

HONDURAS

MODERNIZATION OF CUSTOMS AT PUERTO CORTÉS

(HO-L1055)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Manuel Márquez, Project Team Leader; Sandra Corcuera, Mario Umaña, Aurelio García, and Cecilia Seminario (INT/INT); Alberto Barreix (ICF/FMM); Belinda Pérez (FMM/CHO); María Cristina Landázuri (LEG/SGO); Esteban Díez (INE/TSP); Miguel Orellana and René Herrera (PDP/CHO); and Alberto E. Villalba (VPS/ESG).

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING	1
A.	Background, problems addressed, and rationale	1
B.	Objectives, components, and cost.....	7
C.	Key results indicators	10
II.	FINANCING STRUCTURE AND RISKS	11
A.	Financing instruments	11
B.	Environmental and social safeguard risks	11
C.	Fiduciary risks	11
D.	Other risks.....	11
III.	IMPLEMENTATION AND ACTION PLAN	12
A.	Summary of implementation arrangements	12
B.	Summary of arrangements for monitoring results	14

Annexes	
Annex I	Summary of Development Effectiveness Matrix (DEM)
Annex II	Results matrix
Annex III	Procurement plan summary

Electronic Links	
REQUIRED	
1.	Annual work plan (AWP) for the first 18 months http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35391446
2.	Monitoring and evaluation arrangements http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35391469
3.	Itemized procurement plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35391290
4.	Environmental and Social Management Report ¹ http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35391451
OPTIONAL	
1.	Environmental and social analysis report http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35392321
2.	Agreement between SEFIN and ENP. Building lease agreement. http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35390900
3.	Fiduciary requirements and arrangements http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35391467
4.	Operating Regulations for the project http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35403364
5.	Itemized budget http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35402302
6.	Cost-benefit analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35452569

¹ If required and as specified in the guidelines for OP-703 and the Disaster Risk Management Policy.

ABBREVIATIONS

AWP	Annual work plan
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CSI	Container Security Initiative
DEI	Dirección Ejecutiva de Ingresos [Revenue Office]
ENP	Empresa Nacional Portuaria
FSO	Fund for Special Operations
IMF	International Monetary Fund
OC	Ordinary Capital
PEP	Project execution plan
PMU	Project management unit
SARAH	Sistema Automatizado de Rentas Aduaneras de Honduras [Automated Customs Duty Payment System of Honduras]
SEFIN	Ministry of Finance
TIM	Tránsito Internacional de Mercancías [International transit of goods]
WCO	World Customs Organization
WEO	World Economic Outlook

PROJECT SUMMARY

HONDURAS MODERNIZATION OF CUSTOMS AT PUERTO CORTÉS (HO-L1055)

Financial Terms and Conditions					
Borrower: Republic of Honduras				OC	FSO
			Amortization period:	30 years	40 years
Executing agency: Ministry of Finance (SEFIN)			Grace period:	5.5 years	40 years
Source	Amount (US\$)	%	Disbursement period:	4 years	4 years
IDB (FSO)	\$3,000,000	30	Interest rate:	SCF-Fixed	0.25%
IDB (OC)	\$7,000,000	70	Inspection and supervision fee:	*	N/A
Local	\$0	0	Credit fee:	*	N/A
Total	\$10,000,000	100	Currency:	U.S. dollars from the Single Currency Facility of the Bank's Ordinary Capital	
Project at a Glance					
Project objective/description: The general objective of the project is to strengthen the Puerto Cortés customs facility so that it provides quality low-cost services and ensures control and security, aligning it with the government's efforts to make Puerto Cortés a competitive regional logistics hub. Its specific objectives are to: (i) strengthen the control and security capacity of the customs facility so Puerto Cortés is able to retain its internationally recognized status as a secure port; (ii) improve operational coordination to reduce logistics costs; and (iii) improve infrastructure and equipment to ensure that quality services are available to users on a permanent basis.					
Special contractual conditions: <u>Conditions precedent to the first disbursement:</u> (i) establishment of the interagency coordination commission comprised of representatives from SEFIN, through its Office of Decentralized Institutions, and from the Revenue Office (DEI) and Empresa Nacional Portuaria (ENP), determination of its functions, and appointment of its members (paragraph 2.6); (ii) creation of the technical execution team for the project at the DEI, comprised of a national coordinator, an international customs expert, and a fiduciary specialist (paragraph 3.1); and (iii) approval of the Operating Regulations for the project by SEFIN, with the Bank's prior no objection (paragraph 3.2). <u>Special execution conditions:</u> (i) prior to Bank financing of the recurrent expenditures established for salaries in paragraphs 1.26 and 1.28, the Honduran government will present a commitment to assume these costs once the Bank's loan has been exhausted; (ii) the National Congress will approve the building lease agreement before inviting bids to remodel the building that houses the customs office (paragraph 2.7); and (iii) during the disbursement period, within 60 days following each six-month calendar period, audited financial reports will be presented on the activities of the previous six-month period (paragraph 3.13).					
Exceptions to Bank policies: None.					
Special considerations: N/A					
Project consistent with country strategy: Yes [X] No []					
Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []					
Procurement: All project procurements will adhere to the Bank's policies and procedures, as defined in documents GN-2349-7 and GN-2350-7. No exceptions to the Bank's policies are anticipated.					

* 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 applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems addressed, and rationale

- 1.1 Honduras has begun a period of transition to economic recovery and its engagement in the markets. GDP growth of 2.5% is forecasted for 2010, compared to a 1.9% decline in 2009, although possibly accompanied by an uptick in inflation. The fiscal situation continues to be precarious, closing out 2009 with a deficit of 4.6%. One factor affecting the Honduran fiscal situation is the poor collection capacity of its tax system and the weakness of its tax and customs administration. Therefore, despite the increase in taxation observed between 2006 and 2008 and the good performance of the tax system when compared to other Central American countries, the country's tax burden (15.2%) remains below the average for Latin America (18.9%). Customs, an agency within the Revenue Office (DEI), generates 24.2% of the country's total tax revenue. Among the government measures to address this situation, strengthening of customs is particularly important.

Table 1: Macroeconomic situation

Item	2005	2006	2007	2008	2009	2010/p
GDP (% change) /1	6.1	6.6	6.2	4.0	-1.9	2.5
Inflation rate (GDP deflator) /1	7.3	5.3	6.9	8.4	4.4	4.9
Current account/GDP /2	-3.0	-3.7	-9.0	-12.9	-4.0	-6.1
Total public debt /3	52.8	31.7	19.6	20.2	23.7	27.2
International reserves (US\$ million) /4	2,328	2,824	2,733	2,691	2,331	2,331

Source: /1 World Economic Outlook (WEO); /2 Barreix 2010; /3 International Monetary Fund (IMF); /4 Central Bank of Honduras, WEO, and IMF projections; and /p WEO-IMF projections.

