

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**HONDURAS**

**HONDURAS TRANSPORTATION AND FREIGHT LOGISTICS SECTOR REFORM  
PROGRAM**

**(HO-L1198)**

**LOAN PROPOSAL**

This document was prepared by the project team consisting of: Raúl Rodríguez Molina, Project Team Leader (INE/TSP); Margarita Libby, Alternate Project Team Leader (TIN/CPN); Alfonso Salazar and Juan José Larios (TSP/CHO); Julieta Abad (TSP/CAR); Reinaldo Fioravanti, Gabriela Arteaga, and Aziz Baladi (INE/TSP); Agustín Sarriá (TIN/CES); María Cecilia del Puerto and Nadia Rauschert (FMP/CHO); and Enrique Ignacio Barragan (LEG/SGO).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

## CONTENTS

### PROJECT SUMMARY

|      |   |    |
|------|---|----|
| I.   | DESCRIPTION AND RESULTS MONITORING .....                            | 1  |
| A.   | Background, problem addressed, and rationale .....                  | 1  |
| B.   | Objectives, components, and cost .....                              | 15 |
| C.   | Key results indicators .....  | 18 |
| II.  | FINANCING STRUCTURE AND MAIN RISKS .....                            | 19 |
| A.   | Financing instruments .....   | 19 |
| B.   | Environmental and social risks .....                                | 19 |
| C.   | Fiduciary risks .....   | 19 |
| D.   | Other program risks .....   | 20 |
| III. | IMPLEMENTATION AND MANAGEMENT PLAN .....                            | 20 |
| A.   | Summary of execution arrangements .....                             | 20 |
| B.   | Summary of arrangements for monitoring and evaluating results ..... | 21 |
| IV.  | POLICY LETTER .....   | 21 |

| ANNEXES  |  |
|----------|--|
| Annex I  | Summary Development Effectiveness Matrix (DEM) |
| Annex II | Policy Matrix                                  |

| LINKS   |
|---|
| <b>REQUIRED</b> <ol style="list-style-type: none"><li>1. <a href="#">Policy Letter</a></li><li>2. <a href="#">Means of Verification Matrix</a></li><li>3. <a href="#">Results Matrix</a></li></ol> <b>OPTIONAL</b> <ol style="list-style-type: none"><li>1. <a href="#">Monitoring and Evaluation Plan</a></li><li>2. <a href="#">Sector Institutions Organizational Structure Annex</a></li><li>3. <a href="#">Regional Integration Annex</a></li><li>4. <a href="#">Dossier of Honduran Regional Integration Initiatives</a></li><li>5. <a href="#">Technical Note on Innovation and Technology in Honduras's Freight Logistics Sector</a></li><li>6. <a href="#">Scope of the Master Plan for the Northern Logistics Cluster</a></li><li>7. <a href="#">National Freight Logistics Plan</a></li><li>8. <a href="#">Immediate Action Plan</a></li></ol> |

## ABBREVIATIONS

|        |   |
|--------|---|
| BCH    | Banco Central de Honduras [Central Bank of Honduras]  |
| CLN    | Conglomerado Logístico Norte [Northern Logistics Cluster]   |
| CNL    | Consejo Nacional de Logística [National Logistics Council]  |
| ECFC   | Estrategia Centroamericana de Facilitación del Comercio y Competitividad [Central American Strategy for Trade Facilitation and Competitiveness] |
| FAL 65 | Convention on Facilitation of International Maritime Traffic  |
| FFF    | Flexible Financing Facility   |
| FYDUCA | Factura y Declaración Única Centroamericana [Single Central American Invoice and Declaration]   |
| ICT    | Information and communication technologies  |
| IHTT   | Instituto Hondureño de Transporte Terrestre [Honduran Land Transportation Institute]  |
| IMF    | International Monetary Fund   |
| INSEP  | Secretaría de Infraestructura y Servicios Públicos [Department of Infrastructure and Public Services]   |
| LAC    | Latin America and the Caribbean   |
| LIBOR  | London Interbank Offered Rate   |
| LPI    | Logistics Performance Index   |
| OC     | Ordinary Capital  |
| OEA    | Operador Económico Autorizado [Authorized Economic Operator]  |
| PAI    | Plan de Acción Inmediata [Immediate Action Plan]  |
| PBL    | Policy-based loan   |
| PBP    | Programmatic policy-based loan  |
| PEG    | Plan Estratégico de Gobierno [Government Strategic Plan]  |
| PGICE  | Portal de Gestión Integral de Comercio Exterior [Comprehensive Foreign Trade Management Portal]   |
| PMCLN  | Plan Maestro del Conglomerado Logístico del Norte [Master Plan for the Northern Logistics Cluster]  |
| PNLOG  | Plan Nacional de Logística de Carga [National Freight Logistics Plan]   |
| SEFIN  | Department of Finance   |
| SPL    | Sector Policy Letter  |
| tkm    | Tonne-kilometre   |
| UTEL   | Unidad Técnica de Ejecución Logística [Technical Unit for Logistics Execution]  |
| VUM    | Ventanilla Única Marítima [Single Maritime Window]  |

## Project Summary

### Honduras Honduras Transportation and Freight Logistics Sector Reform Program (HO-L1198)

| Financial Terms and Conditions  |                                 |                                     |                 |                                     |    |                                     |
|---|---------------------------------|-------------------------------------|-----------------|-------------------------------------|----|-------------------------------------|
| Borrower:   | Source                          | %                                   | Amount (US\$)   | %                                   |    |                                     |
| Republic of Honduras  | IDB (Regular OC):               | 60                                  | 54,000,000      | 60                                  |    |                                     |
|   | IDB (Concessional OC):          | 40                                  | 36,000,000      | 40                                  |    |                                     |
|   | IDB:                            | 100                                 | 90,000,000      | 100                                 |    |                                     |
| Executing agency:   | Total:                          |                                     | 90,000,000      | 100                                 |    |                                     |
| Department of Finance (SEFIN)   |                                 |                                     |                 |                                     |    |                                     |
|   | Regular OC (FFF) <sup>(a)</sup> |                                     | Concessional OC |                                     |    |                                     |
| Amortization period:  | 20 years                        |                                     | 40 years        |                                     |    |                                     |
| Disbursement period:  | 1 year                          |                                     |                 |                                     |    |                                     |
| Grace period:   | 5.5 years                       |                                     | 40 years        |                                     |    |                                     |
| Interest rate:  | LIBOR-based                     |                                     | 0.25%           |                                     |    |                                     |
| Credit fee:   | (b)                             |                                     | N/A             |                                     |    |                                     |
| Inspection and supervision fee:   | (b)                             |                                     | N/A             |                                     |    |                                     |
| Weighted average life:  | 12.75 years                     |                                     | N/A             |                                     |    |                                     |
| Approval currency:  | U.S. dollars                    |                                     |                 |                                     |    |                                     |
| Project at a Glance   |                                 |                                     |                 |                                     |    |                                     |
| <b>Objective/Description:</b> The program's objective is to support improvements in Honduras's logistics performance through regulatory, institutional, planning, and trade facilitation reforms in the sector, with a view to boosting competitiveness and regional integration. The specific objectives are to: (i) develop a regulatory framework with specific rules aimed at improving freight logistics services as part of a long-term vision; (ii) strengthen the institutional framework for the logistics sector by creating the National Logistics Council and a technical entity; (iii) improve integrated planning in the sector and delivery of the associated services; and (iv) modernize and simplify trade facilitation processes and technological systems.<br>This loan is the first in a series of three operations that are technically linked but financed separately as programmatic policy-based loan operations (document CS-3633-2). |                                 |                                     |                 |                                     |    |                                     |
| <b>Special contractual clauses precedent to single loan disbursement:</b> The sole disbursement of resources under this loan is contingent on compliance with the policy reform actions laid out in the policy matrix (Annex II), the <a href="#">policy letter</a> , and the conditions established in the loan contract (paragraph 3.2).  |                                 |                                     |                 |                                     |    |                                     |
| <b>Exceptions to Bank policy:</b> None.   |                                 |                                     |                 |                                     |    |                                     |
| Strategic alignment   |                                 |                                     |                 |                                     |    |                                     |
| Challenges: <sup>(c)</sup>  | SI                              | <input type="checkbox"/>            | PI              | <input checked="" type="checkbox"/> | EI | <input checked="" type="checkbox"/> |
| Crosscutting issues: <sup>(d)</sup>   | GD                              | <input checked="" type="checkbox"/> | CC              | <input type="checkbox"/>            | IC | <input checked="" type="checkbox"/> |

<sup>(a)</sup> Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, and currency and interest rate conversions. When considering such requests, the Bank will take market conditions into account, along with operational and risk management considerations, as well as the degree of loan concessionality, consistent with applicable Bank policies in force in this area.

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

<sup>(c)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(d)</sup> 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 **General context and macroeconomic considerations.** The Honduran economy is one of the most dynamic in Latin America and the Caribbean (LAC). According to the International Monetary Fund (IMF), average annual growth in the country was 3.7% from 2010 to 2017, similar to the rest of Central America and higher than in the rest of LAC (2%). Over the same period, growth in Honduras was the 10th highest out of 32 LAC countries. The main drivers of this expansion have been investment, exports, and consumption.
- 1.2 The country has made progress in terms of macroeconomic stability. Fiscal consolidation has allowed a reduction in both the nonfinancial public sector deficit (from 7.5% of GDP in 2013 to 0.8% in 2017) and the public debt<sup>1</sup> (which stood at 40.3% of GDP in 2017). The fiscal effort has allowed Honduras to improve its credit profile,<sup>2</sup> encouraging foreign investment. In the monetary and financial sphere, prudent monetary policy and low commodity prices have slowed inflation, which has remained within the target range of 3% to 5% set by the Central Bank of Honduras (BCH). Cumulative inflation stood at 3.3% and 4.7% in 2016 and 2017, respectively.
- 1.3 In terms of contribution to GDP, Honduras's economic structure is dominated by the tertiary (services) sector (58% of GDP at the end of 2016). Within this, the logistics subsector stands out for its direct influence on the country's competitiveness (paragraph 1.6). The secondary and primary sectors contribute 28% and 13% of GDP, respectively.<sup>3</sup> Industrial production linked to the agricultural sector,<sup>4</sup> which is of importance for the country's international trade, accounted for 33% of the total export value in 2016.<sup>5</sup> This structure remained the same between 2007 and 2016.<sup>6</sup>
- 1.4 The country has an opportunity for growth in the form of quality services and efficient investment aimed at facilitating international trade and improving national logistics performance. The long-term challenge centers upon building the government's institutional capacity, particularly with respect to the transportation and freight logistics sector (paragraph 1.41). This will help to maintain macroeconomic stability and create suitable conditions for reducing poverty, increasing employment, and expanding national output.
- 1.5 A debt sustainability analysis (by the Department of Finance [SEFIN]) indicates that the external debt presents a medium level of risk, as solvency and liquidity indicators are close to established risk thresholds. The IMF also indicated in its

---

<sup>1</sup> Nonfinancial public sector debt.

