

## TC Contingent Recovery Document

HO-1373

### Structuring of the Concession of the Airports of La Ceiba, Roatán and San Pedro Sula

#### I. Basic Information for TC

▪ Country/Region:	HONDURAS
▪ TC Name:	Integral Structuring of the Concession of the Airports of La Ceiba, Roatán and San Pedro Sula
▪ TC Number:	HO-T1373
▪ Team Leader/Members:	Astesiano, Gaston Team Leader; Vieitez Martinez, Daniel Alternate Team Leader; Aguiluz Boquin, Alejandro Enrique (CID/CHO); Alvarez Pagliuca, Claudia Patricia (VPC/002); Castrosin, Maria Pilar (VPC/002); De La Bastida, Jose Luis (VPS/ESG); Lugo Moreno, Monica Bibiana (LEG/SGO);
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.N/A
▪ Date of TC Abstract authorization:	.09/09/2020
▪ Beneficiary:	Government of Honduras - Ministry of Infrastructure and Public Services (INSEP).
▪ Executing Agency and contact name:	Inter-American Development Bank - Astesiano, Gaston
▪ Donors providing funding:	Global Infrastructure Facility(FGI) <sup>1</sup>
▪ IDB Funding Requested:	US\$750,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	11/01/2020
▪ Types of consultants:	Firms
▪ Prepared by Unit:	VPC-VP - Countries
▪ Unit of Disbursement Responsibility:	VPC-VP - Countries
▪ TC included in Country Strategy (y/n):	Y
▪ TC included in CPD (y/n):	N
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; Economic integration; Institutional capacity and rule of law

#### II. Objectives and Justification of the TC

2.1 Honduras presents a complex panorama in the management of the PPP program as a result of an incipient law, a fragile and highly politicized institutional framework that depends directly on the Presidency of the Republic, with low levels of inter and intra-institutional coordination as, until December 2019, it concentrated all the stages of the cycle of a PPP project by COALIANZA, leaving without effect the role that the Grantor, the Fiscal Contingencies Unit and the SAAP should play. This

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<sup>1</sup> Although the official acronym of the Global Infrastructure Facility is GIF, in this document, the acronym FGI will be used for this Facility, as this is the official acronym for the IDB.

has generated mistrust among citizens and the private sector, especially putting investments in infrastructure and services in the country to the detriment.

2.2 By Decree 143-2010 and Regulation – Decree 02073-2010, Honduras' PPP program established an interaction between four actors to work in a coordinated manner in the process of evaluation, structuring, tendering and monitoring of PPP projects. These actors were: (1) the Commission for the Promotion of the Public-Private Partnership (COALIANZA), a deconcentrated entity of the Presidency of the Republic, with its own legal personality and heritage, responsible for managing and promoting PPP projects and processes; (2) the Superintendency of PPPs (SAPP), responsible for the control of PPP projects; (3) SEFIN, and in particular the Fiscal Commitments Unit (UCF), responsible for monitoring tax liabilities; and (4) the granting entities, in most of the projects tendered by the Ministry of Infrastructure and Public Services (INSEP).

2.3 In May 2019, the IDB made a diagnose assessment of the PPP program in Honduras, including its legal and institutional framework, as well as some PPP projects. The assessment was conducted at the explicit request of the Government of Honduras, which wanted to understand the lessons learned from its PPP program to date to take advantage of them and promote a second generation of projects under this modality. Some of the findings detected by the IDB were the following:

2.4 The Honduran institutional framework for PPPs was characterized by a predominance of COALIANZA at the expense of the interests of other stakeholders relevant to the development of PPP projects. The institutional dominance of COALIANZA was in part the result of a PPP Law that had given this role. This institutional design did not allow to isolate, or at least limit, political considerations from those of a technical nature, which has resulted in a growing politicization of the institution. There is no sufficiently strong reason to justify that a managing and executing body of public works and services is related to the State through the Presidency of the Republic and not a sectoral body. It is noteworthy that the body in charge of managing and promoting the PPP system was a decentralized entity of the Presidency of the Republic and that it was not attached to a sector ministry, such as the Ministry of Finance or the Secretariat of Infrastructure.

2.5 COALIANZA's internal structure was characterized by insufficient technical capacity, poor coordination between working groups and a funding mechanism that had generated perverse incentives to approve projects instead of taking the time to structure them correctly.

2.6 The creation of UCF has been an important step in ensuring that PPP projects are properly structured and protect the public interest. The importance of UCF is not sufficiently recognized by other actors, who do not coordinate and cooperate with UCF in a timely manner.

