

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **HONDURAS**

### **SUPPLEMENTAL FINANCING FOR IMPROVEMENT OF THE PUEBLA-PANAMA PLAN'S ATLANTIC CORRIDOR (SECTIONS OF THE CA-5 NORTE HIGHWAY)**

### **PARTIALLY FINANCED WITH RESOURCES FROM LOAN CONTRACT 1565/SF-HO**

**(HO-L1020)**

## **LOAN PROPOSAL**

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## **ABBREVIATIONS**

DGC	General Directorate of Highways
GGPE	Project and Execution Management Group
GOH	Government of Honduras
OFID	OPEC Fund for International Development
OPEC	Organization of Petroleum Exporting Countries
PPP	Puebla-Panama Plan
RICAM	International Mesoamerican Highways System
SOPTRAVI	Ministry of Public Works, Transportation and Housing

## PROJECT SUMMARY

### HONDURAS

## SUPPLEMENTAL FINANCING FOR IMPROVEMENT OF THE PUEBLA-PANAMA PLAN'S ATLANTIC CORRIDOR (SECTIONS OF THE CA-5 NORTE HIGHWAY)

### PARTIALLY FINANCED WITH RESOURCES FROM LOAN CONTRACT 1565/SF-HO

### (HO-L1020)

Financial Terms and Conditions					
Borrower: Republic of Honduras				Financing OC <sup>1</sup>	Financing FSO
Executing agency: Ministry of Public Works, Transportation and Housing (SOPTRAVI), acting through its General Directorate of Highways (DGC) and the DGC's Project and Execution Management Group (GGPE).			Amortization period:	30 years	40 years
			Grace period:	5.5 years	40 years
			Execution period:	4 years	4 years
Source	Approved 1565/SF-HO	Supplemental financing	Inspection and supervision fee:	0% <sup>2</sup>	N/A
	(in US\$ millions)				
IDB (OC)		21.0	Interest rate:	Adjustable	0.25%
IDB (FSO)	50.0	9.0			
Cofinancing (OFID)	7.0	5.0	Credit fee:	0.25% <sup>3</sup>	N/A
Local	6.2	3.5			
Total	63.2	38.5	Currency:	U.S. dollars, SCF <sup>4</sup>	U.S. dollars
Project at a glance					
<b>Project objective:</b> The general objective is to make Honduras more competitive and support the process of integration with countries of the Puebla-Panama Plan (PPP) by improving transportation conditions and reducing operating costs, travel times, and accident rates in highway transportation. The specific objective of the supplemental financing is to improve transportation conditions for people and freight on the CA-5 Norte highway.					
<b>Special contractual conditions:</b> (i) <b>Conditions precedent to the first disbursement:</b> None. (ii) <b>Special execution conditions:</b> The supplemental loan will be governed by the special conditions applicable to loan 1565/SF-HO, in accordance with paragraph 2.6.					
<b>Exceptions to Bank policies:</b> None.					
<b>Project consistent with country strategy:</b> Yes [ X ]      No [   ] <b>Project qualifies as:</b> SEQ [   ]      PTI [   ]      Sector [   ]      Geographic [   ]      Headcount [   ] <b>Verified by CESI on:</b>					

<sup>1</sup> The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations.

<sup>2</sup> In no case will the inspection and supervision fee exceed 1%, nor the charge in a given six-month period exceed the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

<sup>3</sup> In no case will the credit fee exceed 0.75%.

<sup>4</sup> Single Currency Facility.

