

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

AGRICULTURAL CORRIDOR ROAD PROGRAM (TEGUCIGALPA – PUERTO CASTILLA)

(HO-L1033)

LOAN PROPOSAL

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Electronic Links
Required
1. Procurement plan http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1977408
2. Annual work plan (AWP) http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1973909
3. Monitoring and evaluation arrangement http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1977392
4. Environmental and social management report (ESMR) on the program http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1970701
5. Economic evaluation of the program http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1972717
6. Program implementation plan http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1977478

ABBREVIATIONS

AWP	Annual work plan
DGC	Dirección General de Caminos [Road Authority]
ESMP	Environmental and Social Management Plan
ESMR	Environmental and Social Management Report
FSO	Fund for Special Operations
GGPE	Grupo Gerencial Proyectos y Ejecución [Project and Execution Management Group]
IDB	Inter-American Development Bank
OFID	OPEC Fund for International Development
OPEC	Organization of the Petroleum Exporting Countries
SOPTRAVI	Ministry of Public Works, Transportation, and Housing

PROJECT SUMMARY
HONDURAS
AGRICULTURAL CORRIDOR ROAD PROGRAM (TEGUCIGALPA – PUERTO CASTILLA)
(HO-L1033)

Financial terms and conditions				
Borrower: Republic of Honduras			Financing (OC)	Financing (FSO)
Executing agency: Ministry of Public Works, Transportation, and Housing (SOPTRAVI)		Amortization period:	30 years	40 years
Source	Program (US\$)	Grace period	5.5 years	40 years
IDB (OC)	35,000,000	Disbursement period:	5.5 years	5.5 years
IDB (FSO)	15,000,000	Interest rate:	Adjustable	0.25%
OPEC	25,000,000	Inspection and supervision fee:	*	N/A
Local counterpart	2,000,000	Credit fee:	*	N/A
Total	77,000,000	Currency: United States dollar		
Program at a glance				
Objectives and description:				
The general objective of the program is to bring about a sustainable improvement in freight and passenger transportation conditions in the agricultural corridor. The specific objectives are to: (i) reduce operating costs and travel times; (ii) strengthen regional integration within the country by improving accessibility; and (iii) improve the living conditions of the population in program areas.				
To achieve these objectives, the program is divided into the following components: (i) administration, studies, and supervision; (ii) rehabilitation and surfacing works in the agricultural corridor between Gualaco and Puerto Castilla (approximately 180 km), including rehabilitation of bridges and improvement of road safety; (iii) support for management capacity and tools; and (iv) routine maintenance by microenterprises with indigenous people living in the area. The agricultural corridor connects the capital, Tegucigalpa, with the Department of Olancho and the Honduran Atlantic coast.				
Special contractual conditions: (a) Precedent to the first disbursement: (i) demonstrate that a firm has been hired to manage and administer the project (paragraph 2.6), and (b) during project implementation: (i) submit the AWP and maintenance obligations for the works and goods (Electronic link 3 - Monitoring arrangement); and (ii) the environmental license must be obtained, and the social and environmental management plans (paragraph 2.3) prepared before the bidding on the works begins.				
Exceptions to Bank policies:				
None				
Project qualifies as:		SEQ <input type="checkbox"/> PTI <input checked="" type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/>		
Procurements: Program procurements will be performed in accordance with the Bank's policies on the procurement of works and goods financed by the IDB (document GN-2349-7), of July 2006, and its policies on the selection and contracting of consultants financed by the IDB (document GN-2350-7), of July 2006.				
Verified by ESR on: 26 November 2008				

- * The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% of the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND MONITORING OF OUTCOMES

A. Background and outcomes

- 1.1 **Background.** Road infrastructure. Honduras has 14,036 km of roads, of which 3,276 km (23%) are in the primary network, 2,555 km (18%) in the secondary network, and 8,205 km (59%) in the rural network. Seventy-eight percent (78%) of the country's main roads and 16% of its secondary roads are paved. Land transport is the principal mode of conveyance for people and goods. Network indicators point to a low density of both paved roads and total roads in terms of population and surface area, making Honduras road one of the countries with the lowest levels of road development in Central America.
- 1.2 The extension and condition of road infrastructure according to its driving surface is shown in the table below.

