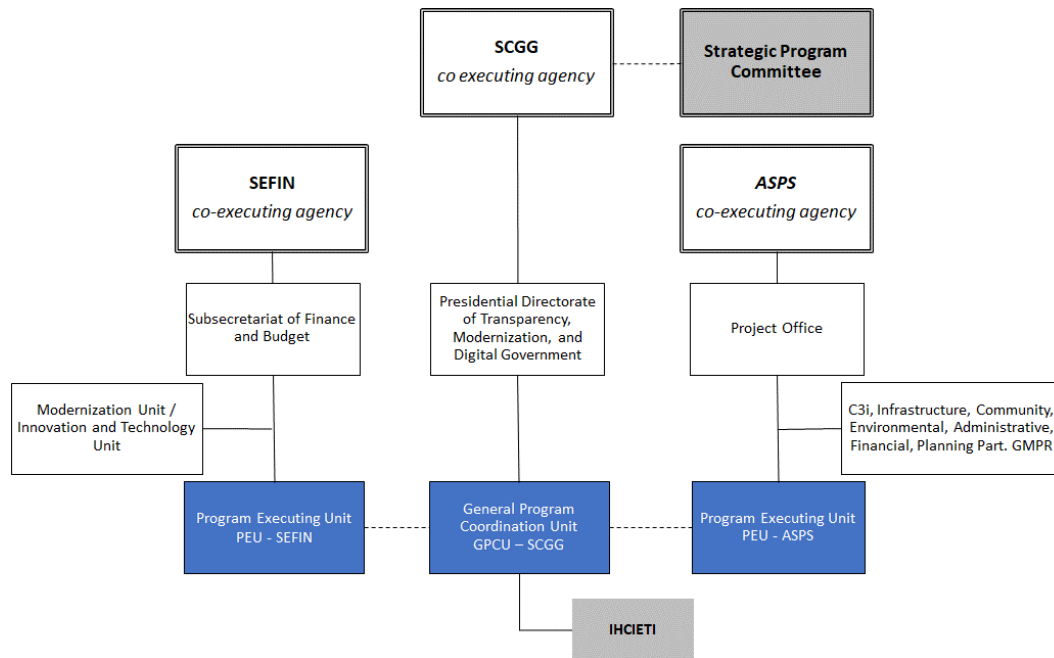
- 3.1 **Execution mechanism.** The borrower will be the Republic of Honduras. The coexecuting agencies will be the SCGG, the ASPS, and SEFIN. Each coexecuting agency will be responsible for developing and updating planning, procurement and financial management, and monitoring of the subcomponents and activities under its responsibility.
- 3.2 The SCGG will execute the project through the DPTMGD, under which a GPCU will be created for this purpose. The GPCU will have direct responsibility for: (i) the execution of Component 1 and Subcomponents 2.1 and 3.1; (ii) project administration, audit, and evaluation activities; and (iii) general oversight of project execution and evaluation. The GPCU will coordinate project execution as it relates to technical, operational, administrative, and financial considerations and will monitor the project. For technical management, it will coordinate with the DPTMGD mission directorates and the competent units of the various institutions involved in developing the outputs under its responsibility. It will also be in charge of coordinating and liaising with the other coexecuting agencies.
- 3.3 The ASPS will have direct responsibility for Subcomponent 3.2, the administration and audit activities and supervision of ESMP execution. To this end, it will create a project execution unit (PEU-ASPS), which will report directly to the Project Office, that will work in close coordination with municipal government staff involved in project execution based on their competencies. SEFIN will have direct responsibility for Subcomponent 2.2 and the administration and audit activities. To this end, it will create a project execution unit (PEU-SEFIN), which will report directly to the Subsecretariat of Finance and Budget, that will work in coordination with the Modernization Unit and the Innovation and Technology Unit.
- 3.4 The coexecuting agencies will execute their respective part of the project, with sufficient independence so that the technical, environmental, social, and fiduciary management and monitoring of each one does not limit or restrict the execution of the others. The coexecuting agencies will each be accountable to the Bank for the execution of the components, subcomponents, and activities within their purview, will maintain direct communication, will have autonomy in managing the respective resources, and will justify expenditures independently. The submission of monitoring reports will be the responsibility of the SCGG, which will compile the monitoring reports from the three agencies for submission to the Bank. To that end, the other coexecuting agencies will provide the SCGG with reports on the physical and financial progress of their activities.
- 3.5 IHCIETI will be the project subexecuting agency. Its responsibilities, to be established by way of an interagency agreement with the SCGG (see paragraph 3.10), will be related to Outputs 16 and 17 of Subcomponent 3.1. It will be responsible for the technical and fiduciary execution of resources transferred to it by the SCGG.