## I. BACKGROUND

- 1.1 **The road sector in Honduras.** Road infrastructure in Honduras falls under the administrative responsibility of the Ministry of Public Works, Transportation and Housing (SOPTRAVI). SOPTRAVI manages 14,036 km of roads, of which the main road system accounts for 3,276 km (23%), secondary roads 2,555 km (18%), and rural roads 8,205 km (59%). No maintenance responsibility is identified for an additional 12,000 km or so of roads. The main road system is paved over 78% of its length, and the secondary system over 16%. A high percentage of these roads are in fair to poor condition. The Highway Fund (“Fondo Vial”) is a deconcentrated agency whose principal responsibility is to ensure the financial sustainability and effective ongoing performance of routine, periodic, and emergency maintenance of the road system.
- 1.2 The Highway Fund and SOPTRAVI work in coordination to manage maintenance. SOPTRAVI sets policy for program financing, management and execution, while the Highway Fund implements the technical criteria set by SOPTRAVI, proposes technical and geographical criteria for sectoralization of the official road network, and adds new segments to it, subject to the applicable rules. Highway Fund resources are channeled through SOPTRAVI. SOPTRAVI evaluates the outcomes of the Rehabilitation and Maintenance Plan executed by the Highway Fund.
- 1.3 The government’s National Plan (“Plan de Nación”) specifically assigns high priority to the rehabilitation, reconstruction, expansion, and maintenance of the country’s main road system. The priorities include improvement of the Atlantic Corridor of the International Mesoamerican Highways System (RICAM) of the Puebla-Panama Plan (PPP), as essential for enhanced economic integration toward the Mesoamerican market. The CA-5 Norte highway forms part of the Atlantic Corridor.
- 1.4 Among national priorities, road maintenance is one of the greatest challenges for Honduras. Financing for it has increased, as has coverage. Since 2003, resources allotted to maintenance have risen in absolute terms, and held steady as a share of total resource allocations to the road sector. This has made it possible to increase the physical target gradually.<sup>1</sup> With World Bank financing, the Highway Fund has also concluded the study for a system to control weights and dimensions on Honduras’s highways. Once implemented, this system is expected to lessen the effects of accelerated deterioration of the road network caused by overweight vehicles. The system will be implemented, and the necessary construction work done, with funding from the Millennium Challenge Account of the United States.
- 1.5 **Institutional development.** SOPTRAVI has been building its management capacity with support from the Bank (loan 1106/SF-HO) and other institutions.

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<sup>1</sup> Approximately US\$37 million was spent on maintenance in 2003; the 2007 projected allocation is nearly US\$43 million. As a share of total investment value, this figure has held steady between 48% and 58%. In 2007, routine and periodic maintenance is done on some 7,500 km of roads, or about 53% of the national system.

Institutional strengthening activities have addressed such areas as planning systems, environmental management, road safety, and contracting. Operation HO-L1013, also in the 2007 pipeline, renews such support by furnishing resources to deepen efforts in these areas, develop road concessions, and provide quality and oversight training for works, environmental studies, and road safety.

- 1.6 **The CA-5 Norte highway.** The PPP's 1,745 km Atlantic Corridor links Mexico, Belize, Guatemala, Honduras, and El Salvador. In Honduras it includes portions of the CA-5 Norte highway, which runs for 294 km before junctioning at its southern end with the future highway from Villa San Antonio to Goascorán,<sup>2</sup> and connecting with El Amatillo (at the border with El Salvador). From there, it continues to the port of Cutuco in El Salvador. The stretch of the highway through Honduras provides access for freight shipments to and from Puerto Cortés, Central America's only deepwater port and one of the best equipped.
- 1.7 The CA-5 Norte highway carries most of Honduras's import and export traffic from Puerto Cortés to the major consumption and production centers in the cities of San Pedro Sula, Comayagua, and Tegucigalpa. On some stretches, annual average daily traffic (AADT) exceeds 7,500 vehicles. The CA-5 Norte accounts for 23% of highway traffic volume measured on a vehicle-kilometers basis, although it represents only 5% of the system by length.
- 1.8 SOPTRAVI, with Bank support, had designed an ambitious program of capital investments to substantially improve conditions on this important section of the PPP's Atlantic Corridor. But financial constraints later led the works to be scaled back to rehabilitation and improvement of a climbing lane on unfinanced sections. With resources secured since loan 1565/SF-HO was approved, especially from the United States Millennium Challenge Account, the authorities have decided to substantially raise the CA-5 Norte's level of service from the original, more modest targets,<sup>3</sup> while preserving the economic return of the Bank-financed works and of the CA-5 Norte integrated investment plan as a whole. Under the current investment plan, 60% of the highway will have four lanes, 17% will have a third climbing lane, and 23% will remain two-lane.
- 1.9 The total amount of the investment program to improve the corridor is US\$194 million. Loan 1565/SF-HO partially financed these works, supplementing a World Bank project already under way to expand the Taulabé–La Barca section of the CA-5 Norte. After the Bank had approved loan 1565/SF-HO, substantial financing became available from the United States Millennium Challenge Account

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<sup>2</sup> The Villa San Antonio–Guascorán section is partially financed by the Central American Bank for Economic Integration (CABEI).