- 1.2 Accordingly, the new administration that took office this year started to implement a number of structural reforms geared toward correcting the large fiscal imbalance through increases in tax revenue, controls on the growth of operating expenses, and improvements in the earnings of State-owned public utilities.
- 1.3 The Global Competitiveness Index of the World Economic Forum lowered Honduras' ranking for the period 2010-2011 from 89 to 96 out of 144 countries, higher only than Nicaragua in Mesoamerica. Likewise, the World Bank's Doing Business index ranks Honduras as 114 out of 183 countries in the Trading Across Borders category, which is four places lower than its 2009 ranking. This means that Honduras should strive to improve the factors affecting its competitiveness, including the quality of its port infrastructure and the effectiveness of its border control systems.
- 1.4 Puerto Cortés is the hub of maritime activities in Honduras, handling 81% of cargo and 76% of vessels entering and leaving the country, and container traffic at the port could triple by 2021, according to a study on global trends in the movement of cargo, including at Puerto Cortés, conducted by the American Association of Port

Authorities.² The port also plays an important role for other Central American countries like El Salvador and Nicaragua, since much of the traffic from those countries is routed through it, in particular exports to the United States. Puerto Cortés undertook efforts to align itself with the new port security measures and obtained certification from the U.S. authorities as a secure port under the Container Security Initiative (CSI).³ In addition, the fillip provided by the Central American Customs Union, the Dominican Republic–Central America–United States Free Trade Agreement (DR-CAFTA), and the European Union Association Agreement could drive growth at the port and transform it into a regional logistics hub, in which case it would no longer simply be a cargo transfer point, but rather a net consolidator of traffic, which would mean engaging in activities with greater value-added, verifying shipments, and generating new traffic.

- 1.5 As part of this strategy, the Honduran government has undertaken efforts to boost operating capacity through expansion of Puerto Cortés and the road infrastructure for commercial traffic in the region by constructing a beltway around San Pedro Sula so that cargo does not have to enter the city and improving various sections of the CA-5 Norte Highway, the main road for transporting cargo to and from Puerto Cortés. Both actions are supported by the Bank.⁴ To round out these efforts, the Honduran government considers it necessary to align some customs services with the objective of facilitating transactions, without sacrificing proper fiscal and parafiscal control and trade security. This will be the support framework of this project.
- 1.6 **The role of customs administrations** in this decade—particularly in recent years—has become one of achieving a balance between fulfillment of their basic function of fiscal and parafiscal control of foreign trade and border security, together with efficient performance of their responsibilities through measures to facilitate commercial transactions. The World Customs Organization (WCO)⁵ is responsible for formulating technical measures to make this objective possible. In 2005, the member countries of the WCO approved the framework of standards that customs administrations should implement to ensure nimble and secure trade, known as the WCO SAFE-Framework of Standards. This project will be based on the SAFE Framework of Standards, which the Bank is already supporting in the region.

² Between 1999 and 2008, maritime cargo tripled, equivalent to a compound annual growth rate of 10.2%. American Association of Port Authorities:

<http://www.aapa-ports.org/Industry/content.cfm?ItemNumber=900>

³ Since 2005, Puerto Cortés has participated in the Container Security Initiative, certified by the U.S. Department of Homeland Security and the Megaports Initiative of the U.S. Energy Department. It is the only CSI-certified port in Central America.

⁴ Both initiatives are being supported by the Bank through operations HO-L1037 and HO-L1048.

⁵ The WCO, with 177 member countries, is responsible for managing the technical aspects of the main international customs agreements (value, origin, classification, etc.).

Customs problems at Puerto Cortés

- 1.7 The customs office at Puerto Cortés is the busiest in Honduras, handling more than 80% of containers, 50% of export goods declarations and 25% of import goods declarations, 50% of internal transit, and 80% of international transit, with revenue in excess of 30% of the national total.⁶ However, based on the diagnostic assessment, the customs administration is not prepared to meet the challenge of accommodating operational growth at the port while maintaining a balance between control, security, and facilitation by applying the standards of the SAFE Framework.
- 1.8 At the Puerto Cortés customs facility, physical verification is the rule rather than the exception, as shown in Table 2. This means an average clearance time of 30 hours, without an increase in revenue, as shown later in this document. This suggests changing to an inspection model based on a priori documentation reviews or a posteriori audits.

Table 2: Import controls by operations (import declaration forms) at Puerto Cortés

Type of import control	2008		2009		2010 (Jan/June)	
	Import declarations	%	Import declarations	%	Import declarations	%
No control (green channel)	4,242	8	6,035	13	5,417	21
Documentation control (yellow channel)	2,502	4	8,437	18	4,675	18
Physical control (red channel)	45,921	87	32,156	69	16,132	61
Total	52,665	100	46,628	100	26,224	100

- 1.9 Customs does not have modern procedures for receiving information from shipping companies and forwarding agents in advance so as to plan the actions to be taken. It also lacks personnel who are trained to deal with a different and more complex technical challenge than verification by physical means. Puerto Cortés only has 24 customs officials,⁷ with capacity limited to physical inspections of goods and no ability to review documentation or conduct audits of companies based on modern nonintrusive inspection techniques. Likewise, the customs risk analysis system is very weak, without targeted risk profiles for the detection of irregularities or illegal activities, considering the specialized nature and modus operandi of maritime traffic and overland customs transit.
- 1.10 Moreover, a significant portion of goods require a chemical, physical, or technical analysis in order to be correctly classified and to apply fiscal or parafiscal standards. The Puerto Cortés customs facility does not have a laboratory to carry

⁶ Source: DEI of Honduras, 2009-2010.

⁷ The customs administration of Honduras only has 28 customs audit specialists nationwide, all assigned to central headquarters.

out this function and must forward samples to Tegucigalpa, which delays the clearance of goods unnecessarily.