- 3.6 **Institutional coordination mechanisms.** A strategic committee will be created, comprising the top key actors of the Honduran digital agenda from the public sector (at least SEP, SEFIN, SCGG, ASPS, and IHCIETI), private sector (Honduran Private Business Council), and academia (UNAH). It will have an advisory and coordinating role, performing the following functions: (i) provide strategic advice to the coexecuting agencies regarding planning updates and the execution of project activities; (ii) facilitate interagency liaison for successful project execution and sustainability; and (iii) ensure strategic project monitoring. Its operating and governance rules will be included in Annex VIII of the [project Operating Regulations](#). With respect to the Digital District, the ASPS will coordinate dialogue with the private sector and academia in San Pedro Sula.
- 3.7 A subsidiary agreement is expected to be signed between SEFIN (representing the borrower) and the ASPS, establishing the municipal government's obligation to provide counterpart funds and its commitment to ensure the sustainability of the planned investments.⁵⁴ The availability of these funds will be guaranteed by a 20-year syndicated credit line agreement entered into by the municipal government with private banks, approved by both the Municipal Corporation and the National Congress, and including this project in its investment matrix.
- 3.8 Interagency agreements are also expected to be signed between the GPCU and the beneficiary entities (UNAH, SEP (through the corresponding DGSC and CCD activities), Education Secretariat, Health Secretariat, and Honduran Association of Municipios)⁵⁵ and entered into prior to the start of implementation of the corresponding activities, setting out the commitments of each party and the transfer of project outputs.

⁵⁴ Irrespective of this commitment, the municipal government will submit to the Bank a sustainability plan at the end of the fourth year of execution.

⁵⁵ Bodies responsible for any of the bureaucratic processes whose streamlining and digitalization are prioritized could be added to this list. A standard agreement template is included in Annex VII of the [project Operating Regulations](#).

Figure 3. Execution structure



- 3.9 **Special contractual conditions precedent to the first disbursement of the loan. The first disbursement of loan proceeds will be contingent on fulfillment, to the Bank's satisfaction, of the following conditions: (i) a subsidiary agreement has been signed between SEFIN, on behalf of the borrower, and the ASPS, specifying: (a) the terms and conditions of the transfer of resources needed to execute Subcomponent 3.2; (b) the ASPS has committed to make the necessary contributions for the complete and uninterrupted execution of Subcomponent 3.2, including the local contribution; and (c) the ASPS has committed to comply with the [project Operating Regulations](#); all this to guarantee the transfer of financial resources to the coexecuting agency, establish the ASPS commitments as such, and guarantee its financial contribution for the success of Subcomponent 3.2; (ii) a general project coordination unit (GPCU) has been created and put into operation under the SCGG and, at a minimum, the following key staff have been appointed: (a) a general project coordinator with authority to execute the project autonomously, particularly procurement management, financial, planning, and monitoring processes, and lead the coordination of the project's technical management; and (b) a financial specialist, to ensure quick and effective project execution; this condition is required in order for the GPCU, which will be within the DPTMGD, reporting to the SCGG, to have the key staff to initiate project, procurement, and financial management processes; and (iii) the [project Operating Regulations](#) have been approved and entered into effect, in accordance with the terms and conditions previously agreed upon by the Bank and the SCGG, establishing the terms, conditions, guidelines, and procedures applicable to project implementation and including, *inter alia*, the [ESA](#) and [ESMP](#), to ensure the project's successful execution.**