The road system in Honduras, by driving surface and condition in 2006 (kms)

Category	Paved roads				Unpaved roads			Total road system	
	Asphalt concrete	Hydraulic concrete	Double surface treatment	Subtotal	Select fill	Dirt	Subtotal	Total	Percentage
Good	473	42	284	799	2,812	354	3,166	3,965	28%
Average	974	185	367	1,526	4,088	336	4,424	5,950	43%
Poor	564	7	80	651	2,738	733	3,471	4,122	29%
Total official system	2,011	234	731	2,976	9,638	1,423	11,061	14,036	100%
Percentage	67%	8%	25%	100%	87%	13%	100%	-	-
				21%			79%	100%	-

- 1.3 Although agriculture is the most important sector of the Honduran economy, a sustainable expansion of production is constrained by several factors. These include transportation problems and difficulties to access most of the country's productive areas due to substandard road infrastructure within and to those areas. The most productive areas are located in the Departments of Atlántida (Aguan valley), Olancho (Agalta and Guayape valleys), and El Paraíso (Jamastrán valley), which include livestock areas, and agricultural areas that produce bananas, coffee, African oil palm, corn, beans, foods, vegetables, fruits, and other products. The Bank-financed Rural Business Development Program (PRONEGOCIOS-1919/BL-HO) supplements this program by supporting agricultural productivity and competitiveness in the Department of Olancho.
- 1.4 The Ministry of Public Works, Transportation, and Housing (SOPTRAVI) is responsible for the formulation, coordination, execution, and evaluation of policies related to the road sector, public works concessions, urban planning, air, water, and land transport, and the housing sector. Responsibility for the road sector at the executive level lies with: (i) the Road Authority (Dirección General de Caminos - DGC) for the construction of road works and road system management, with the

support of the Project and Execution Management Group (GGPE), and (ii) the Highway Fund,¹ which is charged with the routine, periodic and emergency maintenance of the road system. The Highway Fund is a deconcentrated agency that launched operations in 2000 with the principal objective of ensuring financial sustainability and the effective, uninterrupted performance of road maintenance. The table below lists the allocations to the fund and the scope of the road system serviced, showing an increasing trend in budgetary assignment and service of the road system since the Fund was created.

Historical record of physical service

Year	Allocations to Highway Fund (US\$ million)	Percentage increase	Official network (km)	Nº of km serviced	Percentage of network serviced
2000	28.0		13,603	2,837	21%
2001	32.4	15%	13,603	4,587	34%
2002	30.1	-7%	13,603	5,739	42%
2003	33.0	10%	13,603	7,479	55%
2004	36.1	9%	13,720	6,705	49%
2005	37.0	3%	13,720	6,916	50%
2006	38.5	4%	14,036	5,844	42%
2007	45.7	19%	14,036	7,250	52%
2008	55.2	34%	14,036	11,259	80%

- 1.5 The Environmental Management Unit (UGA) is responsible for the environmental and social aspects of road project management. Pursuant to Honduran environmental legislation, it conducts environmental and social impact assessments that are submitted to the regulatory authority, the Ministry of Natural Resources and Environment (SERNA), for project classification and the corresponding environmental impact mitigation plans.
- 1.6 **Program rationale and strategy.** The government plan (Plan de Gobierno) establishes specific objectives for improving road infrastructure in order to make the country more competitive and to promote economic activity. In that context, priority has been given explicitly to the reconstruction, rehabilitation, paving, expansion, and maintenance of the country's primary road system. The priorities include rehabilitating and paving the agricultural corridor in order to improve production center access to markets. This corridor begins in Tegucigalpa and ends

¹ The Road Fund was created by Legislative Decrees 131/93 and 286/98 of the National Congress, with the following objectives: (i) ensuring financial support and continuous execution of maintenance service for the road system; (ii) attracting financial resources for routine and periodic maintenance of the road system; (iii) promoting greater private-sector participation in resolving problems affecting road maintenance service; and (iv) promoting the creation of jobs and sources of employment in rural areas through the microbusiness program (paved system) and the day laborer program for cleaning the roadway (unpaved system).