<sup>2</sup> In 2016, Moody's Investor Service raised the credit rating from B3 to B2, maintaining a positive outlook, while Standard & Poor's also increased its rating from B+ to BB-.

<sup>3</sup> Source: World Bank.

<sup>4</sup> Tegucigalpa and San Pedro Sula are the largest centers of population and industry in the country.

<sup>5</sup> The main products are coffee (21%), palm oil (7.5%), bananas (6.3%), and vegetables (2.2%). Instituto Nacional de Estadísticas de Honduras [Honduras National Statistics Institute].

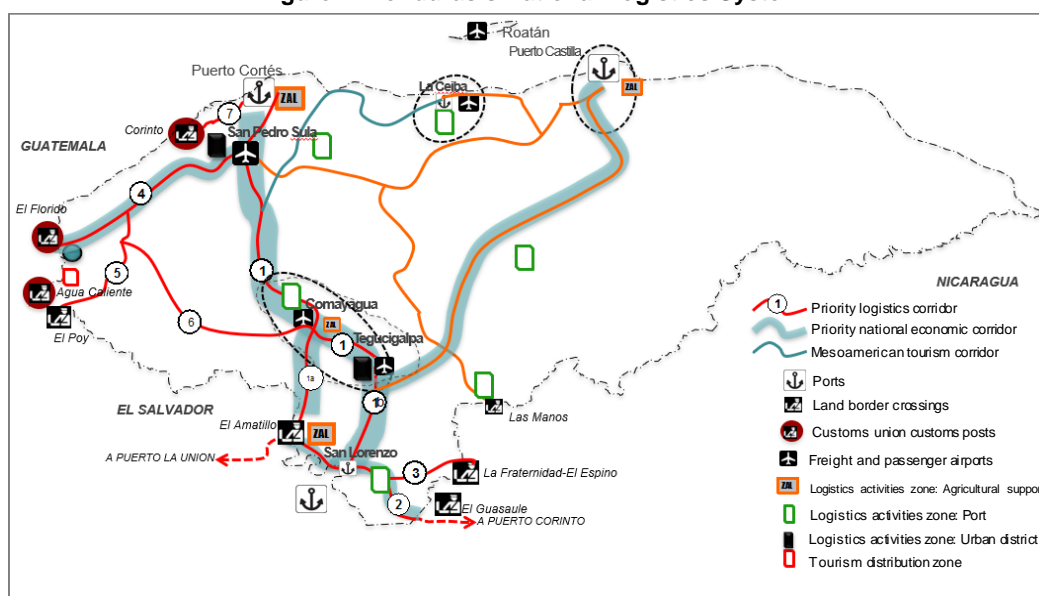
<sup>6</sup> BCH.

2018 Article IV report that the government has an ongoing commitment to reduce and contain the vulnerabilities associated with the increase in public debt.

## 1. Transportation and freight logistics sector

- 1.6 Given its tie-in with agriculture and manufacturing, the development and performance of this sector is of importance for Honduras's competitiveness (paragraph 1.3). Agricultural activity is located along the Pacific Corridor, the area between San Pedro Sula and Valle de Comayagua, and the Agricultural Corridor which extends from Tegucigalpa to Puerto Castilla. The maquila industry in San Pedro Sula is the main subsector within manufacturing.<sup>7</sup>
- 1.7 Honduras has prepared a National Freight Logistics Plan (PNLOG) (paragraph 1.16) to improve the country's regional position in the sector (paragraph 1.41). The PNLOG defines groups of logistics operations as logistics clusters and characterizes their relationship with regional trading patterns in the National Logistics System (Figure 1). The most important logistics cluster is the Northern one (CLN), which encompasses San Pedro Sula, Puerto Cortés, the Corinto-Entre Ríos border, the San Pedro Sula airport, and the road network linking these. The CLN connects the country's main production centers (maquila and agricultural) to key external trade infrastructure, such as Puerto Cortés.
- 1.8 The logistics clusters are linked by arterial road corridors. National and regional trade flows mainly along the North-South Logistics Corridor, which links the Port of San Lorenzo and the El Amatillo border to Palmerola Airport, San Pedro Sula, and Puerto Cortés. This is followed by the Pacific Corridor, which is the main conduit for trade in Central America and accounts for 20% of Honduras's total exports and 18% of its imports.

Figure 1. Honduras's National Logistics System



<sup>7</sup> It accounts for 31% of manufacturing value added and 5.2% of GDP. National Freight Logistics Plan, 2017.

Source: National Freight Logistics Plan, 2017.

- 1.9 **Modal distribution.** From an international trade perspective, maritime transportation predominates in both value and volume terms,<sup>8</sup> with Puerto Cortés<sup>9</sup> serving as a logistics hub for trade in Central America's Atlantic region. Road transportation is the main source of multimodal connections with the ports and is the main means of trade with Central America. Air transportation accounts for only 1% of export volumes.<sup>10</sup> The National Logistics System underpins integration in the Northern Triangle (subregional level) and between the Triangle and the rest of Central America. This makes Honduras particularly important for economic integration processes in the region, such as the Central American Integration System (SICA), the Mesoamerica Project, and the Plan of the Alliance for Prosperity in the Northern Triangle ([optional link 4](#)).
- 1.10 **Gaps in the sector: productivity, services, gender, and innovation.** Honduras's logistics and transportation sector has experienced positive growth.<sup>11</sup> Despite this, the sector's share of economic activity is low compared to other regional hubs, such as Panama where it accounts for 14% of GDP. In terms of sector productivity, 7.9 million tons are transported by road each year in Honduras according to the IDB's Regional Transportation and Logistics Observatory (2013), and transportation productivity is 1.218 billion tonne-kilometres (tkm). In comparison, the figures for Guatemala and El Salvador are 24 million tons and 10.1 million tons, respectively. Average prices in Honduras are on the order of US\$0.07 per tkm, making them among the highest in the region.<sup>12</sup>
- 1.11 **Services.** Despite Honduras's efforts to improve road and port infrastructure,<sup>13</sup> inefficiencies persist in the level of service necessary to effectively coordinate the National Logistics System with international trade (paragraph 1.21). The average age of Honduras's land transportation fleet is 15 years,<sup>14</sup> consisting mainly of low-capacity vehicles. There are no specific regulations governing freight transportation safety, nor are there any computerized registration and management systems to efficiently monitor the relevant institutions (paragraph 1.18). In addition, to help reduce logistics costs, investments in road infrastructure should take into account the concept of arterial road corridors (paragraph 1.8).<sup>15</sup> These deficiencies in transportation and logistics services are

---

<sup>8</sup> 79% of export volumes and 29% of export values, and 74% of import volumes and 58% of import values.

<sup>9</sup> In all, 11.2 million tons passed through Puerto Cortés in 2016. Atlantic ports in northern Guatemala (Puerto Barrios and Santo Tomás de Castilla) handled 4.3 million tons. Central American Maritime Transportation Commission, 2016.

<sup>10</sup> IDB, 2013.

<sup>11</sup> The annual growth rate has averaged 9% over the last 10 years. BCH.

<sup>12</sup> Guatemala: US\$0.05 t/km; El Salvador and Nicaragua: US\$0.06; and Costa Rica: US\$0.12.

<sup>13</sup> Cumulative investment in transportation infrastructure by the Government of Honduras was US\$9,671.6 million (2010-2015). IDB financing (2010-2017) was US\$327.3 million. The IDB active portfolio in Honduras comprises three operations with an approved value of US\$229 million. Source: IDB/INFRALATAM.

<sup>14</sup> <http://logisticsportal.iadb.org>.

<sup>15</sup> In all, 23% of the national road network is in good condition, 52% in fair condition, and 25% in poor condition. Source: Department of Infrastructure and Public Services (INSEP).

aggravated by traffic congestion in population centers, where urban and long-distance traffic are forced to coexist.<sup>16</sup> Adding to this are delays at border crossings stemming from a lack of efficient processes for screening goods and people, using non-intrusive inspection equipment to facilitate customs clearance and freight vehicle tracking.

- 1.12 **Gender issues in the sector.** Women's participation in the sector varies according to the type of activity. Participation is below 15% in cases involving physical work, operating equipment and machinery (including driving light and heavy transportation vehicles),<sup>17</sup> and activities involving maintenance, post-manufacturing, packaging, labeling, and the use of measuring tools.<sup>18</sup> In management, office, or data analysis activities, however, women's representation is above 15%. In decision-making and management functions, 30% of sampled companies report female participation of more than 50%.
- 1.13 Women experience barriers to employment in the sector, particularly related to training.<sup>19</sup> In professions such as driving transportation vehicles (both light and freight), the absence of mandatory, standardized training perpetuates informal learning, which is provided in a predominately masculine environment;<sup>20</sup> this barrier to equal opportunities is also an obstacle to boosting productivity in the sector. Gender diversity in a company has been shown to improve client focus, foster greater employee satisfaction, and reduce group conflicts by improving collaboration and loyalty and promoting creativity and innovation through diverse approaches, perspectives, and ideas for problem-solving,<sup>21</sup> making an inclusive labor force a more innovative and productive one.<sup>22</sup> Boosting women's participation in sector jobs that can be extrapolated to other sectors helps to raise family incomes and provides additional benefits.
- 1.14 **Innovation.** According to IDB diagnostic assessments,<sup>23</sup> growth in Honduras's total factor productivity—a measure of technological change in the economy—was -0.3% in the 2003-2012 period. At the sector level, innovation specific to the transportation, storage, and communications sector contracted by -2.0%, reducing overall sector productivity. In addition to innovation and the incorporation of technologies, features specific to the operations of the sector,

---

<sup>16</sup> PNLOG (2017).

<sup>17</sup> In the Survey on Gender Participation in the Sector, close to 77% of companies reported female employment of 15%, while in the use of machinery (including transportation vehicles), 84% reported female employment of less than 15%.