- 3.10 **Special contractual conditions of execution.** The disbursement of loan proceeds for the execution of Subcomponents 2.2 and 2.3 will be contingent on fulfillment, to the Bank's satisfaction, of the following conditions: (i) the ASPS and SEFIN have created and put into operation the corresponding PEUs, appointing the following key staff: (a) a PEU coordinator; and (b) a financial specialist; this is a special condition to guarantee that these coexecuting agencies have their own key staff to initiate project, procurement, and financial management processes in order to complete the activities assigned to each one; (ii) prior to contracting preliminary studies for construction of the Digital District in San Pedro Sula under Subcomponent 3.2, the ASPS will: (a) have presented, to the Bank's satisfaction, evidence of having the necessary rights for using the land, building the works and their use; and (b) have complied with the special environmental and social contractual conditions set forth in Annex B of the [environmental and social management report \(ESMR\)](#), in order to guarantee that, prior to the corresponding disbursements, the ASPS has tenure of the land for building the Digital District and that the construction project meets the environmental and social safeguards specified in the [ESMR](#); and (iii) as a special condition precedent to construction of the Digital District in San Pedro Sula provided for in Subcomponent 3.2, there will be an economic analysis of the construction that examines and determines the feasibility of the works, based on the final Master Plan. Prior to starting the execution of Subcomponent 3.1, the SCGG will also sign, to the Bank's satisfaction, an interagency agreement with IHCIETI, the subexecuting agency, setting out the terms and conditions for the transfer of resources and the commitments that the latter is to fulfill.
- 3.11 **Justification of expenditures.** Given the complexity of the operation, which involves execution through three different institutions and one subexecuting agency, with which the GPCU will have to coordinate the transfer of resources and its justification of expenditures, coupled with potential delays in processing annual budget inclusions and changes, the percentage of the advance balance for which each coexecuting agency will have to account has been set at 70%.
- 3.12 **Project Operating Regulations.** The [project Operating Regulations](#) will set out the criteria, procedures, and execution strategy for the operation, including: (i) the financial, procurement, and audit procedures, as well as a framework with guidelines for environmental and social management; (ii) the framework for interagency coordination, governance, and the responsibilities of each of the main participating institutions; (iii) the outcome programming, monitoring, and evaluation plan; and (iv) the project's [Environmental and Social Analysis](#) and [Environmental and Social Management Plan](#).
- 3.13 **Retroactive financing.** The Bank may retroactively finance from the loan proceeds up to US\$1.1 million (2.46% of the Bank's contribution) in eligible expenditures incurred by the borrower prior to the loan approval date, provided that requirements substantially similar to those established in the loan contract have been met. Those expenditures will allow for an early start to project activities, such as those associated with creating the PEUs and procuring the basic development, security, and analytic elements, in preparation for the execution of Subcomponent 2.2. Such expenditures will have been incurred on or after 30 May 2019 (the project profile approval date) but will under no circumstances include expenditures incurred more than 18 months prior to the loan approval date.

- 3.14 **Procurement of works, goods, and nonconsulting and consulting services.** The procurements financed with loan proceeds will be carried out in accordance with the policies set forth in documents GN-2349-9 and GN-2350-9 or those in effect at the time of execution. The systems specified in Annex III will be applied to the operation.

- 3.15 **Audits.** During execution, the GPCU, PEU-SEFIN, and ASPS will submit annual audited financial statements for the components and subcomponents under their responsibility, pursuant to the terms established by the Bank. The audit firms will be acceptable to the Bank. Annual audited financial statements will be submitted within 120 days of the closing of the fiscal year and the final audited financial statements, within 120 days of the date set for the final disbursement.

B. Summary of arrangements for monitoring results

- 3.16 **Evaluation.** The Results Matrix and the [monitoring and evaluation plan](#) will be used to evaluate the project. The project entails a midterm and final evaluation covering technical, administrative, and financial aspects, as well as an ex post cost-benefit analysis. The midterm evaluation will be conducted after 30 months have elapsed since the loan contract took effect or once 50% of the loan proceeds have been disbursed, whichever occurs first. The final evaluation will be conducted after the original disbursement period or any extensions have elapsed or once 90% of the loan proceeds have been committed, whichever occurs first, and will aim to verify the progress made in achieving the targets set for each expected outcome and output by component.
- 3.17 **Impact assessment.** The proposed assessment methodology is a randomized controlled trial, for which it will take advantage of the fact that connectivity in schools will be implemented in phases. The goal of the assessment is to answer the following research questions: (i) what is the effect of broadband availability in schools on academic performance?; (ii) what is the effect of connectivity on other education variables, such as school dropout?; and (iii) what is the effect of connectivity on students' use and management of time? Evidence is therefore expected to be gathered for policy recommendations on the effect that improving broadband availability has on development indicators.

