

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

**INSTITUTIONAL AND OPERATIONAL STRENGTHENING
OF THE CUSTOMS ADMINISTRATION**

(HO-L1235)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Sandra Corcuera Santamaría (INT/TIN), Project Team Leader; Martín Jorge Ardanaz (IFD/FMM) and Nicolás Dassen (IFD/ICS), Alternate Project Team Leaders; Levi Zegarra (INT/TIN); Christian Volpe (INT/TIN); Erick Mendez (INT/TIN); Juan Jose Bravo (INT/TIN); Yasmin Esteves (INT/NT); Angela Dorantes (INT/TIN); Juan Carlos Bustos (INT/TIN); Alejandra Hernandez (INT/TIN); Samuel Moreno (INT/TIN); Michelle Moreno (ITE/IPS); Ignacio Barragán (LEG/SGO); Christian Alberto Contin Steinemann (VPC/FMP); Maria Cecilia del Puerto Correa (VPC/FMP); Claudia Melissa Sierra Lopez (CID/CHO); Maria José Leiva Meza (CSD/CCS); and Amalia Guzmán (CID/CHO).

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CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING	1
A.	Background, problem addressed, and rationale	1
B.	Objectives, components, and cost	10
C.	Key results indicators	15
II.	FINANCE STRUCTURE AND MAIN RISKS	16
A.	Financing instruments	16
B.	Environmental and social risks.....	17
C.	Fiduciary risks	17
D.	Other key issues and risks	17
III.	IMPLEMENTATION AND MANAGEMENT PLAN	18
A.	Summary of implementation arrangements	18
B.	Summary of arrangements for monitoring results	20
C.	Post-approval design activities.....	20

APPENDICES

Proposed resolution

ANNEXES	
Annex I	Summary Development Effectiveness Matrix
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

LINKS
Required links <ol style="list-style-type: none">1. Multiyear execution plan / annual work plan2. Monitoring and evaluation plan3. Procurement plan
Optional links <ol style="list-style-type: none">1. Analysis of ADUANAS customs regulatory framework2. Analysis of ADUANAS institutional framework and control processes3. Analysis of ADUANAS technology platform and ICT systems4. Project economic analysis5. Calculation formula for indicators6. Governance framework (HO-L1235)7. Project Operating Regulations (HO-L1235)8. Project completion report (HO-L1055)9. Empirical evidence related to the program10. Strategic alignment11. IDB experience in the country12. ADUANAS institutional and territorial framework

ABBREVIATIONS

ADUANAS	Administración Aduanera de Honduras [Honduran Customs Administration]
AEO	Authorized economic operator
CAUCA	Código Aduanero Uniforme Centroamericano [Uniform Central American Customs Code]
CIAT	International Center for Tropical Agriculture
COPRISAO	Comisión Presidencial de Reforma Integral del Sistema Aduanero y Operadores de Comercio [Presidential Commission for the Integrated Reform of the Customs System and Trade Operators]
DARA	Dirección Adjunta de Aduanas [Deputy Directorate of Customs Revenue]
DEI	Dirección Ejecutiva de Impuestos [Executive Directorate of Revenue]
ECLAC	Economic Commission for Latin America and the Caribbean
FOB	Free on board
FYDUCA	Factura y Declaración Única Centroamericana [Central American Consolidated Invoice and Declaration]
ICT	Information and communications technology
IMF	International Monetary Fund
LRF	Ley de Responsabilidad Fiscal [Fiscal Responsibility Law]
OC	Ordinary Capital
OECD	Organisation for Economic Co-operation and Development
ONADICI	Oficina Nacional de Desarrollo Integral del Control Interno [National Office for the Integrated Development of Internal Control]
PECH	Plataforma Electrónica de Comercio de Honduras [Electronic Platform for Honduran Trade]
RECAUCA	Reglamento del Código Aduanero Uniforme Centroamericano [Uniform Central American Customs Code Regulations]
SAR	Servicio de Administración de Rentas [Revenue Administration Service]
SARAH	Sistema Automatizado de Rentas Aduaneras de Honduras [Honduran Automated Customs Duty Payment System]
SEFIN	Secretaría de Finanzas [Department of Finance]
SIAFI	Sistema de Administración Financiera Integrada [Integrated Financial Administration System]
SIECA	Secretaría de Integración Económica Centroamericana [Central American Integration System]
SIREP	Sistema de Registro y Control de Servidores [Public Employee Registration and Oversight System]
TSC	Tribunal Superior de Cuentas [Court of Audit]
UEPEX	Sistema de Unidades Ejecutoras de Préstamos Externos [External Loan Executing Unit System]
VAT	Value-added tax
ZOLI	Zona Libre [Free Zone]

PROJECT SUMMARY
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Financial Terms and Conditions			
Borrower:	Source	Amount (US\$)	%
Republic of Honduras	IDB (Regular OC):	32,500,000	65
Executing agency:	IDB (Concessional OC):	17,500,000	35
Honduran Customs Administration (ADUANAS)	Total:	50,000,000	100
	Regular OC (FFF) ^(a)	Concessional OC	
Amortization period:	25 years	40 years	
Disbursement period:	4 years		
Grace period:	5.5 years ^(b)	40 years	
Interest rate:	SOFR-based	0.25%	
Credit fee:	(c)	N/A	
Inspection and supervision fee:	(c)	N/A	
Weighted average life:	15.25 years	N/A	
Approval currency:	U.S. dollars		
Project at a Glance			
Project objective/description: The general development objective of the project is to increase customs revenue through process improvements, the implementation of customs controls, and technologies that help facilitate trade and reduce tax fraud. The specific development objectives are: (i) to increase the operational management efficiency of the Customs Administration of Honduras (ADUANAS); and (ii) to improve controls, automation, and use of technology to reduce tax fraud.			
Special contractual conditions precedent to the first disbursement of the loan: (i) the borrower, or the executing agency as applicable, has presented evidence that an agreement has been signed for transfer of the loan proceeds to the executing agency, through which the Department of Finance will assign and transfer loan proceeds to the executing agency for due execution of the project; and the executing agency has presented evidence that: (ii) the project Operating Regulations (optional link 7) have been approved and have entered into force; and (iii) the project execution unit has been created and has a general coordinator, financial specialist, procurement specialist, planning and monitoring specialist, administrative assistant, customs expert, and technology expert (paragraph 3.8)			
Special contractual conditions of execution: The Customs Modernization Committee has been created as part of the project's governance framework as stipulated in the project Operating Regulations (paragraph 3.9)			
Exceptions to Bank policies: None.			
Strategic Alignment			
Challenges: ^(d)	SI <input type="checkbox"/>	PI <input type="checkbox"/>	EI <input checked="" type="checkbox"/>
Crosscutting themes: ^(e)	GE <input type="checkbox"/> and DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

- (a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations, prevailing market conditions, and the level of concessionality of the loan into account when reviewing such requests, in accordance with the Bank's applicable policies.
- (b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.
- (c) 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 applicable policies.
- (d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (e) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 Honduras is a country with many opportunities to achieve rapid and more equitable growth due to its strategic location, young and growing labor force, recent efforts to diversify exports, and growing industrial base. Over the past decade, the country has seen an average annual growth rate of 3.1% in real gross domestic product (GDP), reaching 3.7% in 2018 and 2.7% in 2019. This rate exceeded the Central American average and was well above that of Latin America and the Caribbean.¹ Despite a sharp GDP contraction of 9.0% in 2020, in the context of the COVID-19 pandemic and storms Eta and Iota, the economy saw a robust recovery in 2021 with growth of 12.5%.² The country's good economic performance in 2021 was reflected in a substantial rise in incomes, and a nonfinancial public sector (NFPS) deficit that, at 3.7% of GDP, was 1.7 percentage points lower than projected by the International Monetary Fund (IMF) program. Projected economic growth for 2022 is between 4.0% and 4.5% of GDP, and this is largely attributable to external demand and family remittances.
- 1.2 The government has maintained a prudent fiscal policy in recent years under the Fiscal Responsibility Law (LRF), which has served as an anchor for fiscal policy formulation since 2016 and has helped to reduce the fiscal deficit over several successive years. The authorities triggered the escape clause during the 2020 crisis to increase the deficit to 5.6% of GDP. The NFPS deficit is expected to be about 3.3% of GDP in 2022, below the 4.9% ceiling. Despite the changes, the new authorities have shown a commitment to the LRF to safeguard medium-term fiscal sustainability. Honduras must also consolidate its economic recovery and take steps to return to a fiscal path that is consistent with the LRF; however, the country faces fiscal restrictions and latent risks.³
- 1.3 **Improved governance and institutional quality continue to be two fundamental factors in the country's development, along with issues such as strengthening revenue capacity,** a strengthened judicial system, independent regulatory agencies, transparency of information,⁴ the effective application of public integrity policies, the capacity to exercise accountability, and strengthened digital government⁵ and control systems, which are all essential to increase public sector efficiency.
- 1.4 **The government has achieved satisfactory results in reducing the fiscal deficit; however, fiscal consolidation depends on additional reforms** to improve public sector financial management and rebalance current spending to focus on capital investments; for example, it requires a greater mobilization of fiscal

¹ IDB Group Country Strategy with Honduras 2019-2022.

² Central Bank of Honduras.

³ Honduras. Overview. World Bank.