at Puerto Castilla on the northern coast, and links the departments of Francisco de Morazán, Olancho, and Colón; in addition, the agricultural corridor will be integrated into the tourism corridor (El Progreso - Tela - Ceiba - Sabá - Tocoa - Puerto Castilla). The project is of great importance to the country because it will upgrade transportation conditions (see map). Future plans include expanding the corridor southward to connect with the departments of Valle and Choluteca. Rehabilitation of this particular stretch is part of a government effort to upgrade the highway between Tegucigalpa, Juticalpa, and Catacamas, and to improve communication between the capital and Aguan valley. In general, current problems are related to low driving speeds owing to the poor condition of the stretches under study (coat of select fill), which generates high vehicle operating costs and long travel times.

- 1.7 Benefits include improved accessibility and serviceability, shorter travel times, lower operating costs, and greater road safety. More importantly, the improvements will give rise to a wider, more varied supply of transportation services, while improving access to product and goods markets, as well as to social services, among other things. This accessibility will bolster the government's efforts to make the country more competitive.
- 1.8 **The country's strategy** is to strengthen, expand, and improve road infrastructure through actions that will reduce travel costs and improve accessibility and road safety as a means of enhancing competitiveness. One of the priorities set out in the government plan is to rehabilitate, construct, upgrade, and maintain those segments of road that support tourism and production. SOPTRAVI has been working to develop a short- and medium-term investment plan that focuses on developing the agricultural corridor in order to increase connectivity and economic competitiveness.
- 1.9 The government plan accords priority to maintaining, rehabilitating, constructing, and upgrading the road network to improve competitiveness, and to serve as a vehicle for expanding and sustaining the country's tourism sector. Together, these two sectors will strengthen socioeconomic and cultural development in rural areas, raising the quality of life and income levels, which will contribute directly to poverty reduction.
- 1.10 **The Bank's strategy.** The program is consistent with the Bank's country strategy with Honduras for 2007-2010,² the general purpose of which is to help consolidate a process of inclusive economic growth that promotes poverty reduction, improve living conditions, and creates opportunities for sectors that have been bypassed by development. The Bank's lines of action for contributing to the general objective are: (a) an improved investment climate; (b) greater competitiveness; (c) human capital development; and (d) institutional strengthening and risk management. The Bank's strategy within the second line of action is to: (i) support programs for basic infrastructure investment in the areas of transportation and energy.

² IDB: Country Strategy with Honduras (2007-2010)

- 1.11 The proposed program is consistent with the Bank's country strategy with Honduras to: (i) support rehabilitation and expansion of the transportation system to facilitate and guarantee the development of goods and products from and to the centers of consumption, production, and export; and (ii) improve physical and economic integration in rural areas that have traditionally been bypassed by development, contributing to poverty reduction efforts by facilitating expanded coverage and efficient social services.
- 1.12 **Rationale for the Bank's participation.** With regard to road infrastructure, there is a gap between the supply and demand for servicing the main road system under the responsibility of SOPTRAVI. With a physical scope of approximately 180 km (5% of the primary road system), the program will support efforts to restore roads, in line with the objectives and policies set out in the government plan and the Bank's strategy. The road infrastructure needs: (i) an improvement in the serviceability of the road system; (ii) increased connectivity between the road transportation systems; and (iii) medium- and long-term sustainability of rehabilitation, maintenance, and operation efforts.
- 1.13 This program addresses the need to provide rural communities with transportation infrastructure and services that ensure permanent access to social and government services, economic and business services, and employment and income generation opportunities, by providing rural roads that meet technical standards in line with demand and that, with proper maintenance, will provide continuous service.