Development Effectiveness Matrix		
Summary		HO-L1202
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	<ul style="list-style-type: none"> -Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law 	
Country Development Results Indicators	<ul style="list-style-type: none"> -Reduction of emissions with support of IDBG financing (annual million tons CO2 e)* -Students benefited by education projects (#)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Projects supporting innovation ecosystems (#)* -Companies supported in innovation activities (#)* 	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2944	Improve the quality and efficiency of public expenditure
Country Program Results Matrix	GN-2948-2	The intervention is included in the 2019 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	Evaluable	
3. Evidence-based Assessment & Solution	8.5	
3.1 Program Diagnosis	1.8	
3.2 Proposed Interventions or Solutions	4.0	
3.3 Results Matrix Quality	2.7	
4. Ex ante Economic Analysis	6.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	3.0	
4.2 Identified and Quantified Benefits and Costs	0.0	
4.3 Reasonable Assumptions	0.0	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	8.9	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	6.4	
III. Risks & Mitigation Monitoring Matrix	Medium	
Overall risks rate = magnitude of risks*likelihood	Yes	
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, Price Comparison.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
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	Yes	Support for the Preparation of the Program for the Digital Transformation of Citizen Services and Promotion of a Digital Economy in Productive Sectors (ATN/OC-17319-HO) whose objective is to carry out all the preliminary studies and activities required to prepare the aforementioned loan, including the implementation of pilot digital government projects.

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The main goal of the operation is to improve the competitiveness of the Honduran economy. To achieve this, the proposal defines three specific areas of intervention. The first area proposes to increase access and broadband connectivity and the quality of internet service, the second area is focus on a reduction of the transactional cost of accessing public services through the digitalization of services and processes; The third area proposes, to develop a digital economy environment through incentives for enterprises to increase their investment in innovation and technological transformation

The project proposal diagnosis describes a high transactional cost for renewing the police certificate of character (USD23 dollars), a process that takes around 10 hours, is usually required in order to get a new job [IDB, 2019]. Additionally, the diagnosis presents limitations associated to connectivity such as low speed and quality in data transmission compared with LAC. The diagnosis also finds low investment in ICT and a weak institutional framework for the government to develop a digital agenda. Overall, the diagnosis identifies problems and their causes. The solutions are aligned to the problems. There is no evidence on effectiveness for some proposed solutions in the country. Some outputs indicators are not SMART.

The economic analysis provides a quantification of some economic benefits. It quantifies benefits associated to the reduction in the transactional cost of two key public services, savings on public procurement and an increase of the broadband users. Benefits related to digital economy component were not included in the calculations. The costs include maintenance and investments associated to the loan. The analysis concludes the project has a net present value of US\$10.1 million.

Monitoring relies on reports by multiple government agencies, with a majority of indicators provided by SCGG. The evaluation plan includes an impact evaluation. The evaluation aims to quantify the effect of connectivity on education outcomes such as, attendance, dropout rate, and academic performance.

RESULTS MATRIX

Project objective:	The general objective of the project will be to help increase competitiveness in Honduras through digital transformation. The following specific objectives have been established in order to achieve this: (i) increase connectivity coverage and use; (ii) reduce transaction costs for citizens, enterprises, and government agencies by developing e-government; and (iii) increase innovation by developing the digital economy.
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EXPECTED IMPACT

Indicators	Unit of Measure	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	Means of Verification	Comments
IMPACT 1: IMPROVED COMPETITIVENESS THROUGH DIGITAL TRANSFORMATION										
Indicator 1: World Economic Forum (WEF) Global Competitiveness Index	Index	52	2018	0	0	0	0	57	Official WEF report	

EXPECTED OUTCOMES

Indicators	Unit of Measure	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	Means of Verification	Comments
OUTCOME 1: GREATER TERRITORIAL COVERAGE AND USE OF BROADBAND CONNECTIVITY										
1.1 Internet users	%	33	2018	34	36	43	50	56	Official ITU report	
OUTCOME 2: GREATER USE OF DIGITAL MEDIA IN TRANSACTIONS BETWEEN CITIZENS, ENTERPRISES, AND GOVERNMENT AGENCIES										
2.1 Business started up online	% of total	22	2019	27	32	38	44	50	Management report, Mi Empresa en Línea (MEeL)	
2.2 % of criminal record checks requested online versus in person	%	0	2018	0	10	20	25	30	DPTMGD report	See monitoring and evaluation plan (MEP).
2.3 Proportion of goods and services procurements through HonduCompras	%	17.5	2018	20	24	33	39	50	ONCAE report	
OUTCOME 3: INCREASE IN DIGITAL ECONOMY STARTUPS										
3.1 Number of digital startups registered in San Pedro Sula	# of companies	12	2018	0	15	20	40	60	Management report, MEeL	See MEP .