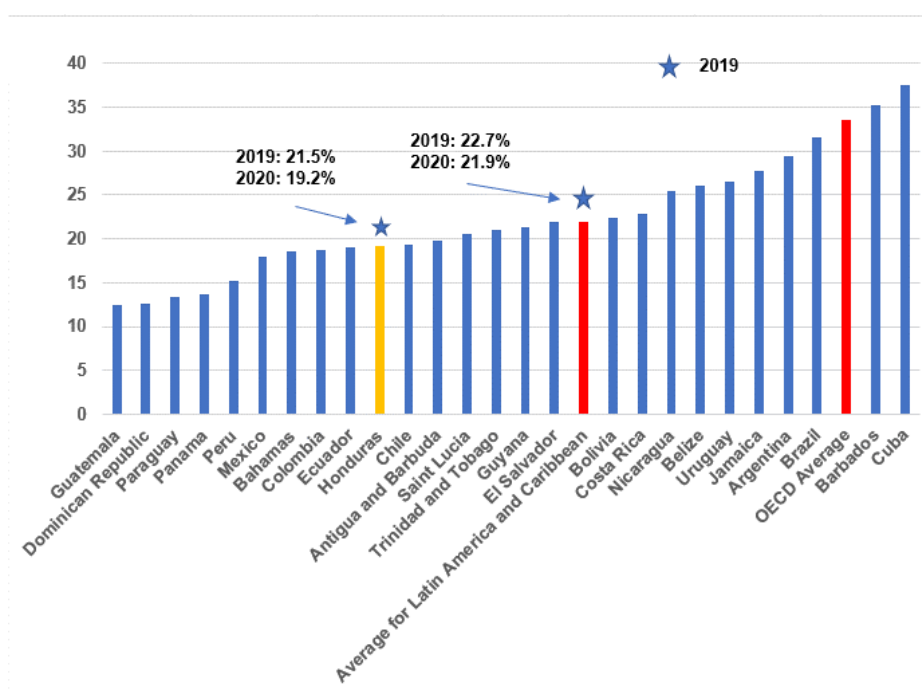
⁴ According to the Right to Information Rating, which measures seven main variables in access to information systems, Honduras scored 84 out of a possible 150 points. This index has analyzed access to public information legislation since 2011.

⁵ According to the 2020 [United Nations survey](#) measuring the effectiveness of e-government, Honduras ranked 138th out of 193 countries, the lowest ranking of any country in the region.

revenue through improved tax collection, a stronger Revenue Administration Service (SAR) and Customs Administration of Honduras (ADUANAS), and a reduction in tax exemptions, which represent a significant percentage of GDP.⁶

- 1.5 **Honduras's tax revenues, as a percentage of GDP, stood at 19.2% in 2020, a decrease of 2.3% in comparison with 2019.** This percentage is 2.7% lower than the average for Latin America and Caribbean, which only decreased by 0.8% in the same period (Figure 1). Reduced revenue collection in Honduras can be explained in part by the 0.9% decrease in GDP due to the decline in value-added tax revenues, and the 0.1% decrease in customs and import duties.⁷ Since approximately 50% of collected value-added tax comes from customs revenues,⁸ around 24% (0.54% of GDP) of the decrease in tax revenues is attributable to foreign trade operations.

Source 1. Tax revenues as a percentage of GDP in Latin America and the Caribbean, 2020



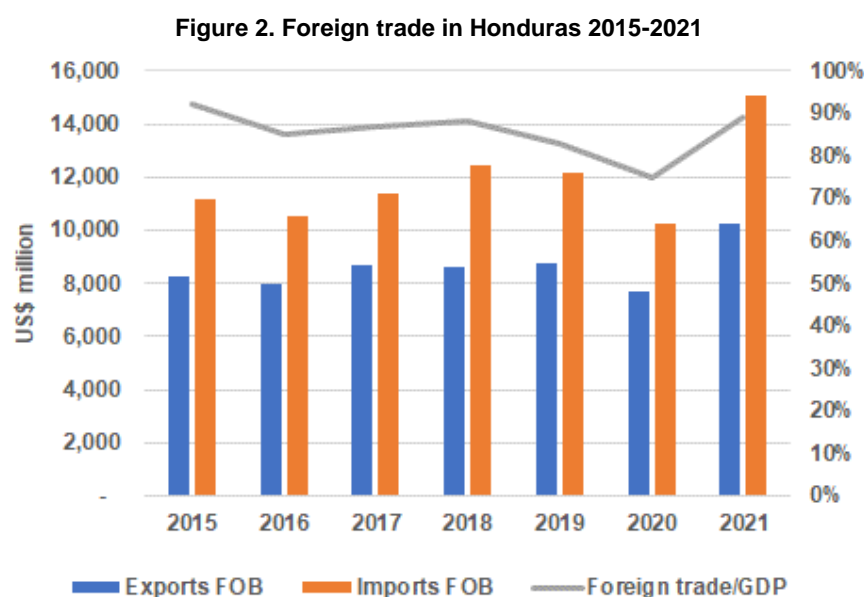
Source: Tax statistics in Latin America and the Caribbean, 2022. CIAT, OECD, IDB, ECLAC.

⁶ Exemptions, waivers, reduced aliquots, and deductions to benefit, promote, or foster activities, sectors, or taxpayer groups in 2019 were equivalent to 6.3% of GDP. Technical Assistance Report-Fiscal Transparency Evaluation. IMF, July 2021.

⁷ Revenue Statistics in Latin America and the Caribbean. CIAT, OECD, IDB, ECLAC.

⁸ IDB-CIAT Revenue Collection Database 1990-2018. Honduras.

- 1.6 **Foreign trade plays a key role in the economy, representing approximately 88% of GDP⁹ in recent years (Figure 2).** In 2021, imports and exports totaled US\$25.25 billion, 40% of which was from exports and 60% from imports. The contribution of exports to GDP decreased from 39.2% in 2015 to 35.9% in 2021, a decrease that began even before the COVID-19 pandemic, while imports decreased from 53.3% to 52.8% in the same period. To make investments and be internationally competitive, companies must overcome challenges that include deficiencies in border infrastructure, lack of competition and limited efficiency in service provision, high logistics costs, and shortcomings in cross-border processes;¹⁰ these factors have prevented greater integration in regional and international chains.¹¹ According to the Logistics Performance Index (LPI, 2018), Honduras's overall ranking is 94th out of 163 countries, while it holds the 132nd position in the logistics competence subindicator. In terms of other LPI subindicators, the country ranks 118th in timeliness, compared with Panama's ranking (46th), the highest in the region. Likewise, Honduras ranks 125th in customs processes, behind Panama (45th), Costa Rica (70th), and Nicaragua (90th), all below the threshold rank of 100.¹²



Source: Data from the Central Bank of Honduras.

⁹ In Latin America and the Caribbean, foreign trade represented 49.3% of GDP in 2021, while it accounted for 70.4% in Central America. [Merchandise trade \(% of GDP\)](#).

¹⁰ [BIDEconomics Honduras: oportunidades de mayor desarrollo para todos en post pandemia](#). December 2021.

¹¹ In the current context of reconfiguration of global value chains (nearshoring), it is believed that strengthening its participation in these chains could generate US\$1,242.8 million in increased exports (goods), which is evidence of this agenda's strategic importance (see [link](#)).

¹² [Logistics Performance Index](#) based on 2018 data, except for Nicaragua, for which 2016 data are used. <https://lpi.worldbank.org/international/global>.

- 1.7 Low competitiveness is evident in global comparative classifications.** According to the World Economic Forum's 2019 Global Competitiveness Index, Honduras's overall ranking is 101st out of 141 countries, and it ranks 119th in border clearance efficiency.¹³ Other significant challenges affecting customs are reflected in its rank of 130th in the 2020 trading across borders indicator, with delays of 108 hours to complete export customs procedures and 96 hours for import procedures, while the averages for Latin America and the Caribbean are 55 and 56 hours, respectively. In Guatemala, another country belonging to the Northern Triangle Customs Union, these delays are 36 and 72 hours, respectively. Likewise, the documentary processes for exports take 48 hours and those for imports take 72 hours, while the averages in Latin America and the Caribbean are 35 and 43 hours, respectively, and Guatemala has average delays of 48 and 32 hours, respectively. Export costs are US\$601 in Honduras, in comparison with US\$516 in Latin America and the Caribbean and US\$310 in Guatemala, while import costs are US\$483 in Honduras, compared with US\$628 in Latin America and the Caribbean and US\$405 in Guatemala.¹⁴
- 1.8 The institutional strengthening of ADUANAS is key to ensure fiscal resources and set the country on the path towards economic growth and competitiveness. The long transition process affecting ADUANAS has prevented the organization from achieving institutional solidity.** During the creation of SAR, in 2015 the Deputy Directorate of Customs Revenue (DARA) separated from the Executive Directorate of Revenue (DEI). It was not until the end of 2016 that the Presidential Commission for the Integrated Reform of the Customs System and Trade Operators (COPRISAO) was created to assume control over DARA and streamline incoming and outgoing cargo. In 2017, COPRISAO received a mandate to overhaul customs. Lastly, in January 2020 ADUANAS was established, with the partial rehiring of DARA staff and new personnel. However, during ADUANAS's legal establishment process, it was impossible to allocate all the required human, financial, and technology resources. During the creation of ADUANAS, Congress made budgetary changes that weakened it from an operational and administrative standpoint. This succession of brief and weak administrative arrangements, inadequate organizational and operational structure,¹⁵ limited investments in infrastructure, equipment, and technology, as well as staff with inadequate profiles make it difficult for ADUANAS to achieve its objectives and carry out its digital transformation process.¹⁶
- 1.9 Even though ADUANAS has shown operational improvements in recent years, its operational indicators are suboptimal.** In 2019, 44.81% of ADUANAS customs declarations were inspected (34.85% physical inspections and 9.96% documentation reviews), and there were findings in only 6% of these, worth US\$22.6 million or 1.35% of annual revenue collection. In 2020, 38% of customs

¹³ [The Global Competitiveness Report 2019](#). World Economic Forum.

¹⁴ Doing Business 2020, World Bank. Doing Business was discontinued in 2021.

¹⁵ [Optional link 12](#). ADUANAS Institutional and Territorial Framework.

¹⁶ Legal, strategic, and technological diagnostic assessments conducted in 2022, annexes. There is evidence and indications of the scale of challenges in the ADUANAS's documents and those of other non-public entities.

declarations were inspected (25.76% physical inspections and 12.84% documentation reviews), and there were findings in only 6.71% of these, worth US\$16.9 million or 1.25% of total revenue. This is evidence that risk management is ineffective, and the number of inspections increases foreign trade times and costs.