- 1.11 In order to change the inspection model, customs procedures at the port need to be reengineered with the objective of implementing an electronic advance declaration and clearance system (SAFE standard); assembling a team of officials with technical and methodological training in the new model for documentation reviews and ex post inspections; and setting up a customs laboratory for inspections requiring lab analysis. These measures will help improve fiscal control, and their very existence will support the facilitation of trade.⁸
- 1.12 The Puerto Cortés customs office does not conduct effective surveillance of shipments that enter or pass through the port and adjacent areas, which implies a risk of evasion or the commission of illegal activities, such as smuggling or trafficking in prohibited substances or goods. There is evidence of some situations in which the disappearance of containers has been detected within the port. These discoveries were made more by accident than as a result of a control strategy. Accordingly, the customs administration needs a comprehensive and coordinated control model to monitor cargo arriving in or remaining at port until it is released. It also needs a command and control center to watch the coast adjacent to the port and to prevent traffic detours and detect illegal activities. There is good international experience in the use of this control and security system.
- 1.13 Implementing a comprehensive solution for advance clearance with nonintrusive and a posteriori inspection requires a robust system for managing and analyzing fiscal and parafiscal risk. The Puerto Cortés customs office does not have a risk management strategy specifically for maritime operations and associated overland transit that permits effective selection of the shipments to be inspected.
- 1.14 The risk module deployed at the national level from headquarters in Tegucigalpa selects the type of control based on fixed and variable rules for the risk profiles. The former are highly subjective, while the latter are based on probabilistic and random variables. Between January and September 2010, 96% of nationwide shipments were selected by the first method (i.e. fixed rule) and just 4% by the second. In 2009, of a total of 322,523 operations subjected to the risk module, 124,700 were selected for a priori physical inspection or documentation review (red and yellow channels), while just 268 proposals were made for supplemental assessments.⁹ This demonstrates the limited effectiveness of this risk analysis system, despite the high volume of physical inspections and documentation reviews. The problem resides in the lack of an expert module with multiple probabilistic and random variable rules, focused on the dynamics and modus operandi of fraud in maritime traffic and

⁸ The profitability of this mode of inspection is shown in the following figures: in 2009 at the national level, 6,814 adjustments were made to operations inspected *a priori*, obtaining 27 million lempiras. In the same period, 77 adjustments were made through *a posteriori* audits for 116 million lempiras. Source: DEI-Automated Customs Duty Payment System of Honduras (SARAH).

⁹ Source: DEI. SARAH system: (01/01/2010-09/15/2010).

- overland transit. The Puerto Cortés customs office is also in need of a multidisciplinary team of analysts and investigators with knowledge of the region and the port's operations. The customs administration in Honduras only has five analysts nationwide and none stationed at Puerto Cortés.
- 1.15 From the perspective of facilitation and services to users, Puerto Cortés does not demonstrate effective coordination between the control authorities within the port and adjacent areas, in many cases resulting in interference and unnecessary redundancies in the application of controls, to the detriment of the fluid movement of cargo, generating unnecessary costs. It is necessary to strengthen coordination between the actors at the operational level and to implement a technology-based system of document and process management, linking the control agencies to users.
 - 1.16 Customs transit is one of the key elements in the arrival and departure of goods from Puerto Cortés. The customs facility at the port utilizes the national paper-based transit system. However, Honduras has pioneered the use of the new Mesoamerican system for the international transit of goods (TIM) at the El Amatillo station at the border with El Salvador. The TIM system—based on the one-stop electronic portal concept—should be extended to Puerto Cortés and to the border stations where cargo exits the country or enters it en route to the port. Connecting the TIM system with the proposed advance clearance and risk analysis system would integrate the entire operation electronically, substantially streamlining clearance procedures and improving control.
 - 1.17 The building infrastructure and equipment at the Puerto Cortés customs facility is in a poor state of repair¹⁰ and cannot support the technology needed to run it, which compromises user services, affects habitability conditions for workers, and presents risks to them. Refurbishment of the building is necessary, including functional, electrical, and sanitation equipment. The building is owned by Empresa Nacional Portuaria (ENP). ENP and the Ministry of Finance (SEFIN) have agreed to sign a 30-year lease¹¹ for the building, which will be submitted for approval by the National Congress.
 - 1.18 With respect to technology, while the national customs administration took a great step forward with implementation of the new Automated Customs Duty Payment System (SARAH), in order to implement advance clearance, risk analysis, connection with other agencies and TIM, etc., new investments must be made in the information technology infrastructure, along with strengthening of telecommunications and electrical support. In addition, given current operations at the port and a possible expansion, the customs administration must keep its systems up and running on a permanent basis and ensure their availability especially in the event of natural disasters. To that end, a redundant operating system needs to be

¹⁰ Illustrated report on the customs facility:
<http://idbdocs.iadb.org/wsdocs/getdocument.aspx?DOCNUM=35144437>

¹¹ <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?DOCNUM=35390900>

installed that acts as a backup for SARAH, equipped with adequate electrical and communications infrastructure and housed offsite from the current central headquarters in Tegucigalpa.

- 1.19 In light of the problems described, the solution presented herein envisions a customs facility at Puerto Cortés that is a model of modernity and radically different from the current model. Information shared with other public and private actors prior to the arrival of shipments and managed electronically will make it possible to anticipate risk, improve surveillance, and change its inspection model from an obsolete and ineffective system of physical reviews and controls to a more effective and efficient system of documentation reviews and ex post audits, in line with best practices and international standards. The project supports this model of a customs administration that simultaneously controls and facilitates trade.
- 1.20 **Country strategy.** This operation is consistent with the Bank's country strategy with Honduras (document GN-2475), particularly in two of its areas of intervention: in area (1), improve the investment climate and promote greater efficiency in customs processes (paragraph 4.5); in area (2), boost competitiveness, reducing logistical and production costs (paragraph 4.9). The project dovetails with the strategy in these two areas since it supports efficiency in tax and customs administration, by strengthening inspections and combating fraud and smuggling. It also proposes streamlining processes in order to reduce the operating costs of trade. The project is aligned with the current Government Plan, one of the priorities of which is to modernize operations at Puerto Cortés.
- 1.21 **Rationale for the Bank's participation.** The Bank has been supporting the National Strategy to Strengthen Fiscal Management through various programs in recent years that have included customs reform and modernization. The Support for Strengthened Fiscal Management (1546/SF-HO) program provided customs-related support for the modernization of customs management systems and process reengineering. Specifically, the new SARAH customs system was installed along with the supporting communications infrastructure, which will enable headway in other processes; professionalization objectives were addressed through technical training; and part of the border infrastructure was improved. The customs and revenue component of this loan was cofinanced with the Swedish International Development Cooperation Agency. The Fiscal and Municipal Management Consolidation Program (2032/SF-HO) will deepen implementation of the SAFE Framework of Standards in customs (particularly by introducing an Authorized Economic Operator program), strengthen inspection, and complete border infrastructure, among other activities. The proposed project will complement previous actions in the framework of customs at Puerto Cortés.
- 1.22 In the area of logistics and infrastructure, the Bank is supporting specific projects related to improving the CA-5 logistics corridor through the program for Improvement of the Puebla-Panama Plan's Atlantic Corridor, Sections of CA-5 Norte Highway (1565/SF-HO), and supplemental financing for the same program (1910/BL-HO), as well as through financing under the Infrastructure Program for

the San Pedro Sula Logistics Corridor (2017/BL-HO) and possible financing under the Puerto Cortés Expansion and Modernization Program (HO-L1037). The proposed project will support investments by the Honduran government in those infrastructure projects, lowering the cost that customs control interventions could entail for cargo logistics, both at Puerto Cortés and on the transoceanic corridors.