2.7 The SAPP is considered to be a politicized institution, lacking the technical capacity to effectively carry out its role as supervisor of PPP contracts, in part due to the way its staff are appointed. In the absence of technical capacity related to the management of PPP contracts, SAPP has applied a legalistic interpretation of the contract, which goes against the best international practices in contract management. The fact of being formally excluded from the structuring phase makes it very difficult for SAPP to effectively assume its role.

2.8 The institutional framework assigns a minimal role to the granting entities within the PPP project cycle, which goes against the best international practices. One of the reasons for the lack of participation of the grantors in the PPP process is their inability to mobilize the necessary experience to be able to contribute effectively to the process of evaluation, structuring, bidding and management of PPP projects.

2.9 In 2000, the GoH, through an international public tender, concession four international airports located in Tegucigalpa, San Pedro Sula, Roatán and La Ceiba. The concession contract for the operation, maintenance, exploitation, provision and expansion of airports was awarded for a period of twenty years, which expires in September, 2020.

2.10 In 2010, the Honduran Congress approved the Public-Private Partnership Promotion Law (APP Law), in order to manage and regulate contracting processes that allow the private sector to participate in financing, execution, and administration works and public services, with the aim of enhancing investment capacity in the country and thereby increasing economic development. In 2015, the government of Honduras, through an International Public Tender and in a Public-Private Partnership model, awarded the new Palmerola airport, which will replace the current Tegucigalpa airport, Tocontín. This project is being developed through a Design, Financing, Construction, Operation, Maintenance and Transfer concession model ruled by the Public-Private Partnership Promotion Law. Given the above, the GoH wants to continue with the modernization process of the airports of San Pedro Sula, Roatán and La Ceiba, within the framework of the PPP Law (hereinafter “the Project”). The investments to be made in these airports, in the airfield, would allow improving the safety and efficiency of commercial air operations, while the investments in the passenger terminals would allow raising the level of service for users. Since September 29 of 2020, the Honduran Airport Infrastructure and Services Company (EHISA) manages the operation of the Honduran airports of San Pedro Sula, La Ceiba and Roatán. Ehisa will operate the airports for the next 18 months and then an international bidding process will take place to grant a new concession for the next 30 years.

2.11 Honduras has completed a first phase of the Public-Private Partnership (PPP) program under the PPP framework created in 2010 (and reinforced in 2014) through which, during the period 2012-2016, 11 projects were awarded for a total amount of USD 1,800 million. In 2019, the Government of Honduras (GoH) made

the decision to carry out an assessment to improve the PPP's legal and institutional framework. The recommendations made to strengthen the Honduras PPP framework are based on previous experience in the preparation and implementation of the country's PPP program projects, as well as international good practices in regulating the processes that guide the development of PPP projects throughout their life cycle.

- 2.12 Due to the circumstances that the country is going through, it is necessary to give a new impulse to the PPP program by promoting a new generation of projects under the PPP model, following processes adapted from best practices at the regional and international level, that strengthen the capacities of the Granting entities in the preparation, structuring, contracting, monitoring and control of projects throughout the term of a contract under the PPP mechanism.
- 2.13 Thereby, the Government of Honduras has made the decision to undertake a reform that allows the creation and strengthening of a new regulatory and institutional structure, through an Executive Decree, through which COALIANZA is suppressed, and in its place creates the Superior Council for the Public-Private Partnership (PPP Superior Council), as the highest authority of the system. Also a Technical Specialized Unit in PPP is created (UTEP-APP) under the Secretariat of Finance, who will be in charge of providing technical advice to the relevant entities in the identification, evaluation, selection, definition, structuring and awarding of projects, that qualify to be developed under a PPP model according to the PPP Superior Council .
- 2.14 To these ends, the GoH has requested the support of the Inter-American Development Bank (IDB) for the design and implementation of a strategy that leads to the creation and strengthening of the Technical Specialized Unit in PPP (UTEP-APP) , with the purpose of developing their legal, technical and institutional capacities to advise Grantor entities during the identification, selection, evaluation, preparation, structuring, contracting and monitoring phases of the second generation of PPP projects. The pilot projects for this new PPP program include the new concession of the airports of San Pedro Sula, Roátan and La Ceiba. The creation and institutional strengthening of UTEP-APP and of the Government of Honduras, as well, to prepare and implement PPPs, will be supported through TC HO-T1357 "Strengthening of the APP Program in Honduras, second generation" that will be approved in 2020.
- 2.15 The objective of this technical cooperation is to provide comprehensive advisory to the GoH, the recently created PPP Technical Unit (UTEP-APP) and the sector grantor INSEP (Ministry of Infrastructure and Public Services) in the preparation and structuring of technical, economic-financial and legal aspects, necessary to structure a PPP model for the new concession of the airports of San Pedro Sula, Roatán and La Ceiba. The advisory will also cover the activities to support the Government during the bidding phase and financial close of the PPP contract.