- 1.10 The main challenge in improving the capacity to generate tax revenue and strengthen competitiveness is institutional weakness, in strategic and operational areas, and the lack of support for the customs administration's efficient management. This deterioration of ADUANAS is reflected in the following main problems:

Problem 1. Outdated legal and regulatory framework

- 1.11 The country's current legal framework for customs operations, which is part of the Tax Code and Customs Law (Decree 212-87), is outdated in terms of the legal, technical, and technological innovations that are required for customs operations ([optional link 1](#)). This legislation is deficient and sometimes incompatible with regional and international agreements and conventions.¹⁷ For example, it lacks a description of certain special regimes' responsibilities and obligations; customs authority to verify origin; automated processes and powers to use information systems and technologies and technological equipment to facilitate customs operations; powers to carry out post-clearance audits; definitions and regulations for violations and applying sanctions; and the incorporation of an Authorized Economic Operator (AEO). Moreover, process reengineering will require regulatory changes for the new operation, and changes are expected from the ongoing Uniform Central American Customs Code (CAUCA) and Uniform Central American Customs Code Regulations (RECAUCA) review processes.

Problem 2. Organizational shortcomings and human resources weaknesses

- 1.12 There has been neither a functional nor a procedural logic to the way in which the organizational structure has evolved. Efforts to strengthen human resource management and recruit staff with suitable profiles and conduct have been unsuccessful ([optional link 2](#)) (paragraphs [4.1](#), [4.9](#), [6.1](#), and [6.2](#)). The weaknesses are: (i) inefficient staff who lack the required experience and technical knowledge, career plans, and adequate chains of command;¹⁸ (ii) the annual training plan only includes courses for new hires, skills training for customs agents is dependent on private funding, and there are no strategies, programs, or technology platforms for training; (iii) recent reorganizations have triggered change and uncertainty for staff, without guaranteeing selection or retention based on best knowledge and practice.
- 1.13 Integrity and transparency programs and plans are inadequate. At the end of 2021, ADUANAS administered the Customs Integrity Perceptions Survey from the [World Customs Organization's Anti-Corruption and Integrity Promotion in Customs](#)

¹⁷ The World Customs Organization's Framework of Standards to Secure and Facilitate Trade (SAFE); World Trade Organization's Trade Facilitation Agreement; and regional codes (CAUCA and RECAUCA).

¹⁸ The ratio of administrative staff (support processes) to operational staff (central processes) is almost equal, with 554 administrative staff versus 571 operational staff. There are 211 employees in administrative areas, but only 25 employees dedicated to audits; of the 18 staff members working in information technology, only three work in systems development.

[Programme](#) to identify areas for improvement,¹⁹ which were: (i) increase private sector participation in modernization processes; (ii) strengthen auditing and investigation areas; (iii) reduce regulatory complexity and increase automation and transparency.

Problem 3. Weak management of human resources, administration, and planning

- 1.14 The following weaknesses have been identified: strategic planning at ADUANAS is rudimentary,²⁰ and strategic and operational results indicators are basic and neither structured nor automated in a dashboard, which limits accountability and transparency.²¹

Problem 4. Inadequate operational processes

- 1.15 Control and facilitation capacities are ineffective due to the limitations and shortcomings that are outlined in [optional link 2](#) and [optional link 3](#). These include: (i) absence of an operational model that aligns functions with the customs tax cycle. Activities are executed vertically, and processes are unintegrated, inefficient, and predominantly manual;²² lack of a standardized procedures manual; (ii) absence of a comprehensive contingency plan to ensure operational continuity in the event of natural disasters, pandemics, or cyberattacks; (iii) weak integrated risk management system that functions with limited effectiveness only in concurrent clearance processes²³ and that negatively impacts operators' times;²⁴ the system lacks feedback mechanisms with other government entities; (iv) weak ex post auditing²⁵ executed by a small area with 25 staff members with limited knowledge and manual processes that are limited in scope;²⁶ and (v) rudimentary AEO program²⁷ that is not automated or integrated with the risk management system.
- 1.16 There are vulnerabilities and risks in some cargo clearance processes at the integrated border posts²⁸ in the Northern Triangle Customs Union,²⁹ especially in

¹⁹ The Ernst & Young survey measures the perception of customs staff members and private sector employees on a scale of 10 points in accordance with the World Customs Organization's Revised Arusha Declaration on integrity in customs. CIPS Summary Report GAC Honduras - Results of the First Customs Integrity Perception Survey (CIPS) for ADUANAS.

²⁰ Efforts to develop the Institutional Strategic Plan began in 2017 with technical support from the IMF.

²¹ [Optional link 2](#) (paragraph 6.3).

²² Only 40% of processes are automated and, in many cases, they have not been adequately documented.

²³ In 2020 ADUANAS inspected 38% of customs declarations (25.76% physical inspections and 12.84% documentation reviews), and there were findings in only 6.71% of these, worth US\$350,240.

²⁴ From 1 January to 15 June 2022, 43.30% of green channel declarations (no inspection) took 48 hours or more to be cleared; 59.10% of yellow channel declarations (documentation review) and 66.40% of red channel declarations (physical inspection) took 48 hours or more to be cleared.

²⁵ Only 121 audits were conducted in 2020, and irregularities were detected in 80 of these. Collection is inefficient (US\$4 million, of which US\$1.8 million was collected, representing 0.13% of total collection).

²⁶ In 2021 there were no audits of customs agents, customs depositories, carriers, or free zone companies. Likewise, there were no audits of value or origin.

²⁷ There are four import companies certified as Authorized Economic Operators (AEO).

²⁸ <https://www.sieca.int/index.php/aduanas-perifericas-y-puestos-fronterizos-integrados/>.

²⁹ <https://www.sica.int/iniciativas/aduanas>.

terms of weak controls during the transit of cargo and the inability to receive data from SAR, which is related to the Central American Consolidated Invoice and Declaration (FYDUCA).³⁰

Problem 5. Limited use of advanced systems and technologies to analyze and control cargo

- 1.17 Cargo control, monitoring, movement and/or transformation is based on weak and manual processes, mostly without the support of technology equipment.³¹ The deficiencies are: (i) limited traceability of cargo, especially in special regimes and Free Zones (ZOLIs) in the absence of an automated module to virtually monitor and control inventory, movement, transformation, and loss; (ii) seals are not secure when controlling the opening and closing of means of transport or routes that are under customs control; (iii) there is no equipment to automatically identify, record, and monitor incoming and outgoing containers and means of transport; and (iv) lack of nonintrusive equipment, with only one scanner at Puerto Cortés that uses obsolete gamma ray technology and that is operated by the port, and one scanner at Corinto operated by the National Police.
- 1.18 The customs laboratory does not have technical competency accreditation,³² and its staff and equipment have limited capacities to carry out the qualitative and quantitative identification of sensitive cargo.

Problem 6. Inadequate and obsolete technology infrastructure

- 1.19 Customs operations are vulnerable owing to obsolete, limited, and weak software platforms and technology equipment.³³ Central customs functions are conducted through the Honduran Automated Customs Duty Payment System (SARAH), which has slow response times and uses obsolete data libraries and tools³⁴ that are difficult to learn and incompatible with modern technologies. Its functional scope in automating critical processes is very limited. The Electronic Platform for Honduran Trade (PECH) suffers from the same problems as SARAH; moreover, it is not an authentic platform for online trade facilitation processes. Because of these weaknesses, its integration with other systems and interoperability with external systems is complex.³⁵

³⁰ Through technical cooperation operation ATN/MR-17300-RG, at the request of the countries participating in the Deep Integration Process of the Northern Triangle Countries, the IDB has conducted a series of analyses of the Customs Union model, identifying the need for improvements to regulatory and operational areas, infrastructure, and interagency coordination. These reports have been presented to SIECA and to the Customs Directors for Honduras and Guatemala.

³¹ [Optional link 2](#) (paragraphs 5.1 and 5.5) and [optional link 3](#) (paragraph 4).

³² International standard ISO 17027 “Conformity assessment. General requirements for the competence of testing and calibration laboratories,” is accreditable and enables international recognition of results.

³³ [Optional link 3](#) (paragraph 5).

³⁴ The SARAH technology is Java Server Pages and the data model that it uses is incompatible with the model recommended by the World Customs Organization and Trade Facilitation Agreement.

³⁵ The National Interagency Collaboration Agreement between the Department of Finance (SEFIN), SAR, and DARA (2018) for the exchange of information. They only exchange the National Tax Registry of 20 types of agreed-upon data.

- 1.20 The data processing center presents significant risks and is not backed up at another physical site or in the cloud. It is located in facilities that do not meet international standards or provide adequate protection against adverse climate conditions. The data processing center's hardware and personal computers are obsolete.³⁶
- 1.21 Internet connectivity in most customs locations is limited, resulting in increases control times.³⁷ ADUANAS does not have autonomy to manage its communication networks³⁸ in central facilities, which leads to slow internet services and failures in back-up processes and in the application of security processes.

Problem 7. Weak framework and mechanisms for managing data and for cybersecurity

- 1.22 The diagnostic assessment ([optional link 3](#), paragraph 5.3) revealed: (i) the absence of operating procedures and protocols in the Control and Monitoring Center; and (ii) the hardware, software, and internet have limited capacity and scope to monitor the operation.³⁹
- 1.23 Deficient policies, governance structures, and protocols to manage, access, and protect information and to address cybersecurity risks leave the institution vulnerable to cyberattacks. There is no diagnostic assessment that identifies information technology vulnerabilities and establishes a plan to mitigate them. Software and hardware are inadequate to provide appropriate levels of protection in accordance with international good practices.⁴⁰
- 1.24 **Rationale.** The institutional strengthening of ADUANAS is key to increase revenue collection and guarantee fiscal resources to balance public finances and put the country on a path towards economic growth and competitiveness, with a tax collection rate that remains above the average for Latin America and the Caribbean. Honduras must optimize and automate its customs processes, improve the effectiveness and efficiency of controls,⁴¹ facilitate foreign trade, and reduce tax fraud.
- 1.25 **The Bank's experience in the country.**⁴² The Bank has prior experience with customs modernization projects through the Modernization of Customs at

³⁶ Laptops cannot be updated with the most recent versions of the operational system software.

³⁷ Without Wi-Fi in customs, inspectors must return to their desks to finish inspection reports instead of using tablets.