B. Objectives, components, and cost

- 1.23 The general objective of the project is to strengthen the Puerto Cortés customs facility so that it provides quality low-cost services to operators and ensures control and security, aligning it with the government's efforts to make Puerto Cortés a competitive regional logistics hub. Its specific objectives are to: (i) strengthen the control and security capacity of the customs facility so Puerto Cortés is able to retain its internationally recognized status as a secure port; (ii) improve operational coordination to reduce logistics costs; and (iii) improve infrastructure and equipment to ensure that quality services are available to users on a permanent basis. In order to achieve these objectives, the project has the following components:
- 1.24 **Component I. Strengthening of inspection capacity and security at Puerto Cortés (US\$3,916,000).** The objective of this component is to improve the inspection capacity of the Puerto Cortés customs facility by switching to a nonintrusive risk-based inspection model and improving its level of security. It has the following subcomponents:
- 1.25 **Subcomponent 1: Implementation of an information and advance clearance system.** Actions will center on implementing a system for capturing, processing, and analyzing information based on risk prior to arrival of the cargo, such that most shipments can be released without physical inspection, while also ensuring fiscal and parafiscal control.¹² Financing will be provided for the following activities: (i) review, reengineering, and implementation of customs control processes and corresponding regulations, specifically those related to customs regimes for inbound and outbound shipments, transit, warehousing, and imports and exports at port, with the objective of introducing electronic advance declarations for those customs regimes; (ii) design, programming, and support for implementation of the electronic advance clearance system for all operations based on the reengineering of processes and user training; and (iii) procurement of the necessary equipment for implementation.
- 1.26 **Subcomponent 2: Strengthening of customs inspection capacity at Puerto Cortés.** Actions will focus on changing the inspection model from physical verification to a priori documentation review or analytical examination and a posteriori audit. To achieve this objective, financing will be provided for the

¹² Although this clearance system is envisaged in the WCO SAFE Framework of Standards, it would be an innovation in Latin America and the Caribbean. Only Peru, with technical support from the Bank, is working on a similar system.

following activities: (i) strengthen training in: (a) technical inspection of value, origin, and classification; (b) techniques for nonintrusive physical inspection and a priori documentation review; (c) techniques for a posteriori inspection of shipments; (ii) provide customs with the necessary equipment and arrange training for at least four chemical engineers to set up a customs laboratory at Puerto Cortés, for effective technical and analytical control of goods; and (iii) cover salaries to hire a team of 20 inspector-auditors to strengthen a posteriori inspection capacity. The Honduran government is requesting this support as a recurrent expenditure for 24 months starting from the third year of project execution, and anticipates that this item will subsequently be financed from the DEI budget. As a special condition precedent to execution, it will present the Bank with its commitment to assume these costs when the Bank's loan has been exhausted.

- 1.27 **Subcomponent 3: Implementation of a surveillance and fiscal security system at the port and in adjacent areas.** Actions will target implementation of a system to control goods and the means of transport to prevent evasion of customs controls and smuggling. Financing will be provided for the following activities: (i) design and implement a model for surveillance, control, and nonintrusive inspection, considering the investments already made¹³ and how well they have been used, along with new proposals based on international best practices;¹⁴ (ii) procure equipment to provide Customs with nonintrusive means of surveillance and control at the port and in adjacent coastal areas with high fiscal and parafiscal risk, connected with customs management systems and in coordination with the CSI system installed by U.S. Customs at Puerto Cortés. According to the good practices identified,¹⁵ the equipment needed to implement those controls would include high resolution medium-range cameras, radars, sensors, and rapid intervention equipment—all integrated in a command and control center run jointly by ENP and the customs administration, in accordance with directives established by the Interagency Coordination Commission—as well as Radio Frequency Identification control systems to monitor containers at port. These efforts would also include training in the use of technology; and (iii) procure equipment for connection to the customs systems.
- 1.28 **Subcomponent 4: Risk management systems adapted to operations at Puerto Cortés.** Horizontally and in support of the above actions, it is necessary to install a robust risk management system focused on port operations that permits advance clearance with timely control and security guarantees. To achieve this objective, financing will be provided for the following activities: (i) develop and implement a comprehensive risk management system applied to the customs regimes in place at

¹³ The DEI has installed a gamma-ray scanner at Puerto Cortés to inspect containers. ENP has installed radioactivity detection devices at the port's entry and exit points.

¹⁴ The Bank has identified good practices in this area and experience in studies conducted in the region. <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?DOCNUM=35388382>

¹⁵ For example: Sistema Integrado de Vigilancia Exterior [Integrated External Surveillance System].

Puerto Cortés, and train analysts in the methodology for its management. Comprehensive risk is understood to be both fiscal and parafiscal risk affecting the different control agencies; (ii) procure the necessary licenses and equipment to operate the system; and (iii) cover salaries to hire a team of 10 risk analysts to strengthen the risk management capacity of the Puerto Cortés customs office. The Honduran government is requesting this support as a recurrent expenditure for 24 months starting from the third year of project execution, and anticipates that this item will subsequently be financed from the DEI budget. As a special condition precedent to execution, it will present the Bank with its commitment to assume these costs when the Bank's loan has been exhausted.

- 1.29 **Component II. Coordination and facilitation of operations (US\$638,000).** The objective of this component is to achieve effective coordination between control agencies and logistics operators to amplify the effects of advance clearance and the new inspection model, thus facilitating operations at Puerto Cortés. It has the following subcomponents:
- 1.30 **Subcomponent 1: Operational coordination.** Actions are geared towards coordinated integration of the processes and activities of control agencies. To achieve this objective, financing will be provided for the following activities: (i) design processes to operationally connect the port control agencies and logistics operators.¹⁶ This will be based on the integrated tariff already applied by the Customs Administration of Honduras;¹⁷ (ii) program and implement a system of electronic management of documents and processes based on international standards of interoperability (WCO Data Model), which permits the exchange of information with international logistics operators, particularly shipping companies; and (iii) provide Customs with the necessary equipment and training.
- 1.31 **Subcomponent 2: Facilitation of the transit of goods.** Along with the advance clearance system, it is necessary to have a robust national and international transit system that permits the rapid departure of shipments from the port. In order to achieve this objective, financing will be provided for the following activities: (i) design and program systems to integrate them into the TIM¹⁸ procedure and extend it to all the customs administrations along the transoceanic corridors; and (ii) procure the necessary information technology equipment for its implementation.