B. Objective, components, and cost

- 1.14 The general objective of the program is the sustainable improvement of freight and passenger transportation conditions in the agricultural corridor. The specific objectives are: (i) to reduce operating costs and travel times; (ii) to strengthen regional integration within the country by improving accessibility; and (iii) to improve the living conditions in the program area.
- 1.15 To achieve these objectives, the program has the following components: (i) administration, studies, and supervision; (ii) rehabilitation and paving of roads in the agricultural corridor between Gualaco and Puerto Castilla (approximately 180 km), including rehabilitation of bridges and improvement of road safety; (iii) support for management capacity and tools; and (iv) routine maintenance by maintenance microenterprises with indigenous people living in the area. The agricultural corridor connects the capital, Tegucigalpa, with the Department of Olancho and the Honduran Atlantic coast.
- 1.16 The Telica-San Francisco de la Paz stretch (21.5 km) has been rehabilitated with the works recently completed. The San Francisco de la Paz-Gualaco stretch (30.7 km) is currently being rehabilitated, with own resources. The program will rehabilitate the Gualaco - Bonito Oriental - Puerto Castilla highway, branch road to Trujillo.

- 1.17 The expected cost of the program is US\$77 million, of which the Bank will finance US\$50 million and the OPEC Fund for International Development (OFID) US\$25 million. The government will provide local counterpart funding of US\$2 million to cover financial fees and taxes. The main outcomes anticipated, which are key to making the economy more competitive, are: (i) improved serviceability of the agricultural corridor and better access for products from that area to the center of the country and the Atlantic coast; (ii) reduced operating costs and shorter travel times; and (iii) lower road accident rates.



- 1.18 The program components are:

Component 1 – Engineering and administration

- 1.19 *Engineering studies and designs:* cover expenditures related to the technical studies (engineering, environmental, social, and economic) for the Bonita Oriental - Puerto Castilla stretch, Trujillo branch road. *Administration:* includes the cost of contracting the management firm for the program (paragraph 2.6); *other studies* and consulting services required for the other program components and for preinvestment studies for future operations. *Supervision:* will finance contracts with consulting firms specializing in the technical supervision of road works to supervise and ensure compliance with work schedules, work quality, and technical specifications of program works. *Audits:* will finance the cost of independent financial audits as well as socioenvironmental audits.

Component 2 – Support for management capacity and tools

- 1.20 This component aims to: (i) upgrade SOPTRAVI management capacity for transportation infrastructure and for developing and implementing road management systems; provide computer equipment, and training in the socioenvironmental aspects of road projects; review and update technical and socioenvironmental manuals and guides; (ii) support road planning by means of, among other things, a road inventory of at least 1,000 km of paved road; providing SOPTRAVI staff with training in the use of the HDM4 model; improving technical and financial management of the road system to permit inventories of the maintenance needs of each highway, quantify the maintenance works required, estimate the financial requirements for road maintenance, and supervise and update the maintenance tasks performed on each network, holding training workshops,

etc.; (iii) update the technical aspects of the work, particularly those related to monitoring the condition of the rehabilitated system and road planning systems; and (iv) assist in the outsourcing of road status indicator measurement to a university to be selected, including the measuring equipment (deflectometer, road roughness meter, others), to be procured out of the proceeds of loan 1907/BL-HO.

Component 3 – Direct costs

- 1.21 The program includes the rehabilitation of 180 km of roads in the agricultural corridor, road safety activities, and routine maintenance, as follows:
- 1.22 Rehabilitation of the agricultural corridor: The program will rehabilitate approximately 180 km of roads in the agricultural corridor between Gualaco and Puerto Castilla. The purpose of the works is to restore physical access by providing roads with operating and serviceability conditions suited to vehicles using that route. This will include road surfacing, patching, double asphalt surface treatment, landslide and earth slippage debris removal, construction of small slope stabilization and containment works, drainage system improvement, sewer cleaning, and erosion control ditches. It also includes installing traffic signs and road safety devices in population centers, such as pedestrian crossings and speed bumps. Bridges on the road will also be rehabilitated.
- 1.23 Road maintenance: Road maintenance will begin immediately after completion of highway rehabilitation. Up to two years of road maintenance will be financed for sections of road serviced by the program. To this end, routine maintenance microbusinesses will be created and contracted through the Road Fund, with a view to involving the Pech indigenous community. This will include development of practical, low-cost routine maintenance procedures. Under this component, maintenance costs, the organization of routine maintenance microbusinesses, integration, performance, and contracting systems will be analyzed.