³⁸ ADUANAS is housed in the Government Civic Center Building, which is being developed by a concessionaire (Desarrolladora y Operadora de Infraestructura de Honduras S.A. de C.V. [DOIH]) under a 30-year concession agreement awarded by the Government of Honduras, after which time it will reassume the building's ownership. The concessionaire controls the equipment that ADUANAS uses to communicate with the country's different customs and with the Puerto Cortés data processing center, and for incoming and outgoing data towards/from the exterior, even though ADUANAS pays for the data links.

³⁹ The Control and Monitoring Center only supervises three customs depositories and Puerto Cortés with 192 cameras. It only has 50 software licenses for the control of cameras, and internet capacity is 10Mb/sec when 100Mb/sec are required.

⁴⁰ Current practices do not meet ISO27001:2013 standards for information security risk management.

⁴¹ Control equipment will be improved at Puerto Cortés, Henecán, and Guasaule, and the Government Civic Center's technology infrastructure will be strengthened.

⁴² [Optional link 11.](#)

Puerto Cortés operation ([2467/BL-HO](#)), which closed in 2018. The main findings described in the project completion report⁴³ were a 100% increase in declarations processed through e-certification, a 112% increase in revenue collection from electronic payments, and a 25% reduction in average clearance times for import declarations at Puerto Cortés. Among the lessons learned from that project and included in the proposed operation are the following: (i) reach agreement with the executing agency on the results matrix; (ii) coordinate the intervention with international agencies; (iii) develop project Operating Regulations; and (iv) identify risks and mitigation measures from the start of the operation. In addition, the Bank has experience in Honduras through a regional public good in execution to develop a contingency plan that would facilitate the entry of critical goods during natural disasters and health emergencies ([ATN/OC-18291-RG](#)).

- 1.26 **The Bank's experience in the region.** The Bank has significant experience in projects focusing on the modernization and transformation of customs administrations. In addition to the aforementioned project in Honduras, the Bank has implemented others in the region, including [1894/OC-UR](#), [2756/OC-BH](#), [3852/OC-ES](#), and [2658/OC-JA](#), mainly aimed at improving and strengthening operating capacity in the areas of control, revenue, and trade facilitation, in order to improve service, time, and cost factors. And it is currently implementing other projects to advance digital transformation and the adoption of technology in customs operations, namely [4725/OC-PE](#), [5148/OC-CO](#), and [5598/OC-EC](#). In addition, it has experience with initiatives for border integration and improvements at border crossings: [3324/OC-EC](#), [GRT/ER-16523-NI](#), [3484/BL-NI](#), [3488/OC-CR](#), [4517/OC-PN](#).
- 1.27 **Lessons learned.** This operation considers lessons learned from projects executed by the Bank, specifically: (i) the need for political support, interagency coordination with SAR and SEFIN, and private sector participation;⁴⁴ (ii) a focus on the requirements and functionalities of business areas through reengineered processes and subsequent support from improved systems and technologies; (iii) the need for actions to manage change and for strategic leadership, complemented with operational capacities; and (iv) the importance of having a project execution unit with staff who work exclusively on the project and have experience with IDB policies.
- 1.28 **Empirical evidence:** The project also considers knowledge generated through academic research ([optional link 9](#)).
- 1.29 **Complementarity with portfolio operations.** SAR is implementing the Tax Administration Institutional and Operational Strengthening Program ([3541/BL-HO](#)), for US\$40 million, of which 54.65% has been disbursed. Its objective is to improve tax revenue levels in order to create the fiscal space needed to finance the government's priority expenditures. This project complements it by strengthening the customs revenue collection capacity through efficient and effective controls. It also complements the Transparency and Integrity Program for

⁴³ See the project completion report in [optional link 8](#).

⁴⁴ Activities are planned to strengthen interaction with the private sector: (i) change strategy; (ii) they will benefit from the automated AEO model, improved systems, and use of technology since, in addition to improving control, ADUANAS will be better positioned to facilitate trade.

Sustainable Development ([5593/BL-HO](#)), for US\$195 million, by enhancing government accountability, through ADUANAS, by way of the increased public transparency of customs regulations and processes; effective public integrity policies through institutional and organizational interventions in customs; and efficient customs control systems through improved control technologies and equipment.

1.30 **Coordination with international agencies.** There has been coordination with: (i) the International Monetary Fund to align the proposed interventions with technical support from its Regional Center for Technical Assistance for Central America, Panama, and the Dominican Republic (CAPTAC-DR); (ii) the World Customs Organization (WCO), which is providing support through the [Anti-Corruption and Integrity Promotion in Customs Programme](#); and (iii) the United States Agency for International Development (USAID), which has helped to strengthen the AEO program and purchase equipment for the paperless customs initiative at Puerto Cortés.

1.31 **Strategic alignment.** The project is aligned with the Second Update to the Institutional Strategy (document AB-3190-2) (i) by bolstering economic integration through reduced cargo release times for exports and imports; and (ii) in the area of institutional capacity and the rule of law, by helping to strengthen institutional capacities for customs management, thereby improving operational efficiency in inspections and auditing, and increasing digitalization and automation of processes. It will contribute to the Corporate Results Framework 2020-2023 (GN-2727-12) through the indicators pertaining to institutional capacity and the rule of law, especially to the number of countries with strengthened tax and expenditure policies and management. It is aligned with the IDB Group's country strategy with Honduras 2019-2022 (GN-2944). It is congruent with the Concept Note: Strengthening Regional Value Chains in Latin America and the Caribbean (GN-3038) and with the following Sector framework documents: (i) Integration and Trade (GN-2715-11); (ii) Fiscal Policy and Management (GN-2831-8); and (iii) Transparency and Integrity (GN-2981-2). Approximately 14.92% of this operation's resources will be invested in climate change mitigation activities, in accordance with the [joint methodology of the multilateral development banks for tracking climate finance](#), specifically through the purchase of energy efficient equipment. These resources contribute to the IDB Group target of increasing financing for climate-related projects to 30% of approvals by 2022. Given that the gender composition of staff at ADUANAS is 50% women (566) and 50% men (569), no meaningful gap was identified. However, the principles of gender equity and diversity will be considered in the recruitment and selection frameworks in order to mitigate the potential for discriminatory situations in the future, and to ensure, to the extent possible, that the executing agency is able to compile data disaggregated by gender and diverse population groups in the activities financed by the project ([optional link 10](#)).

B. Objectives, components, and cost

1.32 **Objectives.** The general development objective of the project is to increase customs revenue through process improvements, the implementation of customs controls, and technologies that help facilitate trade and reduce tax fraud. The specific development objectives are: (i) to increase the operational management

efficiency of the Customs Administration of Honduras (ADUANAS); and (ii) to improve controls, automation, and use of technology to reduce tax fraud.

- 1.33 **Component 1. Strengthening institutional management and governance within a framework of digital transformation (US\$4,230,000).** The objective is to strengthen ADUANAS with new skills for more efficient and effective management, which will improve efficiency in revenue collection.
- 1.34 **Subcomponent 1.1: Strengthening the legal and regulatory framework (US\$100,000).** This subcomponent seeks to eliminate deficiencies and weaknesses in the legal framework⁴⁵ (problem 1, paragraph [1.11](#)) by adapting it to the new operational structure with automated, digitalized, and technology-based processes, providing legal certainty to foreign trade operators and officials. A proposal will be developed for a new Customs Law and its corresponding regulations, as well as changes to strengthen the application of the tax code, criminal code, and other laws to customs operations.
- 1.35 **Subcomponent 1.2: Organizational strengthening and human talent development (US\$2,130,000).** This subcomponent will contribute to the improved management of human resources, the institutional strategy and operational model, and to strengthening the Customs School⁴⁶ (problem 2, paragraph [1.12](#)) through:
- (i) Human resource management strategy and model that contains:
 - (a) defined integrated management policies and actions, including recruitment and selection processes that verify integrity and technical knowledge and follow principles of gender equity and diversity;
 - (b) framework for planning the organizational structure;⁴⁷
 - (c) establishment of a career plan, system to evaluate performance, and the alignment of training with organizational needs and personal development goals; and (d) a framework for fair terminations.
 - (ii) Training plan including redesigned and improved Customs School with digital teaching tools, a virtual platform, and technology equipment to:
 - (a) develop internal competencies in foreign trade risk management, inspection, valuation, classification, origin, and auditing;
 - (b) strengthen onboarding programs; and (c) provide training in new control processes.
 - (iii) Strategy and actions to manage and promote change that consider:
 - (a) surveys and diagnostic assessments of organizational culture and climate for ADUANAS officials, and the development of plans and actions to achieve changes in conduct;
 - (b) change management methodology and development of an internal and external communications and awareness-raising strategy; and (c) dialogue and participation mechanisms with the private sector and external actors.

⁴⁵ See footnote 17.

⁴⁶ It is currently a virtual platform with limited content. The supply of virtual and in-person training is expected to grow with the development of a training plan and the purchasing of equipment.

⁴⁷ Customs has begun to work on redesigning the organizational structure with support from CAPTAC-IMF.

- (iv) Strategy to strengthen integrity and transparency that is aligned with the World Customs Organization's Arusha Declaration, the Anti-Corruption and Integrity Promotion in Customs Programme, and other national and international initiatives and standards⁴⁸ to: (a) prevent and combat corruption; (b) use automated processes and technology equipment to identify critical audit points, decrease discretionary actions, and increase control; (c) strengthen internal audit functions; (d) develop agendas for integrity and transparency; (e) define collaborative and preventive initiatives with the private sector and other actors; and (f) publish operation indicators.

1.36 **Subcomponent 1.3: Strengthening integrated planning and administrative management (US\$2,000,000).** This will contribute to solving deficiencies in managing support areas (problem 3, paragraph [1.14](#)) through:

- (i) Enterprise resource planning (ERP)⁴⁹ including: (a) reengineering to simplify, optimize, and integrate processes; (b) implementation and support for human resource, financial, budget, accounting, logistics, procurement, and asset and inventory control modules; and (c) development of interfaces to link ERP with operational and institutional management systems such as SARAH, the Integrated Financial Administration System (SIAFI), and the Public Employee Registration and Oversight System (SIREP).
- (ii) Management indicator system that is congruent with government systems, including the definition and structuring of: (a) strategic and operational indicators; and (b) management and operational dashboard to visualize results with a view to increasing accountability and transparency.