OUTPUTS

Outputs	Unit of Measure	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	Final Target	Means of Verification	Comments
Component 1: Broadband coverage and use											
Output 1: Public buildings and spaces connected	Spaces	0	0	0	280	370	110	0	760	- Reports from providers	
Output 2: Regulatory framework for promoting the connectivity of public spaces revised	Regulations	0	0	0	0	1	0	0	1	- Regulatory framework revision report, proposals to update the regulatory framework	
Output 3: Network Operation Center operational	Operation Center	0	0	0	0	1	0	0	1	- Report from provider	
Component 2: Digital transformation of the government											
Subcomponent 2.1: Quality and efficiency in the delivery of government services to citizens and enterprises											
Output 4: DPTMGD technical and operational capacity increased	Person-year	0	0	10	25	33	23	8	99	- Legal provisions of contracts	See MEP .
Output 5: Communication and change management strategy designed and implemented	Strategy	0	0	0	0	0	0	1	1	- Strategy document - Legal approval provision - Implementation reports	
Output 6: Services to citizens and enterprises prioritized, digitalized, and streamlined	Services	0	0	0	2	5	5	3	15	- Report on systems with services online	
Output 7: Vertical and shared back office services digitalized and streamlined	Services	0	0	0	2	2	2	2	8	- Report on systems with services online - Report on actions carried out	See MEP .
Output 8: Payment gateway system for public institutions operational	Online payment processes	0	0	0	0	0	0	30	30	- Reports from providers - Report on systems with services online	
Output 9: Project to update the e-government regulatory framework developed	Projects	0	0	0	1	2	0	0	3	- Documents for the regulatory framework update project	See MEP .

Outputs	Unit of Measure	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	Final Target	Means of Verification	Comments
Output 10: Security of government digital assets strengthened	Digital assets	0	0	0	0	0	5	0	5	- Reports from providers	
Output 11: HonduCompras 2.0 platform extended	Platform	0	0	0	0	0	0	1	1	- Progress report - Plan documents - Report on actions taken	See MEP .
Output 12: Digital literacy and awareness activities carried out	Activities	0	0	4	7	7	4	2	24	- Report on actions taken	
Subcomponent 2.2: Strengthening of government financial management											
Output 13: SIAFI infrastructure updated	Infrastructure updated	0	0	0	0	0	1	0	1	- Report on actions taken	See MEP .
Component 3: Digital economy											
Subcomponent 3.1: National scope											
Output 14: Comayagüela Digital City Master Plan developed	Plan	0	0	0	0	1	0	0	1	- Plan documents	
Output 15: Technological Design and Innovation Center for Entrepreneurs equipped and operational	Center	0	0	0	0	0	0	1	1	- Report on actions taken - Reports from providers	
Output 16: Entrepreneurship incubators financed	Incubator	0	0	1	2	2	1	0	6	- Subexecuting agency's progress report	
Output 17: Digital talent promotion activities implemented	Activities	0	0	1	2	2	2	1	8	- Subexecuting agency's progress report - List of participants	
Milestone 1: Women trained in digital bootcamps	Women	0	0	0	20	20	20	0	60	- List of participants	Pro-género
Subcomponent 3.2: San Pedro Sula scope											
Output 18: San Pedro Sula Digital District designed and built	District	0	0	0	0	0	0	1	1	- Work acceptance documents/ certificates	
Milestone 1: Master plan for the San Pedro Sula Digital District prepared	Master plan	0	0	0	1	0	0	0	1	- Plan document	

Outputs	Unit of Measure	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	Final Target	Means of Verification	Comments
Milestone 2: San Pedro Sula Digital District designed	Construction	0	0	0	0	1	0	0	1	- Design document for the Digital District	
Output 19: Entrepreneurship center in San Pedro Sula operational	Center	0	0	0	0	1	0	0	1	- Report on activities conducted	
Output 20: Initiatives for the promotion of digital talent in San Pedro Sula implemented	Activities	0	0	1	2	2	0	0	5	- Report on activities conducted - List of participants	See MEP .
Output 21: Activities for BIM capacity building in San Pedro Sula conducted	Activities	0	0	1	1	1	0	0	3	- Diagnostic assessment - List of participants - Report on activities conducted	
Output 22: Smart City Control Center (C3i) operational	Center	0	0	0	0	0	0	1	1	- Design document - Report on activities conducted - Reports from providers	