2.16 To carry out this advisory, the IDB PPP Team requested (through an application process), funding from the Global Infrastructure Facility (GIF) up to the amount of US\$750,000 in the form of a contingent recovery to provide the GoH with the needed funding to hire a consultancy firm to provide the preparation and structuring of technical, economic-financial and legal aspects of the airport concessions PPP projects. The advisory will also cover the activities to support the Government during the bidding phase and financial close of the PPP contract. This amount requested to the GIF will be complemented with US\$255,000 by TC HO-T1357 "Strengthening of the APP Program in Honduras, second generation" that will be approved in 2020.

2.17 **Strategic Alignment.** This TC is consistency with the IDB's Updated Institutional Strategy (UIS) (AB-3190-2) with the area of: (i) increasing resource mobilization, by enhancing mobilization from traditional and non-traditional partners, promoting domestic resource mobilization and catalyzing private financing. Also this TC is aligned with the development challenges: (i) productivity and innovation because it helps to provide adequate infrastructure and reliable and affordable public service; and (ii) economic integration by improving regional infrastructure to promote greater cross-border connectivity. This TC is also aligned with the cross-cutting issue of institutional capacity and the rule of law by public service and assets provision by Public-Private Partnerships. Also this TC its aligned with the IDB Group Country Strategy with Honduras 2019-2022 (GN-2944) by achieving a stronger and more inclusive growth by: (i) strengthening of fiscal institutions and expenditure efficiency, since this cooperation will help the GoH to plan a more efficient infrastructure public expenditure by structuring infrastructure projects through PPP modality, which will help to a more strategic management of the budget. Likewise, this TC is aligned with the IDB Infrastructure Strategy (GN-2710-5) because it provides quality infrastructure services for sustainable and inclusive growth by boosting private participation through leverage the country capacity to structure Public Private Partnership aimed at enhancing the capacity and quality of regional infrastructure. This TC is also aligned with IDB Transport Sector Framework (GN-2740-7) by contributing to the strengthening of the sector's institutions and regulations.

### III. Description of activities/components and budget

3.1 The total Project budget is US\$750.000, to be financed by FGI in a contingent recovery modality. Additionally, USD 255,000 from the TC HO-T1357 "Strengthening of the APP Program in Honduras, second generation" (to be approved in 2020) will be used to finance additional activities related to the structuring of the airports.

3.2 This TC will finance the hiring of consultant services that will carry out the following activities:

Component 1. Assistance in preparation and structuring and accompanying during the bidding and financial close phase. The comprehensive advice (AI) involves the preparation and structuring of technical, economic-financial, social and environmental and legal aspects.

- a. The preparation of technical studies includes traffic demand, revenue estimate, development of investment program and budget and operating and maintenance costs, resilient design and consideration of energy efficiency and environmental and social aspects.
- b. The preparation of economic-financial studies includes value for money and budgetary sustainability, necessary to structure an PPP model for the Project.  
The Technical-Financial Adviser (ATF) will carry out in addition to the technical and economic studies indicated above, working closely with the legal advisor (AL) , the financial studies required following the international standards of "bankability" for this type of projects and all those inputs necessary for the definition of technical scopes, design of financial elements, as well as financing strategy, and process design and elaboration of comprehensive documentation for the development of the Project.
- c. The preparation of legal studies includes design, structure and prepare the basic legal documents: call, bidding conditions and the PPP Contract project including presentation formats of the technical and economic-financial part and criteria for the evaluation of proposals and selection of the winning bidder.
- d. Accompaniment in the bidding and contracting of the APP. During this phase, the prequalification criteria of the bidders will be defined from the technical, financial and legal point of view. This phase will include the stages of market research, bidding process and evaluation of offers, until the commercial closing of the transaction and financial closing.

### Indicative Budget

Activity/Component	Description	IDB Funding (US\$)	Counterpart Funding	Total Funding
<b>Component 1: Assistance in preparation and structuring and accompanying during the bidding and financial close phase</b>	<b>Prepare and provide all the technical, financial, social and environmental and legal aspects necessary to elaborate the bidding documents. The advisor will also assist the Government of Honduras, through the UTEP-PPP as well as INSEP, during the bid evaluation stages, selection, contracting of the winning bidder, as well as during the financial close.</b>	<b>750.000</b>	<b>0</b>	<b>750.000</b>
<b>Total</b>		<b>750.000</b>	<b>0</b>	<b>750.000</b>

3.3 The validation of the main technical products will be made by the Main Technical Advisor with the support of the Main Airport Advisor who will both be hired by the TC HO-T1357 "Strengthening of the APP Program in Honduras, second generation". The quality of the products delivered by the consulting company will be verified by the PPP Technical Unit (UTEP-APP) in coordination with the IDB PPP Team and the IDB Country Office of Honduras.