1.37 **Component 2. Strengthening customs operational control capacity and compliance (US\$24,920,000).** The objective is to develop an integrated operational control model based on risk management, digitalization, and automation to improve operational efficiency.

1.38 **Subcomponent 2.1: Innovation and improvements in customs and control processes (US\$3,250,000).** This will contribute to the modernization, optimization, and simplification of operational control processes (problem 4, paragraphs [1.15](#) and [1.16](#)) through:

- (i) Integrated operational model that is aligned with the institutional vision and strategy and includes: (a) mapping and reengineering to optimize, simplify, streamline, automate, and digitalize processes to strengthen control and facilitation of customs operations; and (b) a manual of standardized and consolidated operational processes and procedures for substantive and support areas.

⁴⁸ Among these, Honduras's National Transparency and Anti-Corruption Strategy [Estrategia Nacional de Transparencia y Anticorrupción de Honduras] (ENTAH).

⁴⁹ ERP is a type of software that organizations use to manage daily activities.

- (ii) Continuity and recovery operational plan that considers different scenarios (natural disasters, health emergencies, or cyberattacks) and identifies critical processes, activities, organizational and administrative aspects, and human resources, financial, and material needs.
- (iii) Integrated risk management system with data from internal and external sources (national agencies, such as SAR, or international agencies), business intelligence modules, automatic learning, and advanced data analysis techniques that are functional for operations before, during, and after clearance.
- (iv) Automated module to plan and manage ex post audits, to effectively detect noncompliance, evasion, and fraud in customs, and achieve greater transparency and accountability.
- (v) Automated module to manage and control the certification process for AEO companies, facilitating the program's expansion.

1.39 **Subcomponent 2.2: Provision of technology systems and equipment for cargo control and traceability (US\$21,670,000).** This will contribute to solving the problem of lack of technology equipment (problem 5, paragraphs [1.17](#) and [1.18](#)) through:

- (i) Automated module to audit special regimes including: (a) recording and control of incoming and outgoing cargo; (b) inventory audits with input-output matrix and calculation of loss and waste, traceability of goods transformation processes; and (c) administration of compliance with the warranties and obligations of the authorizations that are issued.
- (ii) System and program for the use of electronic seals to secure cargo in containers, including the definition of the operational model to be integrated into control processes and systems.
- (iii) Control system for cargo management, with priority given to Puerto Cortés, Henecán, and Guasaule, that records, controls, and monitors equipment with technological equipment and devices that comprise the control stations, integrating their functions and information into SARA and the Control and Monitoring Center.
- (iv) Nonintrusive cargo inspection equipment at key customs,⁵⁰ including the procedures and protocols for their use, and staff training. The equipment's operations will be integrated with customs processes and systems.
- (v) Strengthened customs laboratory through: (a) equipment including chromatographs and near-infrared identification devices to identify and correctly classify cargo; (b) implementation of ISO 17025 standard, including a training process to increase technical skills and obtain international laboratory accreditation.

⁵⁰ A consultant has been hired with nonreimbursable resources to develop technical specifications.

- 1.40 **Component 3. Modernization and resilience of the technology platform with an emphasis on information security (US\$16,750,000).** The objective is to improve technology infrastructure (software and hardware) to increase automation, the security of data, and the information technology resilience of customs management and operations. It will contribute to improving operational effectiveness and revenue collection efficiency, thereby reducing tax fraud.
- 1.41 **Subcomponent 3.1: Renewal of technology systems and infrastructure (US\$16,050,000).** This subcomponent will contribute to the modernization of technology systems and infrastructure and align them with the operational model (problem 6, paragraphs [1.19](#), [1.20](#), and [1.21](#)) through:
- (i) Improvements to and integration of the SARAH and PECH information technology systems, including: (a) analysis, design, and implementation of updates to the technology core;⁵¹ (b) development of new functionalities such as the integration of electronic signatures, content and document management, user authentication and authorization; (c) integration with new functionality modules and the cargo traceability system; (d) interoperability with third-party systems and other national and international agencies; (e) use of the World Customs Organization data model; and (f) implementation of a technology development framework in the information technology area.
 - (ii) Strengthened data center through: (a) analysis and determination of its scope and technical requirements, infrastructure updates, and secondary alternate site; (b) updating the infrastructure of the primary and secondary data centers in the Government Civic Center or in the cloud; and (c) renewal of hardware and computer equipment that support the new technology, functionalities, and anticipated volumes of operations under the new operating platforms; these must be acquired in compliance with energy efficiency standards.
 - (iii) Strengthening of communication networks through: (a) improved infrastructure and communication channels (Wi-Fi) at border posts, enabling the use of new functionalities and technologies; and (b) equipment with energy efficiency labelling for an independent network in the Government Civic Center that gives autonomy and security to border operations.
 - (iv) Operating model, procedures, response protocols, and equipment for the Control and Monitoring Center, and the procurement and installation of software, cameras, and equipment with energy efficiency labelling in ports and customs areas.
- 1.42 **Subcomponent 3.2: Design and implementation of an information security (internal) and cybersecurity (external) strategy (US\$700,000).** This will contribute to reducing gaps in information security (problem 7, paragraphs [1.22](#) and [1.23](#)) through: (a) diagnostic assessment of information systems and structure

⁵¹ Data libraries, frameworks, etc. upon which both systems' programming is based to facilitate its maintenance and scalability.

to identify technological vulnerabilities and determine actions to eliminate or mitigate them; (b) conceptual and regulatory framework to define a governance and data access and protection system to achieve ISO 27001 “Information Security Systems” certification,⁵² and the implementation of ISO 27005 “Information Security Risk Management”;⁵³ and (c) procurement of hardware (with energy efficiency labelling) and software to strengthen perimeter information security.

- 1.43 **Administration and contingencies (US\$4,100,000).** This will facilitate the incorporation of experts and key job profiles into the project execution unit (US\$1,376,800). Resources have been allocated for financial assessments and audits, pursuant to the Bank’s fiduciary practices and policies (US\$250,000). Lastly, a contingency fund has been established equivalent to 5% of the total amount (US\$2,473,200).

C. Key results indicators

- 1.44 **Expected results.** The project’s impact will be improved customs revenue collection, measured as an increase in revenue collection over foreign trade levels. This impact will result from the following outcomes: (i) increased efficiency in customs revenue collection through more efficient operating spending related to collections and ex post audit tax efforts; and (ii) improved operational efficiency of customs control and facilitation deriving from a higher detection ratio, which translates into more findings as a result of applying risk management during customs clearance and in ex post audits; and the increased digitalization and automation of cargo clearing processes.
- 1.45 **Economic analysis.** To analyze the economic viability of the proposed project ([optional link 4](#)), an estimation was done of irregular or illegal trade for 2019 through the mirror statistics methodology for foreign trade. According to this estimation, there was at least US\$3,231,000 in illegal trade in Honduras, with the main points of origin being the United States, Guatemala, and El Salvador. Additionally, a cost-benefit analysis was done with over a 10-year horizon at the aggregate level by component. This analysis shows that the project has a positive net present value of US\$3.57 million and an internal rate of return of 15.01%, which is greater than the Bank’s discount rate of 12% per annum. A sensitivity analysis to changes in the model’s main assumptions shows robust results; therefore, it is concluded that the project is highly likely to yield returns.
- 1.46 **Beneficiaries.** The project will benefit: (i) the Honduran State, through modernized customs and better capacities to efficiently collect revenue with which to finance public policies; (ii) the population, which will benefit from these policies; (iii) foreign trade operators, through quality customs services; and (iv) other government entities, through access to foreign trade data (for example, SAR).

⁵² International standard that enables the securing, confidentiality, and integrity of data and information and their processing systems.

⁵³ International standard that contains various recommendations and general guidelines to manage risks in information security management systems. It is consistent with the general concepts specified in the ISO 27001 standard and was designed as a means to support the satisfactory application of an information security management system based on a risk management approach.

II. FINANCE STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This project is structured under the specific loan investment modality, by financing activities that are defined at the time of the loan approval in terms of cost and design, having estimated its technical, financial, and economic feasibility. The total cost of the operation is US\$50,000,000, financed with a US\$50,000,000 loan, of which US\$32,500,000 is from the Bank's Regular Ordinary Capital and US\$17,500,000 is from its Concessional Ordinary Capital. The execution period is four years.⁵⁴

Table 1. Summary of project costs⁵⁵ (US\$ thousands)

Components	IDB	%
Component 1. Strengthening institutional management and governance within a framework of digital transformation	4,230	8.46
Subcomponent 1.1: Strengthening the legal and regulatory framework	100	0.20
Subcomponent 1.2: Organizational strengthening and human talent development	2,130	4.26
Subcomponent 1.3: Strengthening integrated planning and administrative management	2,000	4.00
Component 2. Strengthening customs operational control capacity and compliance	24,920	49.84
Subcomponent 2.1: Innovation and improvements in customs and control processes	3,250	6.50
Subcomponent 2.2: Provision of technology systems and equipment for cargo control and traceability	21,670	43.34
Component 3. Modernization and resilience of the technology platform	16,750	33.50
Subcomponent 3.1 Renewal of technology systems and infrastructure	16,050	32.10
Subcomponent 3.2. Information security (internal) and cybersecurity (external) strategy	700	1.40
Administration and other contingencies	4,100	8.20
Total	50,000	100

2.2 Disbursement schedule

Table 2 – Disbursement schedule (US\$)

Year	2023	2024	2025	2026	Total
Total	3,437,592	34,306,482	11,409,793	846,133	50,000,000
%	6.88	68.61	22.82	1.69	100

⁵⁴ The authorities at the Office of the Deputy Minister for Public Investment and ADUANAS have prioritized execution of the program in this period, for which they will be strengthening their teams.

⁵⁵ Costs by subcomponent or main activity are indicative.

B. Environmental and social risks

- 2.3 This project is classified as a category “C” operation in accordance with the Environmental and Social Policy Framework because it is expected to cause minimal or no negative environmental and social impacts. Three Environmental and Social Performance Standards were activated, and these are specified in Annex IV.