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Honduras
Project number:	HO-L1202
Name:	Digital Transformation for Increased Competitiveness
Co-executing agencies:	Secretariat of General Government Coordination (SCGG), Secretariat of Finance (SEFIN), and San Pedro Sula Municipal Government (ASPS)
Fiduciary team:	Nadia Rauschert (Financial Management, FMP/CHO); María Cecilia Del Puerto Correa (Procurement, FMP/CHO)

I. EXECUTIVE SUMMARY

- 1.1 The latest diagnostic assessments of financial management in Honduras show major advances toward international standards and good practices, mainly in modernizing the institutional framework and integrating government budget, treasury, and accounting systems into the Integrated Financial Administration System (SIAFI). The government nonetheless continues to make progress in modernizing its financial management.
- 1.2 Honduras' government procurement system has strengths identified in the 2010 Methodology for Assessing Procurement Systems, especially as concerns a legal framework better adapted to international best practices. However, it has not yet reached the standards for the widespread adoption of the country system in Bank-financed operations. On 13 March 2019, the Bank's Board of Executive Directors approved the use of only the country limited bidding and framework agreement subsystems through the electronic catalog / catalog procurement.

II. FIDUCIARY CONTEXT OF THE COEXECUTING AGENCIES AND EXECUTION MECHANISMS

- 2.1 Both the SCGG and SEFIN have experience in executing Bank projects through project execution units (PEUs). While the SCGG has executed various technical cooperation operations (ATN/OC-12691-HO, ATN/OC-13908-HO, ATN/OC-14111-HO, ATN/OC-14590-HO, and ATN/OC-15390-HO), the Institutional Capacity Assessment Platform found a lack of technical and operational capacity to manage projects of a similar size and complexity as those in this program, meaning that it requires both technical and fiduciary strengthening. SEFIN executed loan 3878/BL-HO and operation ATN/OC-15875-HO, with limitations integrating fiduciary elements into technical ones. Another institution was in charge of the technical elements. In this project, however, the technical elements are not only under its responsibility, but also constitute a strength. Although the ASPS has no recent experience with the IDB, it has a sound institutional structure and strong technical

- leadership, provided that the PEU relies on the organization's technical departments and strengthens its fiduciary capacities by hiring staff with extensive experience in implementing IDB procurement policies.
- 2.2 The Honduran Institute of Science, Technology, and Innovation (subexecuting agency) is currently executing technical cooperation operation ATN/OC-16177-HO and has experience in executing activities similar to those of this program (promotion of dynamic entrepreneurship (StartUp Honduras) and technological capacity-building initiatives for young people (Honducamp.tech)). It carries out these tasks with its own staff and will do so for outputs 16 and 17.
 - 2.3 An institutional capacity assessment was conducted of the three institutions involved in the execution. On this basis, an agreement was reached to create an executing unit in each of the three agencies.
 - 2.4 As for the fiduciary execution structure, the government has sought fiduciary independence for the components/subcomponents corresponding to each institution. This structure is detailed in the project Operating Regulations.
 - 2.5 With respect to the country financial management systems, or their equivalents, used in this operation, the following are established:
 - a. **Budget.** The budget resources will be taken into account in the General Budget Law and its general provisions. The funds to be administered by the ASPS will be incorporated annually into its budget according to the annual plan for this operation.
 - b. **Treasury.** Three special accounts will be opened in the Central Bank of Honduras, as well as their respective operating passbooks, which will form part of the Single Treasury Account.
 - c. **Accounting and financial reports.** The coexecuting agencies will execute payments through the SIAFI, where they will use the UEPEX module to record and issue reports.
 - 2.6 As for procurement, the Honduran Procurement Information System, HonduCompras, will be used to publish calls for bids. For the contracting of goods, works, and services under the price comparison thresholds, the country limited bidding and framework agreement systems will be used through electronic catalog procurement. The rest of the processes will apply Bank procurement policies.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The following fiduciary risks have been identified (the first being high and the others medium-high): (i) that due to insufficient technical rigor in selecting teams for the ASPS and SEFIN PEUs, both the implementation of activities and the disbursements will be delayed; this risk will be mitigated through support for the SCGG DPTMGD by way of: (a) technical assistance, during the fulfillment of the conditions precedent phase, to define positions and profiles to be validated by the IDB; and (b) the selection of the SCGG General Project Coordination Unit (GPCU) team and fulfillment of other conditions precedent; (ii) that due to the lack of formal approval of the management tools for their sound performance, the ASPS and SEFIN PEUs will be unable to fulfill their tasks as smoothly as expected; this risk