<sup>18</sup> A sector is considered traditionally female- or male-oriented when one gender has representation of less than 25%. Hegewisch, A. and Hartmann, H. (2014). *Occupational Segregation and the Gender Wage Gap: A Job Half Done*.

<sup>19</sup> In relation to the operation of heavy and transportation equipment, 33% of those surveyed cited training as the most important barrier, followed by cultural barriers (15%) and safety (3.7%).

<sup>20</sup> In countries such as Canada, which has a formal training system, female representation averages 39% in the supply and logistics chain nationwide. Women in Supply Chain Executive Committee (2009). *Making Women Visible – The Unseen Gender in Transport & Logistics*.

<sup>21</sup> Hunt, Vivian et al. (2014). *Diversity Matters*. United Kingdom.

<sup>22</sup> Innovation, Science, and Technology Sector Framework Document (document GN-2791-8).

<sup>23</sup> [Total factor productivity in Honduras, diagnostic assessment and possible determinants](#) (2014).

such as the quality of infrastructure and/or the regulatory framework, also limit its potential for growth.

- 1.15 The identified gaps affect logistics costs,<sup>24</sup> which are reflected in the country's logistics performance,<sup>25</sup> impacting production chains by eroding the competitiveness of their products, particularly those with low value-added content. To improve logistics performance and develop the supply of services adapted to the productive sectors, a strategic approach is needed with a long-term vision and cross-sector coordination.
- 1.16 **National Freight Logistics Plan.** The Plan was prepared by the Government of Honduras with IDB support (paragraph 1.7) ([optional link 7](#)). Together with the corresponding Immediate Action Plan (PAI),<sup>26</sup> it represents a long-term planning instrument that integrates and organizes the plans and initiatives of those sectors involved in transportation and freight logistics,<sup>27</sup> with the participation of public and private stakeholders in the sector (paragraph 1.20). The PNLOG identifies a series of needs (paragraphs 1.17–1.27) involving the creation of a permanent, efficient mechanism for coordination between the different public and private institutions involved in freight logistics. The sustainability of this mechanism, together with the proper implementation of actions and projects, depends on the existence of a regulatory framework that meets the needs of the sector, and on modern, internationally recognized trade planning and facilitation tools.

## 2. Identified needs

- 1.17 The quality of transportation and logistics services is one of the fundamental determinants of national logistics performance (paragraph 1.15), and it is influenced by both the quality of infrastructure and the regulatory framework and institutional climate in the sector. The latter are intangible features associated with a government's ability to formulate sound policies and regulations and implement them in a sustainable manner. Improving logistics performance thus requires regulatory and institutional coordination interventions.
- 1.18 **Inadequate sector regulation and lack of strategic vision.** The absence of planning tools, like the National Freight Logistics Plan, has made it difficult to carry out a national logistics policy that would address sector issues in a

---

<sup>24</sup> Road transportation costs in Honduras represent 30%-35% of total logistics costs. In Central America, a 1% increase in road transportation costs and times may reduce exports by 1.65%. World Bank, 2012.

<sup>25</sup> A country's Logistics Performance Index (LPI) reflects: (i) the efficiency of customs and border clearance; (ii) the quality of trade and transportation infrastructure; (iii) the ease of organizing competitively priced shipments; (iv) the quality of logistics services; (v) the ability to track and trace shipments; and (vi) the frequency with which shipments reach consignees within the scheduled delivery times. World Bank.

<sup>26</sup> Under regional technical cooperation operations ATN/OC-14002-RG and ATN/MR-14003-RG, the IDB provided support for the preparation of PNLOGs and PAIs in several Mesoamerican countries, including Honduras.

<sup>27</sup> Including Visión de País 2010-2038 [Country Vision 2010-2038]; Plan de Nación 2010-2022 [Plan for the Nation 2010-2022]; Plan Estratégico de Gobierno 2014-2018 [Government Strategic Plan 2014-2018], and the National Competitiveness Strategy; regional strategic documents such as the Regional Framework Policy for Mobility and Logistics, which coordinates policies and actions to improve freight logistics and urban mobility in Central America; and the Plan of the Alliance for Prosperity in the Northern Triangle, the objective of which is to create economic and social conditions that create jobs and improve the quality of life in countries in the subregion (Honduras, Guatemala, and El Salvador).

comprehensive, long-term manner. Prior to 2018, the logistics sector was not included as a strategic pillar in Government Strategic Plans (PEGs). Moreover, there is no specific law governing logistics. The main sector legislation is the Land Transportation Law, which was revised in 2016; this provides for the future drafting of specific regulations that are key to improving the safety and efficiency of land transportation, including freight insurance and weight and dimension checks. The law also provides for the creation of a National Land Transportation School, which will standardize driver certification at the national level.<sup>28</sup> This meets both national commitments and commitments relating to the harmonization of technical standards across the region established under the Regional Agreement on Road Transit of the Central American Economic Integration Secretariat (SIECA) (2014), as mandated by the Central American Council of Transportation Sector Ministers.

- 1.19 Similarly, there is a need for regulations and standards governing controls and the implementation of measures to promote modernization and tracking of the vehicle fleet (such as mandatory registration systems), thus contributing to improved fleet planning and management. The lack of technical regulations and standards for the safe and sustainable management of the service—such as weight and dimension checks and mandatory land transportation insurance—leads to deficient service levels that affect the performance of the country's logistics activities.
- 1.20 **Interagency and cross-sector coordination, integrated sector planning, and service improvement.** The crosscutting nature of Honduras's freight logistics sector means that it comprises multiple stakeholders in both the public and private sectors with different competencies that respond to supply and demand in the system. The key sector institutions are SEFIN and the General Government Coordination Secretariat, which is responsible for coordinating the sector technical cabinets that execute policies and actions to reform and modernize government. Organizations active in the area of transportation infrastructure and services are the Department of Infrastructure and Public Services (INSEP), which plans and regulates infrastructure projects (road, maritime, rail, and air),<sup>29</sup> and the Honduran Land Transportation Institute (IHTT), a decentralized entity attached to INSEP that regulates freight and passenger land transportation services. Authority over the ports is vested in the Empresa Nacional Portuaria [National Port Company], while the Honduran Civil Aeronautics Agency regulates air transportation ([optional link 2](#)). The main institutions responsible for oversight of international trade operations are the Deputy Directorate of Customs Revenue (the country's national customs authority), the Revenue Administration Service, and the Presidential Commission for Comprehensive Reform of the Customs System and Trade Operators, which has been created on a temporary basis. In terms of the development of public-private partnerships, the Commission for Promoting Public-Private Partnerships is responsible for managing these projects. In terms of the private sector, the Honduran Private Enterprise Council

---

<sup>28</sup> Drivers of automotive vehicles.

<sup>29</sup> Within INSEP, the General Directorate for the Merchant Marine is responsible for maritime transportation.

plays a critical role in medium and long-term planning due to its role as the main user of the sector.

- 1.21 This segmented institutional context creates a coordination challenge for strategic management of the logistics sector, requiring a specialized oversight body that aligns the needs and responsibilities of all stakeholders across different government levels and sectors, both public and private. For example, future increases in freight movements through Puerto Cortés will lead to greater flows of heavy transportation, which will have a particular impact on congestion levels in nearby urban areas (paragraph 1.11). Any solution should thus involve coordination between the local, national, port, and private sector institutional spheres. Similarly, there is a need to strengthen strategic planning with a view to developing specialized logistics infrastructure as part of a comprehensive vision (activity zones and logistics parks, dry ports, urban distribution zones). Infrastructure is currently distributed across disconnected logistics facilities (warehouses, parking facilities, small-scale distribution centers), affecting mainly small and medium-sized producers. Given a lack of training for specific qualified positions,<sup>30</sup> a standardized national driver certification system needs to be implemented. This situation particularly affects women's participation (paragraph 1.13).
- 1.22 **Improving trade facilitation processes.** The Guatemala-Honduras-El Salvador Customs Union is a milestone in the country's regional integration; it requires a strengthening of the regulatory framework, adopting integrated processes and non-intrusive, interoperable technology.<sup>31</sup> Moreover, actions to implement the Central American Strategy for Trade Facilitation and Competitiveness (ECFC)<sup>32</sup> and the World Trade Organization's Trade Facilitation Agreement reinforce the need to include actions that reduce logistics costs created by discretionality, process duplication, interruptions in information systems, and the absence of a multiagency risk system and joint, non-intrusive inspection processes. There is a need to strengthen the technical capabilities and organization of the customs authority so that it can perform its role in customs clearance processes under the ECFC model; this is also the case for the other institutions involved in international trade processes (paragraph 1.26).
- 1.23 A customs clearance management control system needs to be adopted that is centralized, interoperable, and sustainable and has clear governance arrangements. The system should allow customs clearance operations and administrative processes to be handled through a single window for all regimes (import, export, and transit/temporary entrance), and for all permit requests for restricted goods, and for the issuance of sanitary and phytosanitary certificates, using a multiagency module for risk management (customs, sanitary, and phytosanitary at a minimum). Honduras's existing Single Window for Foreign

---

<sup>30</sup> The universities offer undergraduate and postgraduate courses in logistics and supply chains, but technical training (which creates a larger number of jobs) is almost nonexistent and is provided directly by companies. PNLOG, 2017.

<sup>31</sup> Customs union posts require the technological equipment needed for integrated processes, with the adoption of multiagency processes, joint inspections, and one-stop posts or non-intrusive checks.

<sup>32</sup> A model to foster coordination between agencies and improve the transit of goods and people under the Central American Customs Union.

Trade (VUCE) is limited to export processes, is not fully computerized, and does not cover all of the entities involved.