¹⁶ DEI, ENP, quarantine authorities, shipping companies, forwarding agents, custodians, importers, exporters, etc.

¹⁷ The integrated tariff consists of a dual entry matrix in which one column is the national code based on the Harmonized System for Classification of Goods (international standard maintained by the WCO) and the other column has the fiscal or parafiscal control measures contained in national or regional regulations. The Customs Administration of Honduras has this tool in its SARAH system.

¹⁸ TIM is an electronic procedure for managing international customs transit of goods in Mesoamerica with the participation of customs, quarantine, and immigration authorities. It is currently in place along the Pacific Corridor, from Mexico to Guatemala, and is expected to reach Panama by March 2011. This customs regime is important for operations at Puerto Cortés and therefore needs to be brought on line to cover the interoceanic corridors.

- 1.32 **Component III. Strengthening of infrastructure and equipment to improve user services and customs operations (US\$4,146,000).** The objective of this component is to provide port customs with the physical infrastructure and information technology and electrical equipment necessary to maintain continuous quality operations that meet port demand. In order to achieve this objective, financing will be provided for the following activities: (i) equip the customs administration with building, electrical, and communications infrastructure and furniture to improve services to users; and (ii) install a backup Data Center in San Pedro Sula and information technology infrastructure at the port's customs facility as a security measure to ensure the availability of customs information technology services in the region 24 hours a day, 365 days a year.
- 1.33 **Cost.** The total cost of the project will be US\$10 million financed by the Bank. The following table presents the budget, broken down by component:

Budget (US\$)			
Investment categories	IDB	Counterpart	Total
Component I: Strengthening of inspection capacity and security	3,916,000	0	3,916,000
Component II: Coordination and facilitation of operations	638,000	0	638,000
Component III: Strengthening of infrastructure and equipment to improve user services	4,146,000	0	4,146,000
Management, administration, monitoring, evaluation, and contingencies ¹⁹	1,260,000	0	1,260,000
Audit	40,000	0	40,000
Total	10,000,000	0	10,000,000

C. Key results indicators

- 1.34 The expected outcomes from this project are described in the results matrix. The following direct outcomes are expected: (i) the customs office at Puerto Cortés improves its capacity in the inspection of shipments and in the control of illegal activities and smuggling, based on the new inspection model and application of risk analysis; (ii) the customs office, with the new system of advance clearance and operational coordination, together with the use of TIM as a transit procedure, substantially improves the clearance process and times for goods at port; and (iii) the customs office has information technology and telecommunications services available 24 hours a day, 7 days a week, 365 days a year. Indicators have been developed to measure fulfillment of the proposed development objectives.

¹⁹ This line item includes resources to hire a national coordinator, an international customs expert, and a fiduciary specialist, and to obtain administrative support from the technical execution team. Resources are also included for monitoring, evaluation, and contingencies.

II. FINANCING STRUCTURE AND RISKS

A. Financing instruments

- 2.1 This operation is an investment loan, with a disbursement period of four years. The total cost of the operation is US\$10 million. The Bank will provide US\$7 million in financing from the Ordinary Capital and US\$3 million from the Fund for Special Operations (FSO). The loan proceeds will be disbursed through advances of funds based on financial planning of formal obligations, according to the six-month cash flow, and funds will be replenished upon justification (rendering of accounts) of at least 80% of the disbursed funds. The project includes financing for the sales tax on procurement of goods and services.

B. Environmental and social safeguard risks

- 2.2 No significant adverse environmental and social impacts are anticipated. However, there are minimal impacts and risks related to refurbishment of the current customs building at Puerto Cortés (approx. 1,600 m²), which would produce impacts in the form of noise, dust, movement of machinery, generation of solid and liquid waste, etc. There is also the potential for cumulative indirect impacts related to compliance with the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), commercial growth, increase in the demand for goods and services, waste management, etc. Pursuant to the Bank's Environment and Safeguards Compliance Policy, the following policies have been identified: Disclosure of Information (OP-102); Disaster Risk Management (OP-704-A-2); Other Risk Factors (institutional weakness) (B.4); Environmental Assessment Requirements (B.5); Consultations (B.6); Supervision and Compliance (B.7); and Pollution Prevention and Abatement (B.11). Thus, this project has been classified as a Category "B" operation (Annex II). In addition, an environmental and social analysis was conducted that has served as an input for preparing the project.
- 2.3 With respect to the risk derived from effective compliance with CITES, the proposed new inspection system, complete with trained professionals, advance information, and more robust risk analysis should guarantee observance. The issue will be introduced in the proposed training sessions.

C. Fiduciary risks

- 2.4 During preparation of the project, an assessment was made of the institutional capacity of the Project Management Unit (PMU) of SEFIN, by applying the Institutional Capacity Assessment System methodology, along with an assessment of executing agency risk, which found a medium level of risk, mainly due to the lack of specialized personnel. The assessment was an update of the one conducted when loan operation 2032/BL-HO was prepared in March 2008.

D. Other risks

- 2.5 Given that the solution proposed by the project relies heavily on technology and communications, the main risk with respect to outcomes is interruption of customs

operations at Puerto Cortés due to technology and communication failures caused by natural disasters. To mitigate this risk, the project includes investments under Component III to create replicas of systems and information technology, electrical, and communications infrastructures and thus ensure service continuity.

- 2.6 Another significant risk is related to the lack of coordination and, in some cases, cooperation from the control authorities at Puerto Cortés. SEFIN, as part of the ENP governing board, is proposing the creation of an interagency coordination commission to support cooperation between the agencies. **The commission would be comprised of representatives from SEFIN, through its Office of Decentralized Institutions, as well as from the DEI and ENP. Establishing the interagency coordination commission, defining its functions, and appointing its members will be a condition precedent to the first disbursement.**
- 2.7 Lastly, an additional risk is related to the right to use the customs building at Puerto Cortés, which is owned by ENP and in which investments will be made for its remodeling. This risk is mitigated by the agreement between SEFIN and ENP in which the latter agrees to lease the facility to the DEI for 30 years. The lease agreement will be submitted for ratification by the National Congress, which will be a condition precedent to inviting bids for remodeling of the building.

III. IMPLEMENTATION AND ACTION PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Honduras and the executing agency will be the Ministry of Finance (SEFIN).

Executing unit. Within SEFIN, the Project Management Unit (PMU),²⁰ which functions as a single centralized system for monitoring international cooperation programs and projects executed by SEFIN, will assume responsibility for administrative-financial execution of the project. For its part, the Revenue Office (DEI), a deconcentrated SEFIN agency responsible for administering all tax and customs revenue of Honduras, and with functional, technical, financial, and administrative autonomy, will execute the technical aspects of the project through the **technical execution team for the project, which will be comprised of at least a national coordinator, an international customs expert, and a fiduciary specialist. Creation of the technical team will be a condition precedent to the first disbursement.** The PMU team consists of a general coordinator, a monitoring specialist, a senior specialist and procurement officer, and a financial specialist, accountant, and treasurer. The Operating Regulations will define the minimum necessary steps, timetables, and actors for the approval procedures.