will be mitigated by formally creating the PEUs in each entity, assigning all the expertise required for project execution, developing operating and procedure manuals governing their workings, and, for the ASPS PEU, guaranteeing the timely installation of the SIAFI UEPEX module for use in the project; and (iii) if technology procurement does not follow a defined plan, with a correct read of the local market's limitations (especially with respect to technical human resources) or lacks sufficient technical rigor, procurement processes may be delayed or inappropriate solutions may be procured. To mitigate this risk, it was proposed to: (a) strengthen coordination between the technical and fiduciary areas of the ASPS and SEFIN PEUs; and (b) hire consultants for more complex procurement to provide support during the process.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 **Exchange rate for accountability reporting.** Exchange rate effective on the day on which the beneficiary, the coexecuting agencies, or any other natural or legal person to whom spending authority has been delegated makes the respective payments to the contractor or supplier.
- 4.2 **Justification of expenditures.** Given the complexity of the operation, which involves execution through three different institutions and one subexecuting agency, with which the GPCU will have to coordinate the transfer of resources and its justification of expenditures, coupled with potential delays in processing annual budget inclusions and changes, the percentage of the advance balance for which each coexecuting agency will have to account has been set at 70%.
- 4.3 **Audited financial statements and other reports.** During execution, the coexecuting agencies will separately submit annual audited financial statements for the components and/or subcomponents under their responsibility, as required by the Bank. The project will require the selection of a Bank-eligible independent audit firm. Annual audited financial statements will be submitted within 120 days after the closing of the fiscal year and the final audited financial statements, within 120 days of the date set for the final disbursement.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

A. Procurement execution

- 5.1 The coexecuting agencies and the subexecuting agency, through the respective PEUs, will carry out the procurement selection, supervision, and receipt processes for the project, in accordance with the Bank's procurement policies (documents GN-2349-9 and GN-2350-9), as set out in the procurement plan for the operation (which includes the process type and the procurement and revision methods).¹
- 5.2 The coexecuting agencies will report on progress and will update the procurement plan annually (or based on project needs), obtaining Bank approval for any changes. They will also agree with the Bank on a procurement plan for the first

¹ The Bank's procurement specialist will provide assistance to ensure compliance with the aforementioned policies.

18 months of execution. A monitoring system will be implemented, encompassing planning of the procurement required for the project through the use of the Procurement Plan Execution System or another existing system.

- 5.3 Efficient execution will require exhaustive monitoring, by the coexecuting agencies, of compliance with timelines by their technical departments, the subexecuting agency, and beneficiaries, while ensuring the technical quality of the processes.
- 5.4 **Procurement of works, goods, and nonconsulting services.** Works, goods, and nonconsulting services² arising under the project and subject to international competitive bidding (ICB) will be procured using the standard bidding documents issued by the Bank. Bidding processes subject to national competitive bidding will be executed using national bidding documents agreed with the Bank and will be published on the website of the National Government Procurement Office at <https://www.hondumpras.gob.hn/>.
- 5.5 **Selection and contracting of consultants.** Consulting contracts with firms arising under the project will be executed using the standard request for proposals issued by or agreed with the Bank.
- 5.6 **Selection of individual consultants.** The contracting of individual consultants may be carried out using local or international advertising to create a shortlist of qualified candidates, where suitable consultants for the respective consulting services are unknown. Consultants hired to assist the coexecuting agencies during the execution of the operation may be contracted for the entire execution period, subject to the no objection to the initial competitive screening process. There is no need to obtain the no objection for each budget execution period, regardless of whether more than one contract is signed for each period. That is notwithstanding any performance evaluation that results in the termination of the consulting contract thus the need to seek the no objection again for the new process.
- 5.7 **Retroactive financing.** The Bank may retroactively finance from the loan proceeds up to US\$1.1 million (2.46% of the Bank's contribution) in eligible expenditures incurred by the borrower prior to the loan approval date, provided that requirements substantially similar to those established in the loan contract have been met. Those expenditures will allow for an early start to project activities, such as those associated with creating the PEUs and procuring the basic development, security, and analytic elements, in preparation for the execution of Subcomponent 2.2. Such expenditures must have been made on or after 30 May 2019 (the project profile approval date), but will under no circumstances include expenditures made more than 18 months prior to the loan approval date.
- 5.8 Domestic preference will not be included.
- 5.9 **Thresholds.** The thresholds that determine the use of international competitive bidding and the integration of the shortlist of international consultants will be made available to the coexecuting agencies at www.iadb.org/procurement. Below these thresholds, the selection method will be determined based on procurement