- 1.24 **Gaps in technology and innovation.** Close to 30% of agricultural production is lost each year in LAC due to problems in logistics processes.<sup>33</sup> New trends in freight logistics technologies point to greater interconnectivity (between sectors and users), allowing physical flows to be tracked in a safe, automated manner. In this respect, the Government of Honduras has adopted a technology and innovation agenda as state policy, to modernize the country's current technological processes and infrastructure. This includes the Digital Agenda 2014-2018, the Master Plan for Digital Government, and, more recently, the creation of a sector cabinet to streamline administrative procedures. The general purpose of these tools is "to promote competitiveness and innovation through the effective, mass use of quality information and communications technologies (ICT) to close the digital divide," helping to make government operations more efficient, improve public revenue management, and offer innovative services to citizens and enterprises in the area of taxes and customs and border clearance.
- 1.25 To help improve the efficiency of Honduras's freight logistics sector (paragraph 1.10), Strategy 7 of the PNLOG identifies a strategic line of activity aimed at "adopting good ICT practices to support the operation of logistics chains," incorporating efficient computerized processes into the operations of the public and private sectors and logistics communities. Consistent with the Government of Honduras's agenda for this area (paragraph 1.24), the country needs to increase its technological infrastructure to close the digital divide<sup>34</sup> so as to boost productivity overall and at the sector level.
- 1.26 With regard to facilitating and improving controls over international trade operations, Honduras is currently engaged in modernizing its information systems as a result of joining the ECFC, the Convention on Facilitation of International Maritime Traffic (FAL 65), the Bali Trade Facilitation Agreement,<sup>35</sup> and the Guatemala-Honduras-El Salvador Customs Union process. Honduras's Automated Customs Revenue System represents an advance in terms of innovation, and it is supported by high-quality technology architecture. The system includes a customs risk management module. However, this needs to be improved in order to consolidate inputs from other institutions and provide multiagency risk ratings.
- 1.27 With respect to equipment, Honduras has channeled resources into equipping the country's main border crossings with technology to improve customs clearance. However, challenges remain in terms of the interoperability of international trade systems. There is a need for interagency risk management systems with automated algorithms to detect fiscal risk; single windows; and a registration system for carriers ([optional link 5](#)).

---

<sup>33</sup> IDB, 2010.

<sup>34</sup> Relative access to network connectivity (fiber-optic or broadband networks and local access networks) and operators that provide user access, the adoption of digital tools, by groups of companies and geographical area, and the existence of operators with the ability to offer these services, and individuals' user ability or digital skills. IDB.

<sup>35</sup> FAL 65 entails making goods inspections and freight handling in maritime terminals more efficient. Implementation of the Bali Package is expected to simplify customs paperwork.

### 3. Consequences

- 1.28 The deficiencies and needs that have been described in regulation, coordination, planning, and service delivery and processes (paragraphs 1.17-1.27) are quantitatively reflected in the following issues.
- 1.29 **Logistics performance (productivity).** In 2016, Honduras ranked 112th on the Logistics Performance Index<sup>36</sup> (paragraph 1.15)—below El Salvador (83) and Panama (40). This was the result, among other things, of the poor quality of the road network and delays related to the lack of computerization and automation of international trade processes. With respect to ease of doing business,<sup>37</sup> Honduras ranked 115th out of 190 countries in 2018, which was the second lowest in Mesoamerica only above Nicaragua. High logistics and export costs are responsible for the weak performance in these indices. For example, while the cost to export a container in Panama is approximately US\$665, in Puerto Castilla (Honduras) it is US\$2,308. Land transportation accounts for 48% (imports) to 54% (exports) of these costs.<sup>38</sup>
- 1.30 **Customs and trade facilitation processes (economic integration).** According to the Trading across Borders indicator in the World Bank's Doing Business Report, which measures the time and costs involved in exporting and importing a product, border compliance for exports takes 88 hours in Honduras, compared to 24 in Panama, 30 in El Salvador, 60 in Nicaragua, and an average of 62.5 in LAC. In the case of imports, border compliance takes 66.44 hours, compared to 24 in Panama, 36 in El Salvador, and 72 in Nicaragua. Honduras's overall position in the Ease of Doing Business Index deteriorated in 2018 (slipping from 109 to 115). Its performance on the index is weakest in areas relating to freight transportation safety, the widespread perception of efficiency and transparency problems in customs processes, and the institutional environment.

### 4. Intervention

- 1.31 To help reverse the negative impact on logistics performance and regional integration (challenges), allowing Honduras to leverage its potential as a regional hub for transportation and freight logistics (paragraph 1.7), action needs to be taken on the determinants identified in the diagnostic assessment (paragraphs 1.17-1.27).
- 1.32 **Proposed solution.** The Government of Honduras has identified institutional and regulatory consolidation and strengthening of the sector as a priority, through the establishment of a regulatory framework that reinforces the guidelines in the PNLOG and the PAI, including prioritizing it as public policy in the 2018-2022 PEG. In terms of regulation, the government is planning to draft a freight logistics bill aimed at modernizing the sector's regulatory framework. The program also includes the preparation and approval of regulations established in the current Transportation Law, which are necessary for the legal modernization of safety-related issues and specific controls that help to make land freight transportation more efficient. These include regulations governing transportation safety,

---

<sup>36</sup> LPI Report, 2016. World Bank.

<sup>37</sup> Doing Business, 2018. World Bank.

<sup>38</sup> World Development Indicators, 2014. World Bank.

modernization of the vehicle fleet, and driver training and certification (paragraphs 1.17-1.19), all of which will help to improve service quality.<sup>39</sup> To improve organization and comprehensive planning in the sector, the program would create a high-level decision-making body—the National Logistics Council (CNL)—made up of key institutions in the freight logistics sector, and a body responsible for coordination and execution that will develop a mechanism for monitoring the impact of policies and projects on sector performance. The creation of a specific institutional framework will align the different interests of actors involved in the sector by establishing a body to handle strategic and multiyear planning decisions, as well as the coordination and execution of these decisions while ensuring their sustainability over time. Creation of the CNL will help to improve integrated planning in the sector through the Council's participation in preparing and approving subnational master plans focused on priority logistics clusters that include a strategic vision for harmonious integration with their urban surroundings (paragraph 1.36), such as the Master Plan for the Northern Logistics Cluster (PMCLN). To help overcome the gender gap in the sector (paragraphs 1.12 and 1.13), this operation will support designing incentives to reduce barriers for women in accessing nontraditional activities in the sector—specifically, the inclusion of women in the National Driver Training Program spearheaded by transportation sector institutions. This action plan will be coordinated with the IDB-supported flagship program “Ciudad Mujer [City of Women],”<sup>40</sup> which will incorporate a gender perspective while facilitating dissemination and the recruitment of female students. Ciudad Mujer will also permanently coordinate its work with the new sector institutions, facilitating the implementation and monitoring of a framework agreement for cooperation and coordination in gender and logistics.

- 1.33 To consolidate the regulatory agreements to which Honduras is committed under the Central American Customs Union, thus helping to position it as a regional hub (paragraph 1.41), measures are envisaged to modernize and simplify processes and improve technology systems in order to comply with international agreements and reduce transaction costs for economic agents. The program also envisages implementation of the Single Central American Invoice and Declaration (FYDUCA),<sup>41</sup> which is needed for the free movement of goods throughout the Honduras-Guatemala-El Salvador Customs Union.
- 1.34 **The program's contribution to technology adoption and innovation.** Consistent with the need to adopt innovative instruments in the sector (paragraph 1.24), these will be applied in two fields: international trade (paragraph 1.35) and the management of transportation and logistics services (paragraph 1.36).

---

<sup>39</sup> The legal reforms that the government has recognized as necessary respond to the needs identified during the dissemination process for the PNLOG, which was a product of the last sector diagnostic assessment.

<sup>40</sup> [Ciudad Mujer](#) is an international program that enjoys the participation in Honduras of “15 public institutions that coordinate, collaborate, and cooperate with each other to provide high-quality, friendly services that support the integral development of Honduran women.”

<sup>41</sup> An electronic legal document for registering transfers (previously exports) and purchases (previously imports) of goods that move freely among countries in the customs union. Central American Economic Integration Secretariat (SIECA).

- 1.35 A Comprehensive Foreign Trade Management Portal (PGICE) will be created, serving as the latest generation single window that will alleviate the current problems with interconnectivity. This initial framework will reinforce the system's technical and functional architecture, particularly priority actions in the form of the Single Maritime Window (VUM)<sup>42</sup> (which should facilitate the incorporation of new technologies into maritime trade management) and the Integrated Risk Management Module. This will complement the work already done by Honduras with the adoption of the International Transit of Goods system, the Single Central American Declaration, and the Central American Digital Trade Platform, which offers interoperability with migration and sanitary certification information.
- 1.36 With the formulation of the PMCLN, the program will drive the incorporation of digital technologies to improve sector services, leveraging digital communication and data networks to create collaborative logistics arrangements for perishable goods<sup>43</sup> ([optional link 6](#)). The freight traffic management aspect of the PMCLN will be integrated with the San Pedro Sula Municipal Development Master Plan, which envisages the implementation of a "smart city" approach in the municipio.<sup>44</sup> The link between the two instruments will modernize management of short-haul transportation, affecting priority logistics subsystems such the one for agriculture; this will reduce urban congestion and improve transportation safety. Implementation of a registration system using smart cards, as envisaged under the program, will help to close the digital divide (paragraph 1.24) with respect to e-government systems for the transportation sector. Similarly, the installation of tag-reading equipment using radio-frequency identification (RFID) at land border crossings will allow physical flows to be tracked by interconnecting the data transmitted by objects and captured by sensors.
- 1.37 Lastly, due to its crosscutting nature, the adoption of a technology agenda requires an institution that is responsible for the process. The new institutional design (CNL) will coordinate the implementation of an agenda for incorporating and developing new technologies and innovative procedures into sector operations.

## **5. Rationale, strategic alignment, and Bank experience in the sector**

- 1.38 **Program rationale.** The program will strengthen institutional and regulatory capacity, favoring the consolidation of a state policy aimed at the sector's needs by: creating the CNL; drafting a logistics bill; adopting multisector, multiyear planning mechanisms (PNLOG, PAI, PMCLN); and implementing modern, internationally recognized trade facilitation processes that are integrated and

---

<sup>42</sup> A single window is a single virtual point of entry for the electronic documents and data needed to conduct transactions requiring the intervention of several institutions. In the case of the VUM, transactions relate to ship arrival and departure processes: vessel information, migration, sanitary and phytosanitary inspections, health, freight, and crew's effects, security checks, etc. In the case of the Single Window for Foreign Trade (VUCE), transactions relate to the generation and inspection of certificates, licenses, permits, and goods import and export authorizations.

<sup>43</sup> Logistics arrangements that promote collaboration throughout the logistics chain require specialized logistics infrastructure to be in place, whether at the point of origin, through agricultural centers, or in international trade hubs, facilitating business for small and medium-sized producers above all.