²⁰ Created by Ministerial Agreement 1271 of 14 May 2004 to manage externally-financed programs and projects executed by SEFIN.

- 3.2 **Operating Regulations.** Project execution will be governed by the Operating Regulations. These establish the rules and procedures for the executing agency in terms of programming of activities, financial-accounting management, procurement, audits, project monitoring and evaluation, and coordination between the PMU and the technical execution team. Using project preparation resources, a draft version of the Operating Regulations is being prepared for presentation to SEFIN. **Approval of the Operating Regulations by SEFIN, with the Bank's prior no objection, will be a condition precedent to the first disbursement.**
- 3.3 **Financial and fiduciary management.** For records and reports on the project's financial execution, the technology platform of the Integrated Financial Management System (known in Spanish as SIAFI) will be used, through the financial management system for executing units of external loans (known in Spanish as UEPEX) (records and reports harmonized with the World Bank). In other words, the project transactions will follow the country system practices, and parallel systems will not be necessary. The accounting books will be kept on the cash basis in accordance with International Accounting Standards and International Financial Reporting Standards. Audited financial reports will be required through the financial and management audit on a semiannual and annual basis. Over the course of the project, the level of fiduciary risk established in that evaluation will be reassessed and updated. Based on the new finding, the necessary institutional strengthening actions will be proposed to have reasonable assurance of the appropriate and efficient use of resources, and the necessary measures, actions, and modifications to the fiduciary arrangements will be taken and made.
- 3.4 **Procurement.** Works, goods, and nonconsulting services will be procured and consulting services will be selected and contracted in accordance with the Bank's policies (documents GN-2349-7 and GN-2350-7) and with the project procurement plan. International competitive bidding will be used when the cost of the good or works is greater than or equal to US\$150,000 and US\$1.5 million, respectively. National competitive bidding will be used when the cost of the good or works is greater than or equal to US\$25,000 and US\$150,000, respectively. Shopping will be used when the cost of the good or works is less than US\$25,000 and US\$150,000, respectively. The shortlist for consulting contracts equal to or less than US\$200,000 equivalent may comprise entirely national consultants.
- 3.5 Based on the institutional capacity assessments, project-financed procurements of goods, works, and consulting services will be subject to semiannual ex post reviews. Exceptions include the following: the first two contracts for works, goods, and consulting services in excess of US\$50,000 will be reviewed ex ante. The review method may be modified by the Bank as necessitated by changes in institutional capacity.
- 3.6 The SEFIN Project Management Unit (PMU) will be responsible for project procurements and administration of the loan proceeds. The PMU functions as a single centralized system for monitoring international cooperation programs and

projects executed by SEFIN, and will assume responsibility for the project's administrative-financial execution.

B. Summary of arrangements for monitoring results

- 3.7 The project will utilize the following planning tools: multiyear project execution plan (PEP), annual work plans (AWPs), financial programming, results matrix, and the project risk management methodology, which includes an estimate of the probability of occurrence of risks and the measures to be implemented to mitigate them.
- 3.8 **Project execution plan.** Project execution will be coordinated with the Fiscal and Municipal Management Consolidation Program (loan 2032/BL-HO) currently in execution, which has a customs and revenue component being executed by the DEI. The DEI and the PMU will design an integrated PEP to facilitate the joint monitoring of both operations with respect to improvements in the efficiency and effectiveness of customs control, ensuring its compatibility with specific compliance with the respective obligations assumed in each of the loan contracts.
- 3.9 **Annual work plan.** The AWP will be the tool for annual programming and planning of investments that will be made under the project. By July of each year, the project must have a draft AWP for the following year, which will be the main input for purposes of programming expenses by source of financing and planning the next year's budget. The final proposal for the AWP corresponding to the following year will be presented to the Bank before 15 December of each year so that it can be reviewed and the Bank's no objection can be obtained, which is necessary before commencing the activities included in that plan. The PMU, the technical execution team, and the project team will meet periodically during the calendar year to evaluate, based on the AWP, progress made in technical execution and compliance with the established disbursement criteria. The results of those meetings will be recorded in the aide-mémoire for each inspection visit or management mission.
- 3.10 **Semiannual execution reports from the PMU/technical execution team.** Within 60 days following every six-month calendar period, the DEI technical execution team, in coordination with the PMU (SEFIN), will prepare semiannual reports on project execution. Those reports will contain detailed information on the status of the activities under each component with respect to the PEP, the AWP, and the results matrix. Evaluations will also be included on disbursements and the operation's performance, as established in the Operating Regulations.
- 3.11 **Progress Monitoring Report.** The Bank will also use the progress monitoring report to monitor the disbursement objectives and fulfillment of project targets and outcomes.
- 3.12 **Evaluation.** The PMU will carry out two evaluations of the project, using consultants selected and hired for such purposes in accordance with the terms and conditions previously agreed upon with the Bank. The objectives of the evaluations

will be to: (i) verify progress towards and fulfillment of the project's development objectives based on the indicators set out in the results matrix; (ii) report on outputs achieved through activities financed by the project; (iii) identify positive and negative externalities; (iv) identify risks arising over the course of the project and propose measures to mitigate them; and (v) formulate recommendations, propose corrective actions, and identify and document good practices and lessons learned. The first evaluation will be conducted 24 months into project execution; the second will be conducted within six months prior the scheduled date of the last disbursement.

- 3.13 **Accounting statements and external audit.** Within 120 days after the end of the fiscal year, the PMU will present the Bank with the annual financial statements of the projects, duly audited by an independent firm that is acceptable to the Bank. During the disbursement period, within 60 days following each six-month calendar period, audited financial reports will be presented on the activities of the previous six-month period. The final audit report for the project will be presented to the Bank within 120 days after the last disbursement.