² Policies for the Procurement of Goods and Works financed by the Inter-American Development Bank (document [GN-2349-9](#)) paragraph 1.1: nonconsulting services are treated as goods.

complexity and characteristics, which will be outlined in the procurement plan approved by the Bank.

B. Main procurement processes

5.10 Below are the main procurement processes for this operation:

Table 1. Main procurement processes

Activity	Process type	Estimated date (quarter/year)	Estimated amount (US\$)
Works			
Construction of Digital District in San Pedro Sula	ICB	1st/3	11,092,000
Consulting firms³			
Implementation of C3i project	QCBS	1st/2	1,910,000
Preliminary studies and final design of Digital District construction	QCBS	1st/2	1,375,000
Automation of five new processes for enterprises	QCBS	2nd/3	500,000
Support for the roll-out of HonduCompras modules	QCBS	2nd/2	886,000
Regulatory framework proposals to foster the connectivity of public spaces	QCBS	1st/2	300,000
Goods and nonconsulting services			
SIAFI infrastructure and licenses	ICB	2nd/1	4,152,200
Equipment for the Digital District	ICB	3rd/4	2,079,800
Broadband connectivity services and equipment	ICB	2nd/2	9,095,000
Infrastructure for the project to upgrade the SIAFI	ICB	0	950,000

* To access the first 18 months of the procurement plan, click [here](#).

C. Procurement supervision

5.11 In accordance with the fiduciary risk analysis for procurement, the supervision method will be a combination of ex post and ex ante review, as established in the procurement plan.

5.12 Any single-source selection of consulting services to be performed by firms or individuals and the direct procurement of nonconsulting services, goods, or works will be subject to ex ante supervision by the Bank, regardless of the contract amount. Renewals or extensions of contracts with individual consultants will not require an additional no objection beyond that which was issued for the first contract resulting from a competitive process.

D. Records and files

5.13 The PEUs will record and keep original supporting documents and files for procurement processes carried out with project resources, following the established procedures. The project Operating Regulations will document the internal work flows and separation of duties.

³ In consulting services, means establishing the shortlist of firms from different countries. See document [GN-2350-9](#), paragraph 2.6.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 6.1 **Programming and budget.** The budget allocation of program resources will be reviewed annually.
- 6.2 **Accounting and information systems.** The SIAFI UEPEX module will be used for financial and accountability reporting on Bank-financed projects.
- 6.3 **Disbursements and cash flow.** Disbursements will be made mainly as advances of funds, based on financial programming no longer than 180 days. Financial planning and the justification of expenditures will be carried out separately, in accordance with paragraph 4.2.
- 6.4 **Internal control and internal audit.** The coexecuting agencies will perform their fiduciary functions with the support of the execution units created for that purpose, within the framework of Bank-financed operations in this sector and in accordance with the project Operating Regulations in effect for the coexecuting agencies.
- 6.5 **Financial supervision plan.** The Bank will supervise the program's financial management, monitoring the actions to be taken by each coexecuting agency to address any external audit observations and findings, as well as monitoring fiduciary risk.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Honduras. Loan ____/BL- HO to the Republic of Honduras
Digital Transformation for Increased Competitiveness

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the “Digital Transformation for Increased Competitiveness” project. Such financing will be chargeable to the Bank’s Ordinary Capital (OC) resources in the following manner: (i) up to the amount of US\$29,055,000, subject to concessional financial terms and conditions (“Concessional OC”); and (ii) up to the amount of US\$15,645,000, subject to financial terms and conditions applicable to loan operations financed from the Bank’s regular program of OC resources (“Regular OC”), as indicated in the Project Summary of the Loan Proposal, and subject to the Special Contractual Conditions of said Project Summary.

(Adopted on ____ 2019)