<sup>3</sup> The works planned in 2004 called for the widening to four lanes of only the most critical sections, some two-lane bypasses, rehabilitation work, and using shoulders to add a third or climbing lane. They did not include grade-separated intersections or improvements to grade crossings. In the case of loan 1565/SF-HO, the entire section was designed for four lanes.

and from the OPEC<sup>4</sup> Fund for International Development (OFID). Bank and OFID support has been sought for the pending US\$34.4 million in resources under the investment plan, as described in the scope of this supplemental financing proposal (see paragraph 2.1). Table I-1 summarizes the investment plan for the remaining work on the CA-5 Norte highway.

**Table I-1**  
**Investment Plan for the CA-5 Norte Highway**

Section	Length in km	Investment* (in US\$ millions)	Type of works	Source of financing
Tegucigalpa–Beginning of Comayagua Valley (Las Mercedes)	54.9	67.8	Widening to four lanes over entire length	United States Millennium Challenge Account
Beginning to end of Comayagua Valley	30	35.7	Widening to four lanes.	HO-L1020 (beginning of valley to Las Mercedes, US\$5.4 million), IDB loan 1565/SF-HO (Las Mercedes to end of valley, US\$25.3 million), and OFID new cofinancing (grade-separated intersections, US\$5 million).
End of Comayagua Valley–Taulabe	49.5	33.4	4 km four-lane, 23 km three-lane, and 22.5 km two-lane.	United States Millennium Challenge Account
La Barca–Villanueva	26	57.1	Widening to four lanes.	Widening of 13 km to four lanes, financed with OFID cofinancing approved parallel to loan 1565/SF-HO (US\$7 million), and under IDB loan 1565/SF-HO (US\$26.1 million). Widening of the remaining 13 km to four lanes, financed under operation HO-L1020. (US\$24 million)
<b>Total</b>	<b>160.4</b>	<b>194.0</b>		
* Includes costs of construction and supervision.				

1.10 **Loan 1565/SF-HO.** The Bank approved loan 1565/SF-HO on 14 July 2004. The project includes a component for widening and resurfacing of the CA-5 Norte highway, and a component to support improved road safety. Under the CA-5 Norte investment component, 78% of the loan proceeds have been committed to date, and

<sup>4</sup> Organization of Petroleum Exporting Countries.



construction and supervision contracts were signed between April and August for two segments (II, III, and IV) of the Beginning to End of Comayagua Valley and Villanueva–La Barca sections, corresponding to 75% of the planned total length for the sections financed by the Bank. The loan was declared eligible for disbursements on 3 June 2005, and work began in August 2007. Disbursements of US\$8.5 million are expected to have been made by year-end. Progress was slowed by procedural delays with right-of-way disposal on some of the affected land, and by a misprocurement finding in relation to one of the tenders (Segment I). In addition, SOPTRAVI is drafting bid documents for the road signs and markings component, and identifying the consulting services necessary for the critical points study of the CA-5 Norte and other highways in the logistics corridor. This component is expected to cover 350 km of the PPP highway system. Furthermore, pursuant to the loan contract the donors involved in financing the CA-5 Norte works have entered into an agreement to coordinate and maintain ongoing dialogue, so as to ensure that the targets and objectives of each of the different operations are met in a coherent manner.

- 1.11 **Accomplishments.** In a nutshell, the operation has successfully structured the financing and execution of improvements to the CA-5 Norte, as a key international trade route for Honduras. In addition to its own financial contribution, the Bank has instituted coordination mechanisms that have brought other lenders into the project. Work is under way on the Bank-financed sections, and 100% of the contracted sections are free of rights-of-way, which should accelerate execution. Through Bank support, moreover, SOPTRAVI is now stronger in the areas of planning, environmental management, and contracting, and is better equipped to execute the investment plan. In terms of road safety, the traffic accident reporting system has been operating since 2005, and the information gathered is being used for the Bank-funded program to identify and address critical points, which will soon be put out to tender.