Components 4 and 5 – Contingencies and financial expenses

- 1.24 *Contingencies and financial expenses:* In this category, 8% is earmarked for contingencies associated with road works and financial expenses.
- 1.25 **Costs.** The total cost of the program is US\$77 million, of which US\$50 million (64.9%) will be financed by the Bank and US\$25 million (32.5%) by the OFID. The remaining US\$2 million (2.6%) will be in the form of local counterpart funding. Estimated program costs by component, in thousands of US dollars, are provided in the table below:

Component	IDB	OFID	Gov't. Honduras	Total
1. Engineering and administration	5,200	2,500	200	7,900
1.1 Engineering studies and designs	400			400
1.2 Administration	1,000		200	1,200
1.3 Other studies and preinvestment	1,000			1,000
1.4 Works supervision	2,500	2,500		5,000
1.5 Financial and environmental audits	300			300
2. Support for management capacity and tools	1,800	-	-	1,800
2.1 Environmental and social management framework	300			300
2.2 Road planning support	1,500			1,500
3. Direct costs	39,500	22,500	-	62,000
3.1 Rehabilitation of the Gualaco – Bonito Oriental highway	28,500	22,500		51,000
3.2 Rehabilitation of the Bonito Oriental – Puerto Castilla highway	10,000			10,000
3.3 Maintenance of the Gualaco – Puerto Castilla highway	1,000			1,000
4. Contingencies	3,500			3,500
5. Financial expenses		-	1,800	1,800
5.1 Commitment fee			600	600
5.2 Interest			1,200	1,200
Total	50,000	25,000	2,000	77,000

C. Results matrix and main indicators

- 1.26 The expected outcomes are related to providing sustainable conditions for the movement of people and goods. Specifically, the program is expected to contribute to improving physical access and serviceability, which will foster greater use of and access to public and social services, lower transportation costs, shorter travel times, and increased service dependability. All these benefits have been evaluated and quantified in other similar programs. The rural population will be the principal beneficiary, and SOPTRAVI will directly benefit from the institutional strengthening efforts, which will lead to more effective road management.
- 1.27 The main expected outcomes of this operation are: (i) permanent accessibility of the road rehabilitated under the program; (ii) shorter travel times, and (iii) increased traffic. Expected outcomes in the medium term include increased economic activity, diversification and expansion of production, and poverty reduction.
- 1.28 The project qualifies a poverty-targeted investment, applying the criterion of geography, insofar as 75% of the population in the program area – the eastern part of the country – lives below the poverty line and 58% of those below the poverty line live in extreme poverty.

II. FINANCIAL STRUCTURE AND MAIN RISKS

A. Financial instruments

- 2.1 The program will be executed as an investment loan, and the disbursement period will be five and one half years.

B. Environmental and social risks; mitigation measures

- 2.2 The engineering aspects of the works will be simple because the rehabilitation of the primary road system involves improving and paving an existing road, and there are no right-of-way issues. No significant negative socioenvironmental impacts are expected that could put at risk the natural environment or the people living in the works' direct and indirect areas of influence. Environmental management plans will be implemented for each stretch of the works in order to cover all impacts related to civil works of this nature. Specific mitigation measures tailored to the conditions of the area include: (i) the possible impact on the Pech indigenous community in the El Carbón area, for which the program includes a component to support the creation of road maintenance microbusinesses and the strengthening of management capacity in the community; (ii) the possible expropriation of a patch of dry forest, for which a study will be financed to assess its ecological significance and to formulate management proposals, should they be necessary; and (iii) activities to support effective forest management and development in the municipios within the project area. The project's environmental and social management report³ (ESMR), included as an annex to this document, provides the relevant details. The budgets for mitigating the impacts identified and for formulating the management plans are included in the budgets of the individual contracts.
- 2.3 Additional risks identified include possible noncompliance with environmental and social performance standards and parameters, an increase in the nature of the impact of natural disasters, and the absence of effective contingency plans. To mitigate these risks, in addition to financing the specific programs, program funds will be used to strengthen environmental and social management in SOPTRAVI, through management and training activities, and to strengthen and upgrade socioenvironmental management and natural disaster response capacities. Consultants will be engaged to ensure effective socioenvironmental supervision of the works, and to prepare technical manuals on the social and environmental management of road works. SOPTRAVI will need to arrange for environmental licenses for each section put out to tender, and to prepare and monitor the environmental management plans.
- 2.4 In order to reduce the risk posed by tropical storms, engineering designs will be reviewed to ensure that water management systems are effective. During the operation, the microbusiness maintenance component will implement routine