C. Fiduciary risks

- 2.4 A medium-high fiduciary risk associated with institutional fiduciary capacity was identified, which could cause a delay in project execution. This risk will be mitigated through procurement training for ADUANAS so that it can adequately manage contracting associated with the expert technical assistance that will be responsible for execution of the project.

D. Other key issues and risks

- 2.5 **Risks associated with the executing agency.** A medium-high risk was identified associated with the need for a governance mechanism for execution; this risk will be mitigated through the establishment of a Strategic Modernization Committee.
- 2.6 **Execution risks.** A medium-low risk was identified associated with the need to strengthen ADUANAS’s institutional stability, as well as two medium-high risks that underscore the need to raise awareness among officials about the project’s benefits, and to consolidate technical leadership to carry out the transformation of customs operations. The first risk will be mitigated through the inclusion of change management activities, and the second through the contracting of technical expert(s) in customs and technology.
- 2.7 Three high risks were identified associated with the need for: (i) a legal framework for customs compliance, until there is a new Customs Law; (ii) an adequate and independent security management framework for information technology systems; and (iii) the guaranteed allocation of fiscal space in accordance with plans. Mitigation actions include: (i) the referencing, compilation, and dissemination of laws and regulations associated with the ADUANAS’s administrative actions to give users legal certainty; (ii) the implementation of cybersecurity measures and the highest-level requirement to have an independent communications network; and (iii) the involvement of SEFIN and Public Credit in the annual budget preparation.
- 2.8 **Project risks.** A medium-high risk was identified associated with the need to implement a sustainability plan to strengthen institutional areas through new operational frameworks. This risk will be mitigated through the implementation of a sustainability plan that will include staff retention and training plans to ensure the adequate optimization of investments over time.
- 2.9 **Sustainability of investments.** This operation includes training activities on the use and optimization of equipment and systems. Beneficiaries will be responsible for their maintenance and will present a sustainability plan as part of the project’s closing.

III. IMPLEMENTATION AND MANAGEMENT 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 Customs Administration of Honduras (ADUANAS). The Department of Finance (SEFIN) will be the Bank's counterpart for purposes of signing the contract and monitoring the fulfillment of disbursement conditions.
- 3.2 **Findings of institutional capacity analysis.** According to the analysis conducted in June 2022, ADUANAS has an External and Project Coordination Unit responsible for executing the institution's projects. However, it does not have experience executing projects with reimbursable funds from international donors. In terms of financial management, payments will be processed through SIAFI with electronic signatures, and SEFIN's Treasury Directorate provides the last signature to credit the provider's account; the payment process begins in ADUANAS and ends in SEFIN. Given this context, it has been agreed that a project execution unit will be created and financed with project funds, and staff that is hired will work exclusively on the project. The IDB will monitor the project execution unit regularly in the framework of ongoing technical support provided to the executing agency.
- 3.3 **The project execution unit will consist of:** (i) a general coordinator who will report to the Customs Executive Management; (ii) a financial specialist; (iii) a procurement specialist; (iv) a planning and monitoring specialist; (v) an administrative assistant; (vi) a customs expert; and (vii) a technology expert. Other experts may be hired on an ad hoc, short-term basis to support technical management.⁵⁶
- 3.4 **The project execution unit's functions will be to:** (i) prepare and periodically update the [multiyear execution plan](#), the [annual work plan](#), the [procurement plan](#), and the project's [financial plan/cash flow](#); (ii) perform processes relating to the selection of goods and consulting services and signing contracts financed by the project; (iii) conduct monitoring of execution and submit progress reports to the Bank; and (iv) conduct the financial management of the project, including the preparation of supporting documents for disbursement requests, accountability, and contracting of audits.
- 3.5 In addition, a Strategic Modernization Committee will be created under ADUANAS. The objective is to establish a project governance and internal coordination mechanism. The committee will establish the strategic and technical criteria for the modernization process during execution. It will be presided by the Executive Subdirector, the general coordinator of the project execution unit, customs-designated technical officers responsible for the three components, and customs and technology experts contracted with the operation's resources. Other managers and technical officers from customs may be invited on an ad hoc basis, depending on the issues that will be addressed.

⁵⁶ [Optional link 6.](#)

- 3.6 **Project Operating Regulations.** Project execution will be governed by the provisions of the program Operating Regulations,⁵⁷ which will contain: (i) roles and responsibilities of participating entities, including the executing agency and SEFIN; (ii) communication between the executing agency and the Bank; (iii) the minimum composition of the executing agency for the purpose of special contractual conditions precedent; (iv) regulations and procedures for the selection and contracting of works, goods, and services; (v) regulations and procedures for administrative and financial management; (vi) regulations and procedures for monitoring; and (vii) regulations and procedures for internal control and auditing.
- 3.7 **Interagency coordination.** Improvements to technology infrastructure, risk management system, and subsequent auditing functions will facilitate the automated generation of data with the necessary quality and capacity to interoperate with SEFIN and SAR to implement the 2018 National Interinstitutional Collaboration Agreement for the exchange of information.⁵⁸
- 3.8 **Special contractual conditions precedent to the first disbursement of financing.** The borrower, or the executing agency as applicable: (i) has presented evidence that an agreement has been signed for transfer of the loan proceeds to the executing agency, through which the Department of Finance will assign and transfer loan proceeds to the executing agency for proper execution of the project; and the executing agency has presented evidence that: (ii) the project Operating Regulations have been approved and have entered into force; and (iii) the project execution unit has been created and has a general coordinator, financial specialist, procurement specialist, planning and monitoring specialist, administrative assistant, customs expert, and technology expert.
- 3.9 **Special contractual conditions of execution:** The Customs Modernization Committee has been created as part of the project's governance framework as stipulated in the project Operating Regulations.
- 3.10 **Procurement of works, goods, consulting services, and nonconsulting services.** Procurement financed in whole or in part with Bank resources will abide by the Policies for the Procurement of Goods and Works financed by the Inter-American Development Bank (document [GN-2349-15](#)) and the Policies for the Selection and Contracting of Consultants financed by the Inter-American Development Bank (document [GN-2350-15](#)). The main procurements anticipated in the context of the project can be found in Annex III, in addition to the agreements and requirements for the operation's execution.
- 3.11 **Financial management and auditing.** Financial management will be conducted out in accordance with Financial Management Guidelines for IDB-Financed Projects (OP-273-12), and the executing agency will be responsible for managing disbursements. Advances of funds will cover the executing agency's resource needs for a period of up to 180 days. At the request of the borrower, direct payments and reimbursements for expenditures can be made to providers. Audited financial statements will be requested on a yearly basis within 120 days after the closing of each fiscal period or the date of the last disbursement at the end of

⁵⁷ [Optional link 7.](#)

⁵⁸ See footnote 35.

the project's execution. See Annex III for more details on this financial management section.

B. Summary of arrangements for monitoring results

- 3.12 **Monitoring.** The project's progress will be measured with the outcome and output indicators described for each component in the Results Matrix and reflected in the Progress Monitoring Report. The executing agency will be responsible for maintaining its data gathering and monitoring systems. The management tools are: (i) the Results Matrix; (ii) the [annual work plan](#); (iii) the [multiyear execution plan](#); (iv) the [procurement plan](#); the Risk Matrix; and (v) the [monitoring and evaluation plan](#). The executing agency will prepare progress reports every six months, within 60 days following the end of each six-month period. Project monitoring tools are described in detail in the [monitoring and evaluation plan](#).
- 3.13 **Evaluation.** The project will be evaluated, as stipulated in the [monitoring and evaluation plan](#), against the outcome and output indicators and targets contained in the Results Matrix. The borrower, acting through the executing agency, commits to submit to the Bank the information needed to determine the degree of fulfillment of the project objective and expected results. The instrument to be used for this purpose will be a midterm evaluation and a final evaluation, both conducted by independent third parties. The midterm evaluation will be commissioned by the executing agency and carried out 24 months from the eligibility date of this contract or when 50% of the loan proceeds have been disbursed, whichever occurs first. The final evaluation will include an economic and financial analysis and will be conducted when at least 95% of loan proceeds have been disbursed. The scope, objectives, and results of the evaluations will be agreed upon by the executing agency and the Bank, pursuant to the Bank's principles and methodologies.
- 3.14 **Impact evaluation.** The project also envisages an impact evaluation to determine its causal effect on increased customs revenue collection. To this end, an econometric estimate is proposed using a difference-in-differences model to identify the project's effects on revenue collection. The estimate will include the use of data generated by ADUANAS to prepare audits, which will facilitate an assessment of the project's effectiveness, as well as the optimal use of tools that are operationalized through it.

C. Post-approval design activities

- 3.15 After approval, the Bank will support the executing agency in meeting eligibility conditions for start-up and the first disbursement. It will organize a start-up workshop with authorities from ADUANAS, the project execution unit team, and Bank staff supporting the project execution.

Development Effectiveness Matrix		
Summary		HO-L1235
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Economic Integration -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Amount of international trade supported (\$) -Regional integration agreements and cooperation initiatives supported (#) -Emissions avoided (annual tons CO2 equivalent) -Beneficiaries of enhanced disaster and climate change resilience (#) -Value of investments in resilient and/or low-carbon infrastructure (\$) -Countries with strengthened tax and expenditure policy and management (#) -Agencies with strengthened digital technology and managerial capacity (#) -Agencies with strengthened transparency and integrity practices (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2944	Fortalecimiento de la institucionalidad fiscal y la eficiencia del gasto
Country Program Results Matrix	GN-3087-2	The intervention is included in the 2022 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		Ver párrafo 1.24 del POD
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.8
3.1 Program Diagnosis		2.3
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		9.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.5
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		0.0
5. Monitoring and Evaluation		8.8
5.1 Monitoring Mechanisms		2.8
5.2 Evaluation Plan		6.0
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium High
Environmental & social risk classification		C
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. Procurement: Information System, Price Comparison.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Evaluability Assessment Note: The Program for the Institutional and Operational Strengthening of Honduras' Customs Administration (HO-L1235) has as a general development objective to increase customs tax collection through an improvement of processes, the implementation of custom controls and technologies that contribute towards facilitating commerce and decreasing fiscal fraud. The Program proposes to contribute to that objective through the specific development objectives of: (i) improving the Honduran Customs Administration's (AAH) efficiency of operations management; and (ii) to enhance controls, automatization and use of technologies to reduce fiscal fraud. The Program's diagnosis identifies, as a general development problem, the low and decreasing level of customs revenue as a percentage of GDP in Honduras. Since half of the revenue from income value added taxes comes from customs collection, almost a quarter of the drop in tax revenue is attributable to operations of international trade. The Program proposes, as determinants of this problem, institutional weakness at customs administration, mentioning elements that go from an inadequate regulatory framework, organizational weaknesses, deficient operational processes, scant utilization of systems to control and analyze cargo, obsolescence of technological infrastructure, to weaknesses in data management. To address this, the Program proposes to strengthen institutional governance and management, as well as organizational aspects, and to improve operational capacity for compliance and controls through technological equipment and a renewal of infrastructure systems.