<sup>44</sup> Smart cities use information and communications technology and other means of improving decision-making, operations efficiencies, and the delivery and competitiveness of urban services.

interoperable. Implementation of the reform program will help to improve transportation and logistics services in the area of transportation safety based on an inclusive social vision, through the adoption of specific sector regulations (insurance, weight and dimensions), standardized training (driver school, with incentives for training for women), and the implementation of management tools incorporating new technologies (vehicle registration smart cards). The expected program outcomes (paragraph 1.61) will help to reduce these gaps in productivity, services, gender and innovation (paragraph 1.10), which will have a positive impact on the country's logistics performance<sup>45</sup> and its strategic position as a regional logistics hub.

1.39 In terms of the depth of each phase, this first operation lays the foundations for reform by establishing the strategic multisector institutional framework for implementation. Approval of sector regulations and strategic management and planning tools will be initiated under the second phase, and these will be evaluated in the third phase. The latter phase will also involve the implementation of trade facilitation processes and preparation of the logistics bill will be completed; consolidation of the multisector institutional framework will be key for this purpose. The contribution of the Bank, as technical advisor and facilitator of multisectoral dialogue, drawing on successful experiences with similar reform processes (paragraph 1.43), has helped to build consensus for program sustainability as state policy.

1.40 **Correlation between logistics sector reforms and economic growth.** The economic literature confirms that institutions are a determinant of long-term growth.<sup>46</sup> Empirical evidence demonstrates that the legal framework is important for logistics performance and, consequently, for economic growth. Different empirical analyses indicate that institutional reforms in the logistics and international trade sector are positively correlated with economic growth and increased foreign direct investment.<sup>47</sup> Specifically, Haidar, J. I. (2012) demonstrated that each positive reform to cross-border trade regulations (i.e., the time, costs, and procedures required for goods exports or imports) is associated with an average increase of 0.88% in economic growth. This result is based on a sample of 172 countries for the 2006-2010 period. In addition, a World Bank study (2014) compares the regulatory frameworks and logistics performances of 14 countries, concluding that to boost logistics performance and positively influence the Logistics Performance Index,<sup>48</sup> countries need to establish regulatory frameworks that take the special features of the freight transportation industry into account, while also creating interagency agreements that allocate responsibilities for managing and coordinating strategic actions that benefit

---

<sup>45</sup> The program is expected to help increase the country's LPI at least 14.6%. Results matrix ([required link 3](#)).

<sup>46</sup> [Reversal of fortune: geography and institutions in the making of modern world income distribution](#), The Quarterly Journal of Economics, Vol. 117, No. 4 (Nov. 2002).

<sup>47</sup> [Hard or soft? Institutional reforms and infrastructure spending as determinants of foreign direct investment in China](#), Japanese Economic Review (2005) and The Economic Growth Effect of Logistics Industry Foreign Direct Investment Analysis, Wang & Wang.

<sup>48</sup> [Review of logistics service regulations for freight forwarding businesses: what should be addressed for a better logistics regulatory framework?](#), Policy Research Working Paper; WPS 7401. Washington, D.C: World Bank.

stakeholders. Likewise, the IDB (2010) has stated that the organization and institutional strengthening of the freight logistics sector in Latin America is essential for generating a positive impact over the medium and long term.<sup>49</sup> Countries such as Colombia<sup>50</sup> and Uruguay<sup>51</sup> have made progress on important reforms to their logistics management to boost competitiveness. An analysis carried out by the IDB using Doing Business indicators for Panama found that each regulatory reform focused on improving the business climate is associated with an average increase of 0.03% in economic growth. The aforementioned evidence suggests that when designing growth policies, countries should give priority to reforming their commercial transportation and logistics regulations.

- 1.41 **Government of Honduras strategy.** The country has announced a goal of becoming the leader in logistics transportation, infrastructure, and services in Central America. National policy instruments that establish guidelines for developing the sector include: Visión de País 2010-2038 [Country Vision 2010-2038], Plan de Nación 2010-2022 [Plan for the Nation 2010-2022], and Plan Estratégico de Gobierno 2014-2018 [Government Strategic Plan 2014-2018]; these promote logistics development in Honduras based on its potential for maritime connections and its geographic location in relation to the established land and maritime corridors in Mesoamerica. The National Competitiveness Strategy 2018-2022 is consistent with these national guidelines and sets important objectives for logistics sector operations in the areas of infrastructure, economic development, and market efficiency. Through a process of dialogue and consensus, the PNLOG (paragraph 1.16) has merged the different public and private sector perspectives surrounding the logistics sector into a single strategy, giving rise to the specific measures reflected in the PAI. This programmatic policy-based loan (PBP) supports the implementation and consolidation of the recommendations and reforms obtained during the process of formulating the PNLOG (paragraphs 1.17-1.26); this means that there is multisector ownership of and government commitment to the reforms, which contributes to sufficient program sustainability.
- 1.42 **Strategic alignment.** The program is consistent with the Bank's country strategy with Honduras (document GN-2796-1), which includes among its key challenges reversing stagnant production and low growth by improving national and regional integration, and reducing operating and transportation costs. The program is also included in the Update of Annex III of the 2018 Operational Program Report (document GN-2915-2). The operation is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is strategically aligned with the development challenges of: (i) economic integration, in that it supports improvements in integrated planning, including logistics and international trade processes, as well as harmonization of the regional regulatory framework ([optional link 3](#)); and (ii) productivity and innovation, as actions aimed at closing the digital

---

<sup>49</sup> [La logística de cargas en América Latina and el Caribe: una agenda para mejorar su desempeño. IDB Technical Note IDB-TN-103.](#)

<sup>50</sup> Colombia has implemented a National Logistics Policy and other key sector reforms with the support of a policy-based loan (2540/OC-CO) and technical cooperation funding from the Bank.

<sup>51</sup> In 2010, Uruguay created a National Logistics Institute made up of public and private entities, aimed at fostering professionalization and efficiency in the logistics sector.

divide will help to improve logistics efficiency. The program is also aligned with the crosscutting areas of: (i) institutional capacity (in that it supports actions to improve interagency coordination) and (ii) gender equality and diversity (as it helps to reduce the gender gap in the transportation and freight logistics sector). The program supports the Corporate Results Framework 2016-2019 (document GN-2727-6), through the following indicators: (i) public agencies' processing times of international trade in goods and services; (ii) women beneficiaries of economic empowerment initiatives; (iii) regional, subregional and nonregional integration agreements and cooperation initiatives supported; and (iv) government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery. It is aligned with the IDB's Sustainable Infrastructure Strategy for Competitiveness and Inclusive Growth (document GN-2710-5) as it promotes ongoing improvements in transportation and logistics sector governance to make service delivery more efficient. Lastly, it is consistent with the following dimensions of the Transportation Sector Framework (document GN-2740-7): developed, efficient logistics networks; and institutions with the capacity to generate and implement transportation sector policies.

- 1.43 **Sector experience and lessons learned.** The Bank has worked on eight policy reform processes in the transportation sector in the region,<sup>52</sup> resulting in the following lessons learned that were applied to this operation: (i) ensure that regulatory instruments are up to date and specific to the sector; (ii) design integrated planning tools that draw information from modern databases; (iii) provide Bank support for aligning the different sectors through technical inputs and diagnostic assessments; (iv) strengthen dialogue with the private sector as a factor for sustainability of the reforms; (v) create a body responsible for interagency coordination at the highest level of government, with the support of the private sector; (vi) inclusion of a technical unit with multisector capability that can implement crosscutting agendas such as innovation and gender; and (vii) the need to develop streamlined management based on sector computerization and innovation. Despite different initial conditions in the logistics sector and the institutional and legal framework, it is worth noting the success of the three-phase program "Support for Panama's Transport and Logistics Sector Reform," which used a similar approach to identifying needs and actions (through a PNLOG). Following the completion of the three phases of this PBP, Panama's institutions are aligned under a national logistics policy, multisector participation has been consolidated, and there is an efficient national planning system with specific indicators that facilitate monitoring and planning.<sup>53</sup> In terms of impact, the LPI has improved since the program was launched, with the score increasing from 3.19 in 2014 to 3.34 in 2016. A score of 3.46 is projected for 2020—equivalent to an improvement of 10 places in the country's current ranking. In terms of outcomes: (i) as of 2017, public investment in logistics stands at around 5% of total investment, confirming the importance the government places on the

---

<sup>52</sup> Air Transportation Reform (1042/SF-GY); Air Transport Reform Program (2682/OC-BH); Fiscal Stability Consolidation Program for the Economic and Social Development of the State of Alagoas (3061/OC-BR); Program to Support the National Logistics Policy (2540/OC-CO); Support for Panama's Transport and Logistics Sector Reform (3486/OC-PN, 3675/OC-PN, and PN-L1151); and Transportation Sector Policy Reform Program (3181/BL-BO).

<sup>53</sup> [Trends in the logistics sector and IDB support in Panama.](#)

sector; (ii) average customs clearance times have improved; and (iii) there was a slight, but positive and ongoing increase between 2014 and 2017 in the number of occupational profiles in the logistics disciplines, from 29 to 30. These concrete results have supported economic growth in Panama through linkages between the logistics sector and the other productive sectors in the economy.<sup>54</sup>

- 1.44 **Beneficiaries.** Improvements in infrastructure planning and management processes will have a positive impact on productivity in the country through improved transportation services. The main beneficiaries will be Honduran producers, who will enjoy improved access to national and international markets. Users of transportation services and infrastructure will also benefit.

**B. Objectives, components, and cost**

- 1.45 The program's objective is to support improvements in Honduras's logistics performance through regulatory, institutional, planning, and trade facilitation reforms in the sector, with a view to boosting competitiveness and regional integration. The specific objectives are to: (i) consolidate a regulatory framework with specific rules aimed at improving freight logistics services as part of a long-term vision; (ii) strengthen the institutional framework for the logistics sector by creating the National Logistics Council and a technical entity; (iii) improve integrated planning in the sector and delivery of the associated services; and (iv) modernize and simplify trade facilitation processes and technological systems. These specific objectives address the issues identified above.
- 1.46 **Components.** The Policy Matrix (Annex II) sets out the sequence of commitments under the program, which are divided into the following components. The reform triggers identified for the second and third phases of the program are indicative in nature.
- 1.47 **Component I. Macroeconomic stability.** The objective of this component is to ensure there is a macroeconomic context consistent with program objectives as established in the Policy Matrix and the Sector Policy Letter.
- 1.48 **Component II. Reform of the regulatory framework for freight logistics and trade facilitation.** The component will support the development of a logistics regulatory framework that introduces the adoption of a long-term vision and establishes strategic guidelines for the sector, as well as modernization of the legal framework for land freight transportation to encompass issues of transportation safety and freight transportation services. The component will also consolidate the regulatory agreements to which Honduras is committed under the Central American Customs Union, thus helping to position the country as a regional hub. The first operation will support: (i) approval of the government's priorities for 2018-2022, with the inclusion of the logistics sector as a strategic pillar in preparation of the Government Strategic Plan (PEG) 2018-2022; (ii) approval of the National Freight Logistics Plan (PNLOG) by the National Logistics Council (CNL), reflecting a multisector, interagency public-private agreement; (iii) updating of the institutional framework for the National Road Safety Council to reflect the current legal framework, including institutions with authority over the sector; (iv) drafting of regulations to strengthen safety in freight

---

<sup>54</sup> [See the macroeconomic impact evaluation for program PN-L1151](#), IDB (2018).