## II. SUPPLEMENTAL FINANCING

- 2.1 **Objective, components, and costs.** The general objective is to make Honduras more competitive and support the process of integration with countries of the Puebla-Panama Plan (PPP) by improving transportation conditions and reducing operating costs, travel times, and accident rates in highway transportation. The specific objective of the supplemental financing is to improve transportation conditions for people and freight on the CA-5 Norte highway.
- 2.2 The new investments will be added to the first component, “**Widening and resurfacing of the CA-5 Norte highway**,” as described below:
- a. Section from **Villanueva to La Barca**: Widening of the following segments from two to four lanes: La Barca–Potrerillos Sur (13 km); Potrerillos Sur–Bridge over Ulúa River (6.9 km); Bridge over Ulúa River–Pimienta Norte (3.6 km); and improvement of the grade crossing at La Barca.

- b. Addition of the section from the **Beginning of Comayagua Valley (Las Mercedes) to Villa San Antonio Bypass** (5 km), which will be widened from two to four lanes, and the existing roadway resurfaced.
- 2.3 The supplemental financing also includes construction of two grade-separated intersections at the junction with the road to La Paz municipio and the junction with the access roads to Plamerola Airport and its surrounding industrial parks. These works will be financed by the OPEC Fund for International Development (OFID) with a total investment of US\$5 million. The project will finance works, supervision, and the contracting of individual consultants to support the entire procurement process for right-of-way disposal.
- 2.4 Table II-1 shows the cost table for the supplemental financing. The Consolidated Cost Table is attached as Annex I.

**Table II-1**  
**Cost and Financing, HO-L1020 (in US\$ thousands)**

Item	IDB	OFID	GOH	Total
1. Engineering and administration	2,100	-	800	2,900
1.1 Supervision, Audits, and evaluation	2,100	-	800	2,900
2. Direct costs				
2.1 Widening and resurfacing of CA-5 Norte	25,500	5,000	2,580	33,080
2.1.1. Las Mercedes–Villa San Antonio Bypass	4,700	4,110	-	8,810
2.1.2. Villanueva–La Barca	19,000		1,880	20,880
2.1.3. Environmental and social mitigation on sections of the CA-5 Norte	1,800	890	700	3,390
3. Contingencies	2,400	-	100	2,500
4. Financial expenses	-		20	20
4.1 Commitment fee	-		20	20
4.2 Interest	-		-	-
4.3 Inspection and supervision fee	-		-	-
<b>Project total</b>	<b>30,000</b>	<b>5,000</b>	<b>3,500</b>	<b>38,500</b>

- 2.5 **Execution.** The supplemental financing will be an investment loan, as was the original program. The borrower will be the Republic of Honduras. The executing agency will be the Ministry of Public Works, Transportation and Housing (SOPTRAVI), acting through its General Directorate of Highways (DGC) and the DGC's Project and Execution Management Group (GGPE). The government will channel the investment loan proceeds to SOPTRAVI, earmarked specifically for the project.
- 2.6 Within the DGC, the GGPE will be responsible for loan administration, including the same main functions as under loan 1565/SF-HO in relation to financial management and accounting, reports, bank accounts, control and supervision, and coordination with other international lenders. The special execution conditions of

loan contract 1565-SF/HO will also apply, as they relate to authorization of and requirements for procurement notices, maintenance of financed works, and coordination with other lenders<sup>5</sup> involved with the CA-5 Norte. Procurement will be conducted in accordance with Bank policies (documents GN-2349-7 and GN-2350-7).