**Development Effectiveness Matrix
Summary**

Indicator	Score	Maximum Score
I. Strategic Relevance	High	
1. IDB Strategic Development Objectives	5.0	10
Country Diversification	2.0	2
Corporate Initiatives	2.5	2.5
Harmonization and Alignment	0.5	3.5
Beneficiary Target Population	0.0	2
2. Country Strategy Development Objectives	9.6	10
Country Strategy Sector Diagnosis	6.0	6
Country Strategy sector objective & indicator	3.6	4
II. Development Outcomes - Evaluability	Partial Satisfactory	
3. Evidence-based Assessment & Solution	8.5	10
4. Evaluation & Monitoring Plan	3.0	10
5. Cost-Benefit or Cost-Effectiveness	0.0	10
6. Risks & Mitigation Monitoring Matrix	7.5	10
III. IDB's Role - Additionality		
7. Additionality	10.0	10
Technical Assistance provided prior the project	3.0	3
Improvements in management of financial, procurement, monitoring or statistics internal controls	4.0	4
Improvements in environmental, health and labor performance	3.0	3

I. Strategic Relevance: This operation will be executed in Honduras a country C/D group. The operation is related to current corporate initiative of infrastructure, and there is evidence of use of financial management systems. The project is linked to the current Country Strategy in terms of objectives and indicators.

II. Evaluability: The program has a diagnosis which identifies deficiencies and their magnitude. Indicators are SMART, but not all indicator present a baseline. The program will use a reflexive methodology for its evaluation; however, the project does not present a specific evaluation plan. The program lacks an economic analysis. It has a risk classification of B. Potential risks have been identified together with mitigation measures.

III. Additionality: Technical assistance was provided prior the program. Its activities will allow improvement in management of monitoring capacities as well as statistical internal controls and financial controls. The program will also contribute to the improvement of labor and health conditions.

HONDURAS
MODERNIZATION OF CUSTOMS AT PUERTO CORTÉS
RESULTS MATRIX

The objective of the project to strengthen the Puerto Cortés customs facility so that it provides quality low-cost services to operators and ensures control and security, aligning it with the government’s efforts to make Puerto Cortés a competitive regional logistics hub.							
The specific objectives are the project are to: (i) strengthen the control and security capacity of the customs facility so Puerto Cortés is able to retain its internationally recognized status as a secure port; (ii) improve operational coordination to reduce logistics costs; and (iii) improve infrastructure and equipment to ensure that quality services are available to users on a permanent basis.							
Outcomes	Year	Target	Comments				
Increase in the net tax liability ¹ over the amount declared as a result of the new inspection model	21% (2010)	32%	The baseline will be reviewed before project startup with the Honduran Revenue Office (DEI).				
Increase in the number of seizures due to illegal activities and contraband	70 (2010)	140	The baseline will be reviewed before project startup with the DEI.				
Improvement in the ranking of Customs Administration Efficiency assigned by the World Economic Forum	93 out of 125 (2010)	90	Report: <i>The Global Enabling Trade Report</i> , published annually by the World Economic Forum				
Average clearance time for the entry declaration reduced	18.8 hours	6 hours	This is the amount of time it takes Customs to verify the items declared in order to ensure that the goods meet the import requirements and to determine the tax liability. The time will be computed from when the declaration is accepted and can be assigned to one of the customs channels until the release of the goods is authorized. This will be expressed as an average time, in business days, of customs facilities with the largest number of import declarations (not less than three customs facilities).				
Component I: Strengthening of inspection capacity and security at Puerto Cortés							
Output indicators ²		Base level 2010	2011	2012	2013	2014	Comments
System of advance remittal of the cargo manifest in operation		0		1			
Risk analysis office in operation		0			1		
Contract awarded to provide technical assistance for the design of the risk analysis system, training, and procurement of licenses		0		1			
Study on security at customs facilities and coastal areas		0	1				

¹ The net tax liability is the sum of the amount declared by the taxpayer plus any adjustment made by the customs authorities during inspection.

² Indicate the year from 2011 to 2014 in which the indicator would be achieved and which one.

Procurement and availability of nonintrusive control equipment	0			1		The study on security at customs facilities and coastal areas will determine the equipment to be procured.
Installation of the customs laboratory	0			1		
Procurement of equipment for the customs laboratory	0			1		The consulting services to provide technical assistance for creating the customs laboratory will also specify the equipment needed to run the laboratory.
Intermediate outcome indicators³	Base level 2010	2011	2012	2013	2014	Comments
Percentage of import, export, and transit declarations reviewed based on the risk analysis, under probabilistic and random rules	41%				85%	This indicator is designed to measure efficiency by the number of reviews conducted as a result of using risk analysis. It is a measure of progress in the use of the risk analysis methodology. Calculation method: $A/B \times 100$. A=Number of import, export, and transit declarations reviewed based on risk analysis; B=Total reviews of those declarations. The numerator does NOT include reviews made pursuant to a regulation.
Increase in the percentage of supplemental assessments made on clearance (red and orange channels)	8.6%		30%		60%	This indicator measures the efficiency achieved in selection of shipments to be reviewed using the risk analysis methodology. Calculation method: $A/B \times 100$. A=Number of supplemental assessments made on the clearance of declarations in the red or orange channels (not including those assigned in compliance with current regulations); B=Total number of declarations selected for the red and orange channels (not including those required by regulation). Also included are assessments that are disputed and for which a claim or appeal has been filed.
Percentage of revenue from electronic payments	12% ⁴	25%	50%	65%	90%	

³ Intermediate outcomes: Execution of the outputs may lead to one or several intermediate outcomes. Their specification is optional but recommended inasmuch as these indicators can demonstrate the change produced by the project in the short term, especially in the event that the proposed outcomes are achieved in the medium or long term.

Final outcome indicators ⁵	Base level 2010	2011	2012	2013	2014	Comments
Increase in the use of variable and probabilistic rules in selection by risk analysis of the method of review of the import declarations	4%			50%	95%	This indicator measures the quality of the risk analysis methodology, and the use of probabilistic variables versus fixed rules. The baseline refers to the percentage of current use of variable and probabilistic rules at Puerto Cortés.
Reduction in the percentage of import declarations assigned to red and orange channels	89.44% ⁶		75%		55%	The indicator measures the assignment of declarations to physical inspection of goods and documentation review with respect to total declarations. Calculation method: A/Bx100. A=Number of import declarations assigned to red and orange channels; B=Total import declarations (in the period).
Component II: Coordination and facilitation of operations						
Output indicators	Base level 2010	2011	2012	2013	2014	Comments
Percentage of certificates necessary to carry out customs operations that are available for online processing between the different control agencies	0% ⁷			50%	90%	The universe of certificates in terms of quantity will be determined in the mapping of the potential agencies participating in the electronic certificate management system.
Diagnostic assessment of requirements for implementing the transoceanic International Transit of Goods (TIM) system prepared	0	1				
TIM system in operation at Puerto Cortés			1			The system will also operate at the border crossings with El Salvador, Nicaragua, and Guatemala.

⁴ Source: Automated Customs Duty Payment System of Honduras (SARAH). Data range: 01 January 2010 to 15 September 2010. Query date: 16 September 2010. Time: 06:59 p.m. **Note:** Payment through financial institution portals is available as of the following dates: Banco LAFISE, February 2010. Atlántida, April 2010. Bac-Honduras, June 2010. Remaining institutions are in the process of developing and implementing their own information technology solutions.