- transportation, including land freight transportation insurance and weights and dimensions; and (v) implementation of the first phase of the customs union process between the Republics of Guatemala and Honduras—including the creation and implementation of a regulatory framework—as set out in the enabling protocol for the process of deep integration towards the free transit of goods and persons between the two countries.
- 1.49 The second operation includes: (i) approval of the PEG 2018-2022, reflecting the priority given to the logistics sector within government policies; (ii) approval by the CNL of the five-year Immediate Action Plan (PAI); (iii) drafting of a logistics bill aimed at modernizing the sector regulatory framework in consultation with the CNL's technical unit; (iv) updating of the National Road Safety Council's strategic plan, incorporating land freight transportation safety issues; (v) approval of regulations governing weights and dimensions; and (vi) updating of the operating regulations for the Guatemala-Honduras Customs Union.
- 1.50 The third operation includes: (i) evaluation of the progress achieved through implementation of the PEG 2018-2022, including recommendations to strengthen implementation; (ii) evaluation and updating of the five-year PAI by the CNL; (iii) approval of the logistics bill by the executive branch; (iv) preparation of an action plan that includes the implementation of measures relating to land freight transportation safety; (v) approval of land freight transportation insurance; and (vi) preparation of the operating regulations for the Guatemala-Honduras-El Salvador Customs Union.
- 1.51 **Component III. Consolidation of the institutional framework for freight logistics and transportation.** The component will support the strengthening of the institutional framework for the freight logistics sector through: the creation of a high-level decision-making body made up of key institutions linked to the freight logistics sector; a body responsible for coordination and execution; and mechanisms for monitoring the impact of policies and projects on the performance of the freight logistics sector. To this end, the first operation includes approval of the organizational structure designs for freight logistics management. These will include: (i) a high-level decision-making body made up of the main public and private institutions with authority over the freight logistics sector; (ii) a technical body made up of the executing agencies, responsible for project management and coordination between the different entities; (iii) permanent arrangements for the monitoring and analysis of market intelligence; and (iv) the arrangements for annual budgetary allocations and financing to support sustainability of the CNL.
- 1.52 The second operation includes: (i) creation of the CNL, made up of the main public and private institutions with authority over the sector; (ii) creation of the Technical Unit for Logistics Execution (UTEL), with functions to include: (a) the coordination of activities with public and private entities to support the execution of sector plans and projects; and (b) any tasks aligned with the PNLOG that are assigned by sector cabinets.
- 1.53 The third operation includes: (i) the approval of the CNL Institutional Management Report, including progress on PAI actions; and (ii) approval of the UTEL Management Report, including records of the coordination activities that have been implemented.

- 1.54 **Component IV. Establishment and modernization of processes governing comprehensive planning, transportation and logistics services, and trade facilitation.** The component will help to strengthen comprehensive sector planning and the promotion of measures to improve transportation service quality. It will also support interoperability between the systems of agencies involved in international trade, as well as their conformity with international and regional standards. It is divided into the following two subcomponents:
- 1.55 **Subcomponent IV.1. Establishment of comprehensive planning processes and improvement of transportation and freight logistics services.** The objective of this subcomponent is to improve comprehensive planning in the sector by preparing subnational master plans focused on priority logistics clusters and harmonious integration with urban logistics systems. It will also seek to improve transportation services, incorporating a gender and diversity perspective, in the area of automotive land freight transportation. To meet these objectives, the first operation envisages: (i) approval of an interagency agreement containing the key guidelines for preparing the Master Plan for the Northern Logistics Cluster (PMCLN), together with the arrangements for its supervision; (ii) implementation of a vehicle registration system using smart cards, with the aim of obtaining a diagnostic assessment for modernization of the land freight transportation fleet; and (iii) creation of a national driver training system. The system will include: (a) a National Driver Training Program for the different categories of license in Honduras; (b) regulations governing the operations of the National Land Transportation School; and (c) regulations governing the operations of public and private schools, pursuant to the provisions of the Transportation Law administered by the IHTT.
- 1.56 The second operation will result in: (i) the creation of an interagency supervision mechanism for the PMCLN; (ii) the drafting of a plan to modernize the transportation and freight logistics fleet, taking into account financial incentives, in keeping with the Land Transportation Law; and (iii) the launch of private driving school operations, consistent with the Transportation Law mandate administered by the IHTT, including a program of incentives for training women.
- 1.57 The third operation stipulates: (i) approval of the PMCLN by the CNL; (ii) approval of the plan to modernize the transportation and freight logistics fleet; and (iii) the launch of National Land Transportation School operations.
- 1.58 **Subcomponent IV.2. Modernization of trade facilitation processes.** The objective of the subcomponent is to implement an operating framework and technological systems at the national level to support implementation of Honduras's commitments under international trade facilitation agreements (including the International Maritime Organization's Convention on Facilitation of International Maritime Traffic [FAL 65] and the World Trade Organization's Trade Facilitation Agreement—Bali Package), implementation of technological tools and processes that make it possible to fulfill priority commitments assumed by Honduras in the context of the trade facilitation agreements established by the Council of Ministers of Central American Economic Integration (COMIECO) and the commitment assumed under the Honduras-Guatemala Customs Union. The first operation calls for: (i) beginning to create the Comprehensive Foreign Trade Management Portal (PGICE); (ii) starting implementation of the pilot phase of the

Authorized Economic Operator (OEA) Program; (iii) adopting the technological requirements for implementation of the first phase of the Coordinated Border Management Strategy (GCF); RFID-enabled tracking devices; and (iv) starting to use the Single Central American Invoice and Declaration (FYDUCA) to sell goods that fall within the Honduras-Guatemala Customs Union's free movement regime, through an electronic/computerized issuance mechanism.

- 1.59 The second operation calls for: (i) starting implementation of the processes and tools required under PGICE, including the Integrated Risk Management Module and the VUM; (ii) approval of a ministerial agreement creating the OEA Program, and of its procedural manual that launches the program; (iii) implementation of regional connectivity in RFID tracking devices and cameras; and (v) upgrading of the technological and digital tools for consolidating FYDUCA information in the tax authority's institutional data warehouse, to allow monitoring and management using business intelligence tools.
- 1.60 The third operation stipulates: (i) approval of the regulatory framework for the functioning of the PGICE; (ii) signature of the agreement for the mutual recognition of OEA programs in Central America, thus enabling their recognition; (iii) implementation with at least two countries of the regional agreement governing the dataset for transmitting sanitary and phytosanitary certificates; and (iv) the creation of a tool to cross-reference FYDUCAs by beneficiary company origin.

### **C. Key results indicators**

- 1.61 The following outcomes are expected from this operation: (i) improved efficiency of multisector, multiyear prioritization of strategic actions in the sector; (ii) improved safety in freight logistics services through the application of specific regulations; (iii) strengthened institutional framework in the sector, with the implementation of modern vehicle fleet management systems; (iv) improved quality of freight services delivery with an inclusive social vision; and (v) reduced border crossing times at the El Amatillo customs post, resulting from the upgrading and simplification of technological systems and processes. These outcomes will help to improve the country's logistics performance as reflected in the LPI, while also increasing the importance of the logistics sector within the national economy.
- 1.62 The recommendations of the 2011 Evaluability Review of Bank Projects, conducted by the Office of Evaluation and Oversight (OVE),<sup>55</sup> and the findings of the review of evaluation practices and standards for policy-based loans conducted by the Evaluation Cooperation Group (composed of the independent evaluation offices of the multilateral development banks)<sup>56</sup> (envisaged in paragraph 1.3 of the Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations, document GN-2489-5) both indicate that

---

<sup>55</sup> Document RE-397-1: "Currently, the economic analysis section is computed as the maximum between the cost-benefit analysis and the cost-effectiveness analysis. Yet neither a cost-benefit analysis nor a cost-effectiveness analysis is applicable to PBLs."

<sup>56</sup> Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.

an analysis of efficiency in the use of financial resources is unnecessary.<sup>57</sup> Accordingly, it has been determined and reported to the Bank's Board of Executive Directors that no economic analysis will be performed for this type of loan. This loan operation does not therefore include an economic analysis, and economic analysis will thus not be a factor for consideration in measuring the evaluability score in the program's Development Effectiveness Matrix.

## **II. FINANCING STRUCTURE AND MAIN RISKS**

### **A. Financing instruments**

- 2.1 The program is the first in a series of three separate but technically linked operations, and it is structured in accordance with Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2). This modality is suitable for fostering ongoing policy dialogue and is also appropriate due to the complexity and time frames involved in developing, disseminating, and implementing the reforms included in the program. These may necessitate adjustments to future triggers based on any new knowledge gained.
- 2.2 This operation consists of a single disbursement of US\$90 million. The size of the operation is based on paragraph 3.27(b) of document CS-3633-2, which relates to the country's fiscal resource needs in the broadest sense. In this regard, according to the Central Bank of Honduras, central government external financing needs are projected at 2.7% of GDP, or US\$648 million, in 2018. This operation would cover 14% of the external financing requirements for 2018.

### **B. Environmental and social risks**

- 2.3 In accordance with Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program does not require environmental classification or preparation of an Environmental and Social Management Report. The program does not entail any socioenvironmental risks. The envisaged reforms seek to include necessary regulations in the areas of infrastructure, safety, and the environment, and to foster the sustainable development of transportation infrastructure. The comprehensive planning processes supported under the program—particularly preparation of the PMCLN—will be subjected to a process of strategic environmental evaluation and public consultation.