³ <http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1970701>

- maintenance practices to ensure that drainage systems are kept in good working condition.
- 2.5 **Fiduciary risk.** Given the executing agency's experience with similar programs, no institutional or trust problems are anticipated. SOPTRAVI executes very large budgets and has experience executing works with the private sector. It will also receive support from private firms in supervising the works. Institutional strengthening actions have been included to reinforce its organizational structure and management capacity.
- 2.6 **Execution risks.** Possible risks during execution include problems that may be caused by inadequate information on the cost of the works, possible delays or inconsistencies in cash flow information, and weak internal capacity in SOPTRAVI to run the program with own available resources.⁴ To mitigate these risks, it has been agreed: (i) to contract a national management firm to assist SOPTRAVI throughout program execution; (ii) to implement the UEPEX-SIAFI and SEPA systems, and to include resources for the training of SOPTRAVI staff; and (iii) to create a reliable works and maintenance cost database, coordinated jointly by SOPTRAVI and the Road Fund.
- 2.7 The program will also earmark resources to strengthen SOPTRAVI's capacity to plan and manage the road network under its responsibility, and to review the engineering designs. Environmental and technical risks will be minimized with the implementation of execution and control designs and procedures that guarantee environmental protection as well as the durability and preservation of rehabilitated roads.
- 2.8 **Other risks.** There is a risk that the OFID will not approve the cofinancing for this program, which would reduce the amount of funding available. Should that occur, the program will continue to be viable, although it would be necessary to limit its scope to construction of the Gualaco-San Esteban and San Esteban-El Carbón sections. To complete the corridor works, it would then be necessary to program a supplementary operation for the strategy with Honduras.
- 2.9 **Economic viability.** To evaluate the corridor, the HDM-III model was run using projected data on vehicular traffic to estimate the savings in vehicle cost and travel time. Assuming a double asphalt road surface treatment, the analysis yielded an internal rate of return of 18.7% and a net present value (NPV) of US\$30 million, with the flows discounted at 12%. Scenarios of a 20% cost increase or a 20% reduction in vehicle traffic yields economic rates of return of approximately 15%.⁵

⁴ SOPTRAVI's institutional capacity was assessed for some recently approved operations (1907/BL-HO; 1910/BL-HO, and 2017/BL-HO), and the findings indicated the need to include the support of a management firm.

⁵ Economic assessment report: <http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1972717>

- 2.10 **Investment maintenance and sustainability arrangement:** Experiences in other countries have shown that routine maintenance is sufficient for a road to achieve its expected useful life, and to give stability to the technical work involved in rehabilitation of the roads. As this program promotes that methodology, it includes the contracting and training of microbusinesses to provide routine maintenance.

III. IMPLEMENTING PLAN AND ADMINISTRATION

A. Summary of implementing measures

- 3.1 The borrower is the Republic of Honduras, and SOPTRAVI will be the executing agency, acting through the Project and Execution Management Group (GGPE) which comes under the authority of the Roads Authority (DGC). The GGPE receives support from a specialized firm, financed with resources from loans financed earlier by the IDB.
- 3.2 **Execution arrangement.** SOPTRAVI, through the GGPE, will be responsible for procurement of the works, goods, and services; supervision of work contracts and studies; and monitoring compliance with the corresponding technical and environmental standards. The Road Fund will be responsible for all maintenance-related activities. As far as the administration of the program is concerned, the executing agency will also be responsible for: (i) preparing the annual work plans (AWP); (ii) formulating the annual budget; (iii) financial management and especially financial programming; (iv) verifying the budgets of the works; (v) preparing the bidding forms; (vi) coordinating and evaluating the execution of works; and (vii) coordinating arrangements with the Ministry of Finance (SEFIN) to ensure timely allocation of matching funds.
- 3.3 **Contract supervision.** SOPTRAVI has sufficient experience supervising road rehabilitation contracts. In this program, technical and environmental supervision will be performed by private consulting firms with proven experience in the matter. An environmental specialist will be designated to ensure effective compliance with the specifications of the bidding conditions and environmental manuals.
- 3.4 **Procurement of goods and services.** The procurement of goods and services, works, and consulting services will be carried out in accordance with the Bank's policies (documents GN-2349-7 and GN-2350-7). The enclosed procurement plan spells out the procurement processes of the program.