⁵ Final outcomes: These differ from intermediate outcomes in that the final outcome indicators refer exclusively to the component rather than the entire project. Nonetheless, it is important to note that this outcome should contribute and be related to the scope of the project objective.

⁶ 115,377/128,994*100

⁷ A software solution is available that is integrated with SARAH for implementation of the one-stop portal but has not yet been placed into production.

Intermediate outcome indicators	Base level 2010	2011	2012	2013	2014	Comments
Increase in the percentage of import and export declarations processed with electronic certification				60%	95%	Number of declarations (import and export) processed with digital certificates. Calculation of the indicator: $A/B \times 100$. Where A=Number of declarations (import and export) remitted with digital certificates; and B=Total declarations requiring certificates. Includes declarations for goods that require certificates or permits from agencies, other than Customs, when the certificates are issued electronically and are sent directly to Customs or to the operators.
Percentage of international transit shipments processed by the TIM system at Puerto Cortés			50%	100%		
Reduction in the clearance time for international transit shipments of goods at Puerto Cortés using the TIM system			50%	70%		The baseline will be determined in the diagnostic assessment.
Final outcome indicators	Base level 2010	2011	2012	2013	2014	Comments
Average clearance time for an import declaration	18.8 continuous hours			10 hours	6 hours	This is the amount of time it takes Customs to verify the items declared in order to ensure that the goods meet the import requirements and to determine the tax liability. The time will be computed from when the declaration is accepted and can be assigned to one of the customs channels until the release of the goods is authorized. This will be expressed as an average time, in business days, of customs facilities with the largest number of import declarations (not less than three customs facilities).
Component III: Strengthening of infrastructure and equipment at Puerto Cortés						
Output indicators	Base level 2010	2011	2012	2013	2014	Comments
Customs building at Puerto Cortés refurbished	0			X		Intermediate milestone: Contract awarded. Official inauguration of the Customs building.
Establishment of a Data Center	0			X		Certification of optimal operation of the Data Center

Intermediate outcome indicators	Base level 2010	2011	2012	2013	2014	Comments
Awarding of the contract to refurbish the Customs building at Puerto Cortés	0		X			
Final outcome indicators	Base level 2010	2011	2012	2013	2014	Comments
Percentage of external and internal users who are satisfied with the services of the customs facility at Puerto Cortés					70%	The baseline will be established at project startup when the initial survey is taken.
Increase in the availability of information technology and telecommunications services	94.16%			98%	99.5%	Log of availability of Data Center system services

HONDURAS
MODERNIZATION OF CUSTOMS AT PUERTO CORTÉS
PROCUREMENT PLAN SUMMARY
January 2011 - December 2014

Description of the contract and estimated cost of procurement	Procurement method ¹	Estimated cost	Review (ex ante or ex post)	Source of financing and percentage		Prequalification (Yes/No)	Estimated dates		Status (pending, in process, awarded, cancelled)	Comments
				IDB %	Local/ Other %		Publication of specific procurement notices	Completion of contract		
1. <u>Goods</u>										
Information technology equipment and licenses for the installation and roll out of new systems at the Puerto Cortés customs facility	ICB NCB S	\$3,670,500	Ex ante	100	0	No	May 2011	March 2014	Pending	
Equipment and materials for customs laboratory	ICB	\$250,000	Ex ante	100%	0	No	February 2013	October 2013	Pending	
Equipment for customs control and surveillance	ICB NCB	\$660,000	Ex ante	100%	0	No	November 2011	April 2013	Pending	
Total Goods		\$4,580,500								
2. <u>Consulting services</u>										
Consulting services for installation of the International Transit of Goods (TIM) system	CQS	\$138,000	Ex ante	100%	0		June 2011	July 2012	Pending	

¹ **ICB:** International competitive bidding; **LIB:** Limited international bidding; **NCB:** National competitive bidding; **S:** Shopping; **DC:** Direct contracting; **FA:** Force account; **PSA:** Procurement through specialized agencies; **PAs:** Procurement agents; **IA:** Inspection agents; **PLFI:** Procurement in loans to financial intermediaries; **BOO/BOT/BOOT:** Build, own, operate/build, operate, transfer/build, own, operate, transfer; **PBP:** Performance-based procurement; **PLGB:** Procurement under loans guaranteed by the Bank; **PCP:** Community participation procurement; **QCBS:** Quality- and cost-based selection **QBS:** Quality-based selection **FBS:** Selection under a fixed budget; **LCS:** Least-cost selection; **CQS:** Selection based on the consultants' qualifications; **SSS:** Single-source selection.

Description of the contract and estimated cost of procurement	Procurement method ¹	Estimated cost	Review (ex ante or ex post)	Source of financing and percentage		Prequalification (Yes/No)	Estimated dates		Status (pending, in process, awarded, cancelled)	Comments
				IDB %	Local/ Other %		Publication of specific procurement notices	Completion of contract		
Consulting services to prepare bidding documents for works and for review and reformulation of customs procedures and regimes	CQS	\$154,500	Ex ante	100%	0		April 2011	November 2011	Pending	
Consulting services of firms specializing in electronic interconnectivity, risk, surveillance, and advance clearance	ICB	\$1,200,000	Ex ante	100%	0		April 2011	October 2012	Pending	
Consulting services for training in verification of value and origin, documentation review, nonintrusive physical inspection, laboratory, and surveys and audits	CQS	\$180,000	Ex ante	100%	0		April 2011	December 2014	Pending	
Total Consulting services		\$1,672,500								
3. <u>Works</u>										
Works for refurbishing the customs building at Puerto Cortés	NCB	\$1,655,000	Ex ante	100%	0	No	September 2011	February 2013	Pending	
Total Works		\$1,655,000								

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/10

Honduras. Loan ____/BL-HO to the Republic of Honduras
Puerto Cortés Customs Modernization

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 a program for the Puerto Cortés customs modernization. Such financing will be for the amount of up to US\$7,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, corresponds to a parallel loan within the framework of the multilateral debt relief and concessional finance reform of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2010)

LEG/SGO/CID/IDBDOCS#35413753
HO-L1055

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/10

Honduras. Loan ____/BL-HO to the Republic of Honduras
Puerto Cortés Customs Modernization

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 a program for the Puerto Cortés customs modernization. Such financing will be for the amount of up to US\$3,000,000, from the resources of the Bank's Fund for Special Operations, corresponds to a parallel loan within the framework of the multilateral debt relief and concessional finance reform of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _____ 2010)

LEG/SGO/CID/IDBDOCS#35413749
HO-L1055