### **C. Fiduciary risks**

- 2.4 This is a low-risk operation, since the funds to be provided are unrestricted and managed through country budget support systems, based on the existence of a responsible fiscal policy framework. The updated evaluation of country budgeting, treasury, accounting, and reporting systems (2018) concluded that the level of development was high in budgeting and treasury and medium in accounting and reporting. It highlighted the fact that country systems are used in

---

<sup>57</sup> According to the Evaluation Cooperation Group, PBLs should be evaluated in terms of their relevance, effectiveness, and sustainability. Efficiency was not included as a criterion, as the size of a PBL is linked to a country's financing gap and is independent of the project's benefits.

100% of the portfolio in Honduras. The SEFIN executing unit has considerable experience in managing projects financed by international organizations.

**D. Other program risks**

- 2.5 As part of the design process for the operation, a risk management workshop was held for the program using the Bank's methodology, with the participation of beneficiary entities. The operation is considered to have a low level of risk overall, as it enjoys broad political support and the clear commitment of the Government of Honduras to the sustainability of the policies agreed under this operation. No risk of reform discontinuity has been identified for the medium and long term, as the creation of the institutional and legal framework will underpin continuity of progress. A medium level of risk has been identified in the area of public management and governance, relating to budgetary allocations for the operation and sustainability of the CNL. SEFIN's commitment to the program, together with identification of the budgetary allocation and financing mechanism for the CNL, mitigates the sustainability risk associated with the new institutional framework.

### **III. IMPLEMENTATION AND MANAGEMENT PLAN**

**A. Summary of execution arrangements**

- 3.1 The borrower will be the Republic of Honduras, and SEFIN will be the executing agency. The latter will be responsible for strategic coordination of the entities involved in the policy reforms, with a view to ensuring the complete and timely fulfillment of program actions under the first operation by all parties involved, as well as any adjustments to the indicative triggers in response to the ongoing dialogue when processing the second and third operations in the programmatic series. The main entities include the Department of Infrastructure and Public Services (INSEP), the Honduran Land Transportation Institute (IHTT), the General Government Coordination Department (SCGG), the Revenue Administration Service (SAR), the Deputy Directorate of Customs Revenue (DARA), and the Presidential Commission for Comprehensive Reform of the Customs System and Trade Operators (COPRISAO). SEFIN will be responsible for the following tasks: (i) coordinating with the other entities involved in the operation that are responsible for determining, approving, and adopting measures (Annex II); (ii) submitting reports and evidence regarding the fulfillment of conditions under the operation, as well as any other report required by the Bank; (iii) promoting actions relating to the attainment of the policy objectives set out in the operation; and (iv) gathering, archiving, and submitting to the Bank all of the information, indicators, and parameters that allow the borrower and the Bank to monitor, measure, and evaluate program outcomes.
- 3.2 **Special contractual conditions precedent to the single loan disbursement: The sole disbursement of resources under this loan is contingent on fulfillment of the policy reform actions laid out in the policy matrix (Annex II) and the [policy letter](#), as well as the conditions established in the loan contract.**

**B. Summary of arrangements for monitoring and evaluating results**

- 3.3 SEFIN will coordinate the monitoring and timely fulfillment of the commitments associated with this first operation, as reflected in Annex II and the Results Matrix ([required link 3](#)), and it will submit to the Bank the evidence envisaged in the Means of Verification Matrix ([required link 2](#)). In terms of monitoring, the borrower and the Bank have agreed to monitor program execution by means of annual monitoring meetings ([required link 1](#)). The indicators in [required link 3](#) (paragraph 1.61) will guide the monitoring of implementation progress. The Project Completion Report will be prepared within 12 months of disbursement under the final operation.
- 3.4 The objective of the program evaluation is to verify whether the planned outcomes and impacts were achieved, and whether program actions had an impact on the LPI. A reflexive evaluation will be prepared in 2022, once the period for achieving results has ended.

**IV. POLICY LETTER**

- 4.1 **Policy Letter.** Annex II of the operation is aligned with the policy letter ([required link 1](#)) issued by the Government of Honduras, reflecting the agreement between the Bank and the government concerning the macroeconomic and sector policies to be supported under this program. The letter confirms the government's commitment to implement the activities agreed in Annex II.

| Development Effectiveness Matrix   |   |   |
|--|---|---|
| Summary  |   |   |
| I. Corporate and Country Priorities  |   |   |
| 1. IDB Development Objectives  | Yes   |   |
| Development Challenges & Cross-cutting Themes  | -Productivity and Innovation<br>-Economic Integration<br>-Gender Equality and Diversity<br>-Institutional Capacity and the Rule of Law  |   |
| Country Development Results Indicators   | -Public agencies' processing times of international trade of goods and services *<br>-Women beneficiaries of economic empowerment initiatives (#)*<br>-Regional, sub-regional and extra-regional integration agreements and cooperation initiatives supported (#)*<br>-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* |   |
| 2. Country Development Objectives  | Yes   |   |
| Country Strategy Results Matrix  | GN-2796-1   | To improve national and regional integration and reduce operating and transportation costs.   |
| Country Program Results Matrix   | GN-2915-2   | The intervention is included in the 2018 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  | 10.0  |   |
| 3.1 Program Diagnosis  | 3.0   |   |
| 3.2 Proposed Interventions or Solutions  | 4.0   |   |
| 3.3 Results Matrix Quality   | 3.0   |   |
| 4. Ex ante Economic Analysis   | N/A   |   |
| 5. Monitoring and Evaluation   | 5.6   |   |
| 5.1 Monitoring Mechanisms  | 1.1   |   |
| 5.2 Evaluation Plan  | 4.5   |   |
| III. Risks & Mitigation Monitoring Matrix  |   |   |
| Overall risks rate = magnitude of risks*likelihood   | Low   |   |
| 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.13  |   |
| 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, External Control, Internal Audit.<br><br>Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.   |
| 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   | The bank is supporting the Technical Cooperation RG-T2908 Support to the Mesoamerican Transport Agenda, Logistics and Economic Integration; which served for the preparation of the National Plan of Logistics of Honduras (PNLOG for its initials in Spanish), as well as the update and recent developments of the Immediate Action Plan (PAI for its initials in Spanish), both of which are central to this program |

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

Logistics and transportation costs in Honduras are higher than in the rest of the Central American region (40% higher than in Guatemala and 14% higher than in El Salvador and Nicaragua). Honduras placed 112th in the World Bank's Logistics Performance Index (in contrast 83rd place for El Salvador and 40th place for Panama), but Honduras has the potential of becoming a regional transport hub (given its location and ports). Part of the problem has its origin in the sector's sparse regulatory, institutional, and commercial structure. A set of regulations and laws that provide a strategic vision of the logistics and transport sectors allowing for institutional and intersectoral service coordination is necessary. Thus, the government is prioritizing the improvement of logistics performance in Honduras through sectorial reforms in regulation, institutional structure, programming, and commercial facilitation; that will allow for gains in competitiveness and regional integration. Particularly, this project serves to support the government in developing laws and regulations that allow it to reach these institutional and commercial goals. The Results Matrix adequately captures the project benefits such as the formalization of the transport fleet (through the registry of transport vehicles and the use of a smart card that new regulation will enable), human capital development (with a gender focus that allow for the closure of labor participation gaps in the sector), and the reduction of the time it takes to cross a border. The project will be evaluated using a before and after methodology.

## POLICY MATRIX

**OBJECTIVE:** The program's objective is to support improvements in Honduras's logistics performance through regulatory, institutional, planning, and trade facilitation reforms in the sector, with a view to boosting competitiveness and regional integration. The specific objectives are to: (i) develop a regulatory framework with specific rules aimed at improving freight logistics services as part of a long-term vision; (ii) strengthen the institutional framework for the logistics sector, by creating the National Logistics Council (CNL) and a technical entity; (iii) improve integrated planning in the sector and delivery of the associated services; and (iv) modernize and simplify trade facilitation processes and technological systems.

| OBJECTIVES AND SCOPE  | RESPONSIBLE AGENCY                                       | POLICY CONDITIONS FOR PBP I  | TRIGGERS FOR PBP II   | TRIGGERS FOR PBP III   |
|---|--|--|---|--|
| <b>Component I. Macroeconomic stability</b>   |  |  |   |  |
| 1. Ensure there is a macroeconomic context consistent with program objectives as established in the Policy Matrix and Sector Policy Letter.   |  | 1.1 The borrower's macroeconomic environment is stable and consistent with the program objectives and Sector Policy Letter.  | 1.1 The borrower's macroeconomic environment is stable and consistent with the program objectives and Sector Policy Letter.           | 1.1 The borrower's macroeconomic environment is stable and consistent with the program objectives and Sector Policy Letter.        |
| <b>Component II. Reform of the regulatory framework for freight logistics and trade facilitation</b>  |  |  |   |  |
| 2. Develop a logistics regulatory framework that introduces a long-term vision and establishes strategic guidelines for the sector, including:<br><br>(i) objectives, programs, and projects;<br><br>(ii) long-term vision, intervention strategy, and monitoring system; and<br><br>(iii) policy guidelines, features fundamental to the freight logistics sector, and institutional competencies. | Government General Coordination Department (SCGG)        | 2.1 Approval of the government's priorities for 2018-2022, with the inclusion of the logistics sector as a strategic pillar in preparation of the Government Strategic Plan (PEG) 2018-2022.   | 2.1 Approval of the PEG 2018-2022, reflecting the priority given to the logistics sector within government policies.                  | 2.1 Evaluation of the progress achieved in implementing the PEG 2018-2022, including recommendations to strengthen implementation. |
|   | Department of Infrastructure and Public Services (INSEP) | 2.2 Approval of the National Freight Logistics Plan (PNLOG) by the National Logistics Council (CNL), reflecting a multisector, interagency public-private agreement regarding strategic orientation in the prioritization of actions and projects in the freight logistics sector. | 2.2.1 Approval by the CNL of the five-year Immediate Action Plan (PAI).   | 2.2.1 Evaluation and updating of the five-year PAI by the CNL.   |
|   |  |  | (iii) Drafting of a Logistics Law aimed at modernizing the sector regulatory framework in consultation with the CNL's technical unit. | 2.2.2 Approval of the logistics bill by the executive branch.  |
| 3. Modernize the legal framework for land   | INSEP  | 3.1 Updating of the institutional framework for the National   | 3.1 Updating of the National Road Safety Council's  | 3.1 Preparation of an action plan that includes the  |