B. Summary of measures to monitor outcomes

- 3.5 Evaluation and monitoring. The monitoring arrangement includes administration missions, semiannual progress reports, annual work plans, and annual external audits. The Bank will send at least one annual administration mission to ensure effective technical, environmental, financial, and operational monitoring. SOPTRAVI will submit semiannual progress reports to the Bank that describe the progress made under each component and overall program performance, keyed to the indicators agreed upon in the results matrix.

- 3.6 SOPTRAVI will prepare periodic supervision reports with information pertaining to outcomes indicators and intermediate indicators. Specifically, the reports presented by SOPTRAVI will include: (i) a description of the activities carried out; (ii) updated timetables of physical execution and disbursements; (iii) degree of compliance with the implementation indicators agreed upon; (iv) a schedule of activities for the following six-month period; (v) a summary of the program's financial performance and the expected flow of funds for the following six-month period; (vi) a section identifying possible developments or events that may endanger program execution in the future (based on the main risks identified); (vii) a section on the program's socioenvironmental management; and (viii) in the annual closing report, the AWP and an updated procurement plan.
- 3.7 The GGPE, which will be responsible for collecting the data and information needed to monitor program development, has the capacity to collect the information and prepare the progress reports. Outcomes will be evaluated according to objective technical indicators set out in the results framework, to be determined before, during, and after program execution. This information will be used to update the Project Performance Monitoring Report (PPMR).
- 3.8 **Revolving fund.** A revolving fund equivalent to 5% of the loan will be created in accordance with Bank procedures for the purpose of making program disbursements. SOPTRAVI will submit to the Bank semiannual reports on the status of the revolving fund within 60 days after the close of each semiannual calendar period; it will also oversee use of the fund and prepare the disbursement requests on behalf of the borrower.
- 3.9 **External audit.** During the execution period, SOPTRAVI will submit the program's financial statements to the Bank on an annual basis. The external audit will be performed by a firm of independent auditors acceptable to the Bank, in accordance with the Bank's requirements and based on the guidelines established in the terms of reference for external audits of Bank-financed projects (document AF-400 or as superseded). The procedures set out in the bidding documents for external audits (document AF-200 or as superseded) will be used in selecting and contracting the firm. Audit costs will be included in the cost of the program, and financed out of the proceeds of the loan.
- 3.10 **Environmental monitoring.** A supervision firm with expertise in social concerns, occupational safety and health, and environmental matters will be engaged to provide support during the execution of the works. This will be supplemented by annual environmental audits by qualified external firms.

Banco Interamericano de Desarrollo (BID)

ANEXO CONFIDENCIAL

CONFIDENTIAL ANNEX

INE-TSP@iadb.org

**AGRICULTURAL CORRIDOR ROAD PROGRAM
(TEGUCIGALPA – PUERTO CASTILLA) (HO-L1033)
RESULTS MATRIX/INDICATOR MATRIX**

Objective	The general objective of the program is to bring about a sustainable improvement in freight and passenger transportation conditions in the agricultural corridor. The specific objectives are to: (i) reduce operating costs and travel times; (ii) strengthen regional integration within the country by improving accessibility; and (iii) improve the living conditions of the population in the program area.		
Outcome indicator	Baseline	Target	Observations
Lower vehicle operating costs			
- Reduce vehicle operating costs between Gualaco and San Esteban			
Car	US\$0.50	US\$0.28	
Bus	US\$0.54	US\$0.43	
Truck: Medium	US\$0.64	US\$0.54	
Heavy	US\$0.97	US\$0.72	
Shorten travel time			
- Reduce average travel time for users, between Gualaco and San Esteban (42 km), by 30%.	60 minutes	42 minutes	
- Reduce average travel time for users, between San Esteban and Bonito Oriental (88 km), by 33%.	132 minutes	88 minutes	
- Reduce average travel time for users, between Bonito Oriental and Trujillo (50.8 km), by 26%.	66 minutes	50 minutes	