The results matrix has SMART indicators that help to measure the scope of objectives. The economic analysis finds an IRR of 15,01%, through estimates that monetize losses to irregular or illegal commerce that takes place in the absence of the project. The monitoring and evaluation plan proposes an analysis to identify the program's effects on customs revenue through a model of differences in differences. In addition, the Program proposes a strategy of reflexive evaluation for results indicators associated with both specific objectives, and an ex-post economic analysis.

RESULTS MATRIX

Project objective:	The general development objective of the project is to increase customs revenue through process improvements, the implementation of customs controls, and technologies that help facilitate trade and reduce tax fraud. The specific development objectives are: (i) to increase the operational management efficiency of the Customs Administration of Honduras (ADUANAS); and (ii) to improve controls, automation, and use of technology to reduce tax fraud.
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GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline value	Baseline year	Target year	Target	Means of verification	Comments
General objective: To increase customs revenue through process improvements, the implementation of customs controls, and technologies that help facilitate trade and reduce tax fraud.							
Impact #1: Improved customs revenue collection							
Customs revenue collection / foreign trade	%	L 48,760.9/L 284,445.1= 17.1%	2021	2026	L 63,089.3/L 354,470.4= 17.8%	ADUANAS statistics	<p>Calculation formula (CF):¹ Customs revenue collection/foreign trade.</p> <p>Based on existing duties and aliquots.</p> <p><i>Note: Values are in millions of Honduran lempiras and indicator percentages.</i></p> <p><i>The foreign trade indicator considers definitive imports and exports of general goods, excluding imports of derivatives of petroleum because tax revenue from this good is not part of the taxable base of customs revenues.</i></p>

¹ See [optional link 5](#).

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline year	Target year	Final target	Means of verification	Comments
Outcome 1: Increased efficiency of ADUANAS customs revenue collection						
Specific development objective 1: To increase the operational management efficiency of ADUANAS						
Efficiency ratio for the cost of collecting customs revenue	%	2021 L 673.8/L 48,760.9=1.4%	2026	L 877.4/L 63,089.3=1.3%	ADUANAS annual management report	CF: ² Total cost of operations/Total revenue collection.
Efficiency ratio for ex post audits tax effort	%	2020 L 74.7 million/78 audits =L 0.95 million	2026	L 2.0 million	ADUANAS annual management report	CF: Total amount (in local currency) determined from total audits/Total number of audits.
Average release times for import and export goods	Days	2021 0.68 days	2026	0.55 days	ADUANAS annual management report	CF: ³ Average days between the payment of taxes associated with the import declaration and the release of goods.
Average release times for export goods		1.03 days		0.50 days		
Average release times for import goods		0.96 days		0.80 days		
Outcome 2: Improved operational efficiency of ADUANAS						
Specific development objective 2: To improve controls, automation, and use of technology to reduce tax fraud.						
Detection rate of documentary and physical inspections attributable to risk management during import clearance	%	2021 6.5%	2026	15%	ADUANAS annual management report	This indicator measures the degree to which risk analysis is effectively implemented during clearance. CF: Number of operations with detections / Total number of operations selected for documentary, nonintrusive, or physical inspection during clearance.
Detection rate of audits attributable to risk management during ex post audits	%	2022 70%	2026	97%	ADUANAS annual management report	This indicator measures the degree to which risk analysis is effectively implemented in ex post audits. CF: Number of operations with detections / Total number of operations selected for ex post audits.

² Idem.

³ Idem.

Indicators	Unit of measure	Baseline year	Target year	Final target	Means of verification	Comments
Automation of ADUANAS processes	%	2021 40%	2026	65%	ADUANAS annual management report	CF: % of automated processes within the total number of mapped processes. Scope of automation: administrative and operational processes mapped, optimized, and implemented in the technology platform (SARAH/PECH), or another to be developed (see optional link 3).

OUTPUTS

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification
Component 1: Strengthening institutional management and governance within a framework of digital transformation									
Subcomponent 1.1. Strengthening the legal and regulatory framework									
1.1.1 Proposal for new Customs Law and Regulations developed.	Proposed law and regulations	0	2022	-	1	-	-	1	ADUANAS report with published and proposed Customs Act
Subcomponent 1.2. Organizational strengthening and human talent development									
1.2.1 Human resource management strategy and model implemented with a gender approach.	Strategy	0	2022	-	-	1	-	1	Approved ADUANAS report
1.2.2 Customs School designed.	Plan	0	2022	-	-	1	-	1	Approved ADUANAS report
1.2.3 Customs School operating.	Strategy	0	2022	-	-	-	1	1	Approved ADUANAS report
1.2.4 Customs School platform implemented.	IT system / application	0	2022	-	-	1	-	1	Approved ADUANAS report
1.2.5 Internal and external change strategy implemented.	Strategy	0	2022	-	-	1	-	1	Approved ADUANAS report
1.2.6 Strategy to strengthen integrity and transparency implemented.	Strategy	0	2022	-	-	1	-	1	Approved ADUANAS report
Subcomponent 1.3. Strengthening integrated planning and administrative management									
1.3.1 ERP system for institutional resource planning implemented.	IT system	0	2022	-	-	-	1	1	Supplier report ADUANAS certificate of conformity
1.3.2 Management indicators system implemented.	IT system	0	2022	-	-	1	-	1	ADUANAS certificate of conformity

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification
1.3.3 Management and operational control board implemented.	Software	0	2022	-	1	-	-	1	Execution reports ADUANAS certificate of conformity
Component 2: Strengthening customs operational control capacity and compliance									
Subcomponent 2.1. Innovation and improvements in customs and control processes									
2.1.1 Reengineering of standardized customs processes and operating procedures implemented.	Operations Manual / Procedures	0	2022	-	-	-	1	1	Approved ADUANAS report
2.1.2 Operational continuity and recovery plan designed.	Plan	0	2022	-	-	1	-	1	Approved ADUANAS report
2.1.3 Integrated risk management system operational.	IT system	0	2022	-	1	-	-	1	ADUANAS certificate of conformity
2.1.4 Automated module for ex post audit management implemented.	IT module / application	0	2022	-	-	1	-	1	ADUANAS certificate of conformity
2.1.5 Automated module for managing AEO certification implemented.	IT module / application	0	2022	-	-	1	-	1	ADUANAS certificate of conformity
Subcomponent 2.2. Provision of technology systems and equipment for cargo control and traceability									
2.2.1 Customs controls for special regimes audited.	Audit report	0	2022	-	-	1	-	1	ADUANAS report on audit results
2.2.2 Automated module for controlling special regimes implemented.	IT module / application	0	2022	-	-	1	-	1	ADUANAS certificate of conformity
2.2.3 System and program for use of electronic seal operational.	IT system	0	2022	-	-	1	-	1	ADUANAS certificate of conformity
2.2.4 Cargo management control system implemented.	IT system	0	2022	-	-	-	1	1	ADUANAS certificate of conformity, including energy efficiency requirements
2.2.5 Nonintrusive cargo review equipment acquired.	Equipment	0	2022	-	-	1	1	2	ADUANAS installation and operating report
2.2.6 Laboratory equipment acquired.	Equipment	0	2022	-	-	1	1	2	ADUANAS installation and operating report

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification
Component 3: Modernization of the technology platform									
Subcomponent 3.1. Strengthened customs management, data processing, and control and monitoring of communications network									
3.3.1 SARAH and PECH IT systems updated.	IT system	0	2022	-	1	-	1	2	ADUANAS certificate of conformity
3.1.2 Data Protection Center equipped.	Equipment	0	2022	-	-	1	-	1	ADUANAS installation and operating report, including energy efficiency requirements
3.1.3 Improved communications networks.	Equipment	0	2022	-	-	1	-	1	ADUANAS installation and operating report, including energy efficiency requirements
3.1.4 Control and Monitoring Center with equipment procured.	Equipment	0	2022	-	-	-	1	1	ADUANAS installation and operating report, including energy efficiency requirements
Subcomponent 3.2. Design and implementation of information security (internal) and cybersecurity (external) strategy									
3.2.1 Governance and data management, access, and protection plan implemented.	Plan	0	2022	-	1		-	1	Approved ADUANAS report.
3.2.2 Equipment for perimeter information security acquired.	Equipment	0	2022	-	-	1	-	1	ADUANAS installation and operating report, including energy efficiency requirements

Country: Honduras

Division: INT/TIN

Operation No.: HO-L1235

Year: 2022

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Customs Administration of Honduras (ADUANAS)

Operation name: Institutional and Operational Strengthening of the Customs Administration

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the operation

<input checked="" type="checkbox"/> Budget	<input checked="" type="checkbox"/> Reporting	<input checked="" type="checkbox"/> Information system	<input type="checkbox"/> National competitive bidding (NCB)
<input checked="" type="checkbox"/> Treasury	<input type="checkbox"/> Internal auditing	<input type="checkbox"/> Shopping	<input checked="" type="checkbox"/> Other
<input checked="" type="checkbox"/> Accounting	<input checked="" type="checkbox"/> External control	<input type="checkbox"/> Individual consultants	<input type="checkbox"/> Other

2. Fiduciary execution mechanism

The borrower will be the Republic of Honduras. The executing agency will be the Customs Administration of Honduras (ADUANAS), which will execute all resources and carry out all procurement processes. Execution of the operation will be structured in accordance with the Institutional Capacity Assessment Platform (ICAP) recommendations, inasmuch as the executing agency does not have experience with IDB projects. Specified staff will be hired with experience in project procurement and financial execution, in accordance with profiles approved by the Bank.