#### **IV. Executing agency and execution structure**

- 4.1 By request of the Government of Honduras (see Annex I), according with appendix 10 of GN-2629-1, the IDB through VPC/002 (PPP Team) will be the executing agency of this TC and will oversee the studies in coordination with the Beneficiary. The project execution by the Bank is justified given the experience and knowledge of the IDB on best practices and methodologies in PPPs in the region. The main counterpart for this TC will be INSEP (Ministry of Infrastructure and Public Services) and the PPP Technical Unit (UTEP-APP). The beneficiary is INSEP. The UDR going to be in VPC/002.
- 4.2 The IDB has a solid experience in airport projects in Latin America, including successful experiences and lessons learned in the stages of structuring, construction and operation of traditional public works projects such as in Argentina, Bahamas, Bolivia, Costa Rica and Haiti and support to the structuring of PPPs including the technical and legal advisory for the 3rd round of concessions in Brazil and the feasibility studies for the Family Islands Airports in Bahamas, among others upstream advisories.
- 4.3 The IDB can provide technical assistance under the contingent recovery modality to finance the preparation of private sector projects. For this specific operation, the contingent recovery financing will be used for the technical, legal and economic-financial studies of an airport concession and the expenses will be reimbursed by the winner of the bidding process. The total project budget is US\$750,000 will be financed by this TC through the Global Infrastructure Facility under the contingent recovery modality.
- 4.4 Contingent recovery modality: This operation has been designed as a contingent recovery TC, under which the reimbursement to the Bank will be as follows:
- i. When the PPP Project successfully reaches financial close agreement between the Technical Partner and the Government Counterpart, the 100% of the costs should be reimbursed to the FGI. The mechanics of such reimbursements will be determined by the relevant Government Counterpart and the Technical Partner and may include requiring payment from the successful project sponsor, such requirement to be built into the transaction documentation.
  - ii. Project Failure: If the PPP Project is terminated at any stage because it is found to be non-viable or relevant, and hence cancelled, no reimbursement should be required, but if required, reimbursement to GIF should follow the process set forth in (iii) below.
  - iii. Activity Cancellation: If the PPP Project is terminated by the Government Counterpart prior to reaching commercial or financial close, as the case may be, without cause or is terminated by the Technical Partner due to failure of the Government Counterpart to comply with the terms of the FGI Activity engagement, the agreed level (normally 100%) of incurred costs should be reimbursed by the Government Counterpart.

**4.5 Procurement.** All activities to be executed under this TC have been included in the Procurement Plan (see Annex IV) and will be contracted in accordance with Bank policies GN-2765-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature. For this specific TC, the consultant work will be held under Fully Competitive selection using Framework Agreements.

**4.6 Execution period.** The execution and disbursement period of the TC will be 24 months.

## **V. Major issues**

5.1 The main risk of this TC is related to the structuring of the concessions that may lead to a potential lack of interest from the market to participate in the bidding process. This risk will be mitigated by selecting a highly competitive consulting firm with experience in structuring successful concession projects, this will assure that during the bidding process the project will be attractive for the market. To achieve the latter, during the structuring process, market soundings will be carried out with investors, financiers, and infrastructure developers.

## **VI. Environmental and Social Strategy**

6.1 The proposed TC will have no environmental or social impacts as it will not finance direct investments in infrastructure, it will only fund project preparation. Taking into account the Environment and Safeguards Compliance Policy of the IDB (OP-703) and due to the nature and objectives of the TC, the classification of this operation is Category "B" (please see Safeguard Policy Filter and Safeguard Screening Form).. However, projects associated to these studies will have potential environmental and social impacts, so in case these projects are financed by the Bank, they will comply with Bank's environmental and social policies, including disclosure of information and public consultation

## **VII. Required Annexes:**

[Request from the Client - HO-T1373<sup>2</sup>](#)

[Results Matrix - HO-T1373](#)

[Terms of Reference - HO-T1373](#)

[Procurement Plan - HO-T1373](#)

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<sup>2</sup> This Annex includes deliberative information, and thus, confidential, according to the exception relative to "Deliberative Information" contemplated in paragraph 4.1 (g) of the Bank's "Access to Information Policy" (Document GN-1831-28).