	Base	2010	2011	2012	2013	2014	
Component. Civil Works							
<u>Outputs</u>							
- Rehabilitation Gualaco-San Esteban highway	km	13	21	8			
- Rehabilitation San Esteban-Bonito Oriental highway	km	26	44	18			
- Paving of Bonito Oriental – Pto Castilla –Trujillo highway	km			40	10		
<u>Final outcome</u>							
- Improved serviceability of road infrastructure in the agricultural corridor	8.0		6.0	4.3	2.0	2.0	Program-treated roads measured with the International Roughness Index (IRI)
Component. Support for management capacity and tools							
<u>Outputs</u>							
- Support for Road Planning Unit	0	20%	20%-	20%	20%	20%	
- Creation of microbusinesses	0	-	100%				
- Maintenance	0	-		129 km	169 km	179 km	
- Strengthen the Environmental and Social Management Unit (SOPTRAVI)	0	25%-	25%-	50%			
- Support for the Pech community			50%	50%			
- Support for road management (SOPTRAVI)	0	100%					
<u>Final outcome</u>							
- Improved management of road conservation for program-treated roads	Good: 0% Average: 40% Poor: 60%	20% 40% 40%	58% 12% 30%	94% 6% 0%	100% 0% 0%	100%	State of conservation of program-treated road system

AGRICULTURAL CORRIDOR ROAD PROGRAM FOR THE (TEGUCIGALPA – PUERTO CASTILLA) (HO-L1033)
SUMMARY PROCUREMENT PLAN

Description	Estimated cost (thousands US\$)	Procurement method	Review	Source and percentage of financing		Pre- qualification (Yes/No)	Estimated dates	Status
				IDB %	Local %		Publication of Specific Bidding Notice	
1. Works								
1. Rehabilitation works for the Gualaco-San Esteban- Bonito Oriental highway	51,000	ICB	ex ante	55%	45%	No	September 09	Pending

Description	Estimated cost (US\$)	Procurement method	Review	Source and percentage of financing		Pre- qualification (Yes/No)	Estimated dates	Status
				IDB %	Local %		Publication of Specific Bidding Notice	
2. Consulting services								
1. Supervision rehabilitation Gualaco-San Esteban– Bonito Oriental highway	3,600	QCBS	ex ante	50%	50 %	No	June 2009	Pending
2. Engineering designs for paving the Bonito Oriental - Pto Trujillo - Pto Castilla highway	200	QCBS	ex ante	100%		No	May 2010	Pending
3. Designs for road safety works	25	CQS	ex ante	100%		No	May 2009	Pending
4. Financial audit	200	QCBS	ex ante	100%		No	August 2009	Pending
5. Environmental audit	60	CQS	ex ante	100%		No	April 2010	Pending
6. Consulting services: forest management	100	CQS	ex ante	100%		No	June 2009	Pending
7. Consulting services: Pech community	38	CQS	ex ante	100		No	September 2011	Pending

Description	Estimated cost (US\$)	Procurement method	Review	Source and percentage of financing		Pre- qualification (Yes/No)	Estimated dates	Status
				IDB %	Local %		Publication of Specific Bidding Notice	
8. Planning, Evaluation and Management Unit (UPEG)	25	CQS	ex ante	100		No	February 2010	Pending
9. Contracting of management firm	1,000	QCBS	ex ante	100			November 2010	Pending

ICB: International competitive bidding; **LIB:** Limited international bidding; **NCB:** National competitive bidding; **Sh:** Shopping; **DC:** Direct contracting; **FA:** Force account; **QCBS:** Quality and cost-based selection; **QBS:** Quality-based selection; **FBS:** Selection under a fixed budget; **LCS:** least-cost selection; **CQS:** Selection based on consultant's qualifications; **SSS:** Single-source selection.