3. Fiduciary capacity

Fiduciary capacity of the executing agency	According to the ICAP report, there are opportunities that must be addressed to ensure adequate administration of the operation.
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4. Fiduciary risks and risk response

Risk taxonomy	Risk	Risk level	Risk response
Institutional	Without expert technical assistance to manage projects at the beginning of the operation, ADUANAS may lack the required technical knowledge and fiduciary experience to execute this type of project, thereby leading to a delay in program execution.	Medium-high	<ol style="list-style-type: none"> Establishment of a team of consultants with expertise in project execution to support the program's fiduciary management, based on ICAP recommendations. Coordination with IDB to receive training on procurement policies, to enable ADUANAS to initiate processes that will subsequently be

			recognized in the framework of the program.
Financial economic	Without the guaranteed allocation of fiscal space to meet the financial requirements determined during planning, it would be impossible to fulfill the program's financial commitments, thereby affecting the program's execution schedule.	High	Involvement of the Department of Finance (SEFIN) and Public Credit in the annual institutional budget programming and preparation stages.

5. **Policies and guidelines applicable to the operation:** Contracting processes financed in whole or in part with Bank resources will be carried out in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank. PRM: document GN-2349-15 and document GN-2350-15 / FM: document OP-273-12 and their complementary guidelines.
6. **Exceptions to policies and guidelines:** Not applicable.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

Special contractual conditions precedent to the first disbursement: See details in the POD.
Exchange rate: Pursuant to the terms of Article 4.10 of the General Conditions, the parties agree that the applicable exchange rate will be the rate indicated in subparagraph (b)(ii) of said Article. To determine the equivalency of expenditures in local currency from the local contribution, or of expenditure reimbursements from the loan proceeds, the agreed exchange rate will be the rate in effect on the date on which the borrower, executing agency, or any other individual or legal entity to which the authority to incur expenditures is delegated effectively makes the respective payments to the contractor, supplier, or beneficiary.
The program's audited financial reports: The executing agency will submit the program's annual audited financial reports pursuant to the agreed terms of reference within 120 days after the end of the executing agency's fiscal year. Final financial reports will be submitted within 120 days after the date of the last disbursement. Annual audited financial statements will be prepared by an independent auditing firm that is acceptable to the Bank. The Bank may request additional reports when it deems these to be appropriate.
[Other] Not applicable.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Bidding documents	The Bank's standard bidding documents or the documents agreed upon between the executing agency and the Bank for a specific procurement item will be used for works, goods, and nonconsulting services procured in accordance with the procurement policies (document GN-2349-15) and subject to international competitive bidding (ICB). Likewise, the selection and contracting of consulting services will be in accordance with the corresponding policies (document GN-2350-15) using the standard request for proposals issued by the Bank or agreed upon between the executing agency and the Bank for a specific selection process. The document approved at the national level
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		will be used when applying private bidding for amounts eligible under shopping. The project's sector specialist is responsible for reviewing the technical specifications and terms of reference for procurement during preparation of the selection processes. This technical review may be ex ante and is independent of the procurement review method.								
<input checked="" type="checkbox"/>	Use of country systems	In Honduras, use of the Electronic Catalogue, Framework Agreement, and Private Bidding for contracts that do not exceed the country's threshold for shopping has been approved by the Board of Executive Directors. These modalities can be used for the procurement of goods, works, and services in amounts that do not exceed the threshold for shopping established by the Bank for Honduras. The operation's procurement plan will indicate which procurement processes will be carried out through the country system under the approved scope. If the Board of Executive Directors expands the scope of approval for use of the country system, the expanded scope will be applicable to the operation.								
<input checked="" type="checkbox"/>	Procurement supervision	<p>Given the executive agency's lack of experience with procurements governed by IDB policies, the supervision method will be ex ante, except in cases where ex post supervision is justified. For procurements executed through the country system, the country's supervision system will be used. The supervision method ([i] ex ante, [ii] ex post, or [iii] country system) must be determined for each selection process. Ex post reviews will occur on an annual basis, in accordance with the project's supervision plan, subject to changes during execution. Ex post review reports will include, when possible, at least one physical inspection to verify that procurement has been carried out, while the sector specialist will be responsible for verifying quality and compliance. Ex post verification will apply to at least 10% of the contracting envisaged under this review modality. The following may be subject to ex post review:</p> <table><tr><th>Executing agency</th><th>Works</th><th>Goods / services</th><th>Consulting services</th></tr><tr><td>ADUANAS</td><td>None</td><td>Amount effective in Honduras for shopping</td><td>Individual consulting services selected through competitive processes</td></tr></table>	Executing agency	Works	Goods / services	Consulting services	ADUANAS	None	Amount effective in Honduras for shopping	Individual consulting services selected through competitive processes
Executing agency	Works	Goods / services	Consulting services							
ADUANAS	None	Amount effective in Honduras for shopping	Individual consulting services selected through competitive processes							
<input checked="" type="checkbox"/>	Records and files	The project execution unit will be responsible for keeping records and original supporting documentation for procurement processes carried out with loan proceeds in an appropriate and safe place, and for maintaining records in accordance with the established procedures.								

Main procurement items

Description of procurement	Selection method	New procedures / tools	Estimated date	Estimated amount
Goods				
Procurement of computer equipment (laptops)	International competitive bidding (ICB)		2024	1,500,000
Enterprise Resource Planning (ERP) Procurement	ICB		2023	1,500,000
Procurement of scanners	ICB		2024	11,800,000
Procurement of laboratory equipment	ICB		2023	1,100,000
Procurement of equipment for primary Data Processing Center	ICB		2024	2,000,000
Alternate data processing site (cloud or Government Civic Center)	ICB		2023	2,000,000
Strengthening internet infrastructure and channels in the country's border posts (Wi-Fi), Palmerola, and the Government Civic Center, and equipment for an independent network in the Government Civic Center	ICB		2023	2,150,000
Procurement of equipment and software for the Monitoring and Control Center, and procurement and implementation of management control system	ICB		2024	9,700,000
Firms				
Consulting services to design and implement automated ex post audit management module and special regimes module	Quality- and cost-based selection (QCBS)		2025	525,000
Consulting services to reengineer customs processes and develop standard operating procedures	QCBS		2024	1,000,000

Description of procurement	Selection method	New procedures / tools	Estimated date	Estimated amount
Consulting services to conduct diagnostic assessment of technological vulnerabilities, develop a conceptual and regulatory information security framework, and define the model for handling, accessing, and protecting data with ISO 27001 and 27005 certifications	QCBS		2023	500,000
Consulting services to design and implement risk management system	QCBS		2023	1,400,000
Consulting services to update the technological architecture of SARA and PECH, including the automation of processes and implementation of interoperability services	QCBS		2023	4,500,000
Design programs and execute training on the origin, classification, and value of goods	QCBS		2024	1,225,000
Individuals				
Consultants in the project execution unit	Selection of individual consultants (3CV)		2023	1,356,000

Procurement plan ([required link 3](#)).

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

<input checked="" type="checkbox"/>	Programming and budget	Challenges are anticipated in budget execution due to potential restrictions in allocations, which could affect execution timelines.
<input checked="" type="checkbox"/>	Treasury and disbursement management	Prior to the first disbursement, a special account will be opened at the Central Bank of Honduras, with its corresponding ledger account, which will be part of the Single Treasury Account. The disbursement mechanism will be through online (electronic) disbursements, and the currency used to manage the operation will be U.S. dollars. The applicable exchange rate will be the rate in effect on the date of payment in local currency [option (b)(i) of Article 4.10 of the General Conditions of the Loan Agreement will apply]. The operation's financial planning, in the absence of a specific exception, will be based on six-month periods. The preferred disbursement method will be advance of funds, although others may be used. A new disbursement will only be made once 70% of the cumulative total of previous disbursements has been substantiated; if flexibility is required, it will be provided prior to an evaluation by the project team.
<input checked="" type="checkbox"/>	Accounting, information systems, and reports	The operation will follow the accounting regulations defined by the International Financial Reporting Standards. Accounting records will be based on UPEX/SIAFI as a technology platform, and the accrual method will be used for execution and cash base for reports. Reports

		will be generated by the UEPEX/SIAFI system. To complement the policies and guides that apply to the operation, the program Operating Regulations will be used, including the documented definition of workflows and internal controls.
<input checked="" type="checkbox"/>	Internal control and internal auditing	The internal auditing function to be applied to the project will be defined in the program Operating Regulations, executed by the executing agency, and supervised by National Office for Integral Development of Internal Control (ONADICI), the Court of Audit (TSC), and the project auditor.
<input checked="" type="checkbox"/>	External control and financial reporting	The borrower and/or executing agency will select and contract external auditing services pursuant to the terms of reference agreed upon in advance by the borrower and/or executing agency and the Bank. These will define the type, timing, and scope of the reviews. The external auditor that is selected and the auditing regulations to be applied will be acceptable to the Bank. In accordance with the operation's nature and risks, which may change during the project's execution based on the results of the Bank's supervision, audited financial reports must be prepared by a firm considered eligible by the Bank. Audited financial statements will be required to meet the financial information exigencies of external auditing. These will be submitted within 120 days after the end of the annual fiscal period. The final audited financial statements will be submitted within 120 days after the anticipated date of the last disbursement.
<input checked="" type="checkbox"/>	Financial supervision of the operation	The Bank's fiduciary team will supervise the operation. This team will also be responsible for periodic on-site reviews and support and desk reviews, subject to changes during execution, which will consist of detailed reviews of the project's accounting and finances. For this purpose, the Bank may contract an audit firm.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/22

Honduras. Loan ____/BL-HO to the Republic of Honduras
Institutional and Operational Strengthening of the Customs Administration

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 project "Institutional and Operational Strengthening of the Customs Administration". Such financing will be chargeable to the Bank's Ordinary Capital (OC) resources in the following manner: (i) up to the amount of US\$17,500,000, subject to concessional financial terms and conditions ("Concessional OC"); and (ii) up to the amount of US\$32,500,000, 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 ____ 2022)