| OBJECTIVES AND SCOPE  | RESPONSIBLE AGENCY  | POLICY CONDITIONS FOR PBP I   | TRIGGERS FOR PBP II  | TRIGGERS FOR PBP III  |
|---|---|---|--|---|
| <p>freight transportation, expanding the treatment of issues relating to:</p> <ul style="list-style-type: none"> <li>(i) transportation safety; and</li> <li>(ii) freight transportation services.</li> </ul> |   | <p>Road Safety Council to reflect the current legal framework, including institutions with authority over the freight logistics and transportation sector.</p>  | <p>strategic plan, incorporating land freight transportation safety issues.</p>  | <p>implementation of measures relating to land freight transportation safety.</p>   |
|   | INSEP   | <p>3.2 Preparation of regulations to strengthen freight transportation safety:</p> <ul style="list-style-type: none"> <li>(a) land freight transportation insurance, including, at a minimum: <ul style="list-style-type: none"> <li>(i) third party liability;</li> <li>(ii) transportation coverage; and</li> <li>(iii) freight coverage.</li> </ul> </li> <li>(b) Weights and dimensions, including, at a minimum: <ul style="list-style-type: none"> <li>(i) weight and dimension limits; and</li> <li>(ii) penalties.</li> </ul> </li> </ul> | <p>3.2 Approval of the regulation governing weights and dimensions, including:</p> <ul style="list-style-type: none"> <li>(i) weight and dimension limits; and</li> <li>(ii) penalties.</li> </ul> | <p>3.2 Approval of land freight transportation insurance, including, at a minimum:</p> <ul style="list-style-type: none"> <li>(i) third party liability;</li> <li>(ii) transportation coverage; and</li> <li>(iii) freight coverage.</li> </ul> |
| <p>4. Consolidate the regulatory agreements to which Honduras is committed under the Central American Customs Union, thus helping to position the country as a regional hub.</p>                              | <p>Department of Economic Development and the Presidential Commission for Comprehensive Reform of the Customs System and Trade Operators (COPRISAO) / Deputy Directorate for Customs Revenue (DARA)</p> | <p>4.1 Implementation of the first phase of the customs union process between the Republics of Guatemala and Honduras—including the creation and implementation of a regulatory framework—as set out in the enabling protocol for the process of deep integration towards the free transit of goods and persons between the two countries.</p>  | <p>4.1 Updating of the operating regulations for the Guatemala-Honduras Customs Union.</p>   | <p>4.1 Preparation of the operating regulations for the Guatemala-Honduras-El Salvador Customs Union.</p>   |

| OBJECTIVES AND SCOPE   | RESPONSIBLE AGENCY  | POLICY CONDITIONS FOR PBP I   | TRIGGERS FOR PBP II   | TRIGGERS FOR PBP III   |
|--|---|---|---|--|
| <b>Component III. Consolidation of the institutional framework for freight logistics and transportation</b>  |   |   |   |  |
| <p>5. Strengthen the institutional framework for the logistics sector through the creation of:</p> <ul style="list-style-type: none"> <li>(i) a high-level decision-making body made up of key institutions linked to the freight logistics sector;</li> <li>(ii) a body responsible for coordination and execution; and</li> <li>(iii) mechanisms for monitoring the impact of policies and projects on the performance of the freight logistics sector.</li> </ul> | Office of the Presidential Designate  | <p>5.1 Approval of the organizational structure designs for freight logistics management, including:</p> <ul style="list-style-type: none"> <li>(i) A high-level decision-making body made up of key public and private institutions linked to the freight logistics sector.</li> <li>(ii) A technical body made up of the executing agencies, responsible for project management and coordination between the different agencies.</li> <li>(iii) Permanent arrangements for monitoring, analysis, and market intelligence, with the participation of the public and private institutions involved in freight logistics.</li> <li>(iv) The annual budgetary allocation and financing mechanism to support the operations of the technical body and the CNL's objectives.</li> </ul> | <p>5.1.1 Creation of a CNL made up of the main public and private institutions with authority over the sector, responsible for agreeing strategic guidelines and multiyear plans.</p> <p>5.1.2 Creation of the Technical Unit for Logistics Execution (UTEL), with functions to include:</p> <ul style="list-style-type: none"> <li>(i) The coordination of activities with ministries and public and private entities to support the development and execution of plans and projects in the freight logistics sector.</li> <li>(ii) Activities aligned with the PNLOG that are assigned by sector cabinets.</li> </ul> | <p>5.1.1 Approval of the CNL Institutional Management Report, including progress on PAI actions.</p> <p>5.1.2 Approval of the UTEL Management Report, including records of the coordination activities that have been implemented.</p> |
| <b>Component IV. Establishment and modernization of processes governing comprehensive planning, transportation and freight logistics services, and trade facilitation</b>  |   |   |   |  |
| <b>Subcomponent IV.1. Establishment of comprehensive planning processes and improvement of transportation and freight logistics services</b>   |   |   |   |  |
| <p>6. Improve comprehensive planning in the sector by preparing subnational master plans focused on priority logistics clusters and harmonious integration with urban logistics systems.</p>   | Office of the Presidential Designate in coordination with INSEP, DARA, and the Honduran Land Transportation Institute (IHTT). | <p>6.1 Approval of an interagency agreement containing the key guidelines for preparing a Master Plan for the Northern Logistics Cluster (PMCLN), together with the supervision mechanism:</p> <ul style="list-style-type: none"> <li>(i) analysis of current and future freight demand among client chains throughout the cluster's</li> </ul>   | <p>6.1 Creation of the interagency mechanism for supervision of the PMCLN.</p>  | <p>6.1 Approval by the CNL of the PMCLN.</p>   |

| OBJECTIVES AND SCOPE   | RESPONSIBLE AGENCY | POLICY CONDITIONS FOR PBP I   | TRIGGERS FOR PBP II   | TRIGGERS FOR PBP III  |
|--|--------------------|---|---|---|
|  |                    | <p>area of influence, allowing the planning and identification of the logistics services needed based on a long-term vision, and considering the impact of the PMCLN on the area of influence (particularly urban networks);</p> <p>(ii) preparation of a plan of investments in transportation and logistics infrastructure, as well as operational proposals;</p> <p>(iii) information technology requirements for optimizing the cluster's integrated logistics;</p> <p>(iv) proposal for models of logistics collaboration in client agricultural chains.</p> |   |   |
| <p>7. Improve transportation services, incorporating a gender and diversity perspective, in the area of automotive land freight transportation, including issues related to:</p> <p>(i) modernization of the vehicle fleet; and</p> <p>(ii) driver training.</p> | IHTT               | 7.1 Implementation of a vehicle registration system using smart cards, with the aim of obtaining a diagnostic assessment for modernization of the land freight transportation fleet.  | 7.1 Formulation of a plan to modernize the transportation fleet and freight logistics, considering financial incentives in keeping with the Land Transportation Law.            | 7.1 Approval of the plan to modernize the transportation fleet and freight logistics, considering financial incentives in keeping with the Land Transportation Law. |
|  | IHTT               | 7.2 Creation of a national driver training system, including: <p>(i) a National Driver Training Program for the different categories of license in Honduras;</p> <p>(ii) regulations governing the operations of the National Land Transportation School; and</p>   | 7.2 Launch of private driving school operations, including a program of incentives for training women, consistent with the Transportation Law mandate administered by the IHTT. | 7.2 Launch of National Land Transportation School operations, consistent with the mandate in the Transportation Law administered by the IHTT.                       |

| OBJECTIVES AND SCOPE  | RESPONSIBLE AGENCY                          | POLICY CONDITIONS FOR PBP I  | TRIGGERS FOR PBP II  | TRIGGERS FOR PBP III   |
|---|---|--|--|--|
|   |   | (iii) regulations governing the operations of public and private schools, consistent with the Transportation Law mandate administered by the IHTT.   |  |  |
| <b>Subcomponent IV.2. Modernization of trade facilitation processes</b>   |   |  |  |  |
| 8. Implement an operating framework and technological systems at the national level to support implementation of Honduras's commitments under international trade facilitation agreements, including:<br><br>(i) the International Maritime Organization's Convention on Facilitation of International Maritime Traffic (FAL 65); and<br><br>(ii) the World Trade Organization's Trade Facilitation Agreement—Bali Package. | COPRISAO / DARA                             | 8.1 Begin creating the Comprehensive Foreign Trade Management Portal (PGICE).  | 8.1 Begin implementing the necessary processes and tools in the context of the PGICE, including:<br><br>(i) Integrated Risk Management Module<br><br>(ii) Maritime Single Window.  | 8.1 Approval of the regulatory framework the operation of the PGICE.   |
|   | COPRISAO / DARA                             | 8.2 Launch of the implementation of the pilot phase of the Authorized Economic Operator (OEA) Program.   | 8.2 Approval of a ministerial agreement creating the OEA Program, and of its procedural manual that launches the program.  | 8.2 Signature of the agreement for the mutual recognition of OEA programs with at least two Central American countries, thus enabling their recognition. |
| 9. Implement technological tools and processes that allow Honduras to comply with its priority commitments under the international trade facilitation agreements established by the Central American Council of Economic Integration Ministers (COMIECO).   | COPRISAO / DARA                             | 9.1 Adoption of the technological requirements necessary for implementation of the first phase of the Coordinated Border Management Strategy: RFID-enabled tracking devices.                                   | 9.1 Implementation of the first phase of the Coordinated Border Management Strategy: RFID-enabled tracking and cameras.  | 9.1 Implementation with at least two countries of the regional agreement governing the dataset for transmitting sanitary and phytosanitary certificates. |
| 10. Implementation of Honduras's commitments under the Honduras-Guatemala Customs Union, thus helping to position the country as a regional hub.  | Revenue Administration Service (SAR) / DARA | 10.1 Implementation of the Single Central American Invoice and Declaration (FYDUCA) for goods that move freely in the Honduras-Guatemala customs union, through an electronic/computerized issuance mechanism. | 10.1 Modernization of the technological and digital tools for consolidating FYDUCA information in the tax authority's institutional data warehouse, to allow monitoring and management using the business intelligence tool. | 10.1 Creation of a tool to cross-reference FYDUCAs by beneficiary company origin.  |

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/18

Honduras. Loan \_\_\_\_/BL-HO to the Republic of Honduras  
Honduras Transportation and Freight Logistics  
Sector Reform Program

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 Honduras Transportation and Freight Logistics Sector Reform Program. Such financing will be chargeable to the Bank's Ordinary Capital (OC) resources in the following manner: (i) up to the amount of US\$36,000,000, subject to concessional financial terms and conditions ("Concessional OC"); and (ii) up to the amount of US\$54,000,000, 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 \_\_\_\_ 2018)