- 2.7 **Social and environmental considerations.** The supplemental financing will fund the same class of works as the original project. As such, the environmental and social strategy and the environmental and social management report originally approved for the program for improvement of the PPP's Atlantic Corridor (sections of the CA-5 Norte highway) will also apply to the new sections to be financed. In addition to ongoing Bank supervision of the works already financed, the project team reviewed the new investments with support from an environmental and social consultant, including a field visit to determine whether the impacts and approved environmental and social management plans still hold.<sup>6</sup>
- 2.8 The original program's environmental and social management plan (ESMP) included: (a) an archaeological recovery program, (b) a program for social management and public consultation, (c) a right-of-way regularization program; (d) a plan for involuntary resettlement; (e) a road safety program; and (f) an environmental management plan for the construction, maintenance and operation of the project. It was also recommended as part of the review that SOPTRAVI and the supervision firm emphasize proper implementation of the road and pedestrian safety features proposed by the designer, prior to approval of the final engineering plans for the Las Mercedes–Villa San Antonio Bypass section.
- 2.9 **Risks.** The operation presents no additional risks. The proposed project continues to support SOPTRAVI's efforts to improve the country's road standards. SOPTRAVI possesses the management capacity to execute a program with the features of the proposed operation, as attested by its satisfactory execution of prior programs financed by the IDB and by the World Bank. It has also been the recipient of previous strengthening programs to build its project delivery capacity.
- 2.10 The GGPE has satisfactorily executed projects financed by the Bank and by other multilateral agencies. It is part of the SOPTRAVI organizational structure and has permanent staff supported by consultants and an effective physical and financial control system for its projects. Like other key units of the ministry, it is fully equipped and has received institutional strengthening. The GGPE is well equipped for program administration, accounting, and reporting. Prior experience in investment program design indicates that this operation will be executed in a satisfactory manner.

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<sup>5</sup> For more detail, see document PR-2856, "Loan proposal for Improvement of the Puebla-Panama Plan's Atlantic Corridor (Sections of the CA-5 Norte Highway)," project HO-0207 (loan 1565/SF-HO). Specifically, for the GGPE's functions, see paragraph 3.2, and for the special execution conditions, see points (a), (b), (c), and (g) in the Executive Summary.

<sup>6</sup> The annexes include a report on the project team's review in conjunction with the consultant.

**SUPPLEMENTAL FINANCING FOR IMPROVEMENT OF THE PUEBLA-PANAMA PLAN'S ATLANTIC CORRIDOR  
(SECTIONS OF THE CA-5 NORTE HIGHWAY)  
(HO-L1020)  
COST AND FINANCING TABLE (IN US\$)**

Item	Approved loan				Supplemental financing				Consolidated			
	IDB	OFID	GOH	Subtotal	IDB	OFID	GOH	Subtotal	IDB	OFID	GOH	Total
1. Engineering and administration	4,680	990	1,880	7,550	2,100	–	800	2,900	6,780	990	2,680	10,450
1.1. Supervision, audit and evaluation	3,680	900	–	4,670	2,100	–	800	2,900	5,780	990	800	7,570
1.2 Administration	1,000	–	1,880	2,880	–	–	–	–	1,000	–	1,880	2,880
2. Direct costs	41,270	6,010	2,730	50,010	25,500	5,000	2,580	33,080	66,770	11,010	5,310	83,090
2.1 Widening and resurfacing of CA-5 Norte	39,700	6,010	2,730	48,510	25,500	5,000	2,580	33,080	65,270	11,010	5,310	81,590
2.1.1 Las Mercedes–Villa San Antonio Bypass	–	–	–	–	4,700	4,110	–	8,810	4,700	4,110	–	8,810
2.1.2 Beginning to end of Comayagua Valley	20,670	–	1,070	21,740	–	–	–	–	20,670	–	1,070	21,740
2.1.3 Villanueva–La Barca	16,210	5,100	1,070	22,380	19,000	–	1,880	20,880	35,210	5,100	2,950	43,260
2.1.4 Road safety measures on sections of the CA-5 Norte	1,500	–	–	1,500	–	–	–	–	1,500	–	–	1,500
2.1.5 Environmental and social mitigation on sections of the CA-5 Norte	1,390	910	590	2,890	1,800	890	700	3,390	3,190	1,800	1,290	6,280
2.2 Road safety on PPP routes	1,500	–	–	1,500	–	–	–	–	1,500	–	–	1,500
3. Contingencies	3,550	–	–	3,550	2,400	–	100	2,500	5,950	–	100	6,050
4. Financial Expenses	500	–	1,580	2,080	–	–	20	20	500	–	1,600	2,100
4.1 Commitment fee	–	–	530	530	–	–	20	20	–	–	550	550
4.2 Interests	–	–	1,050	1,050	–	–	–	–	–	–	1,050	1,050
4.3 Inspection and supervision fee	500	–	–	500	–	–	–	–	500	–	–	500
<b>Project total</b>	<b>50,000</b>	<b>7,000</b>	<b>6,190</b>	<b>63,190</b>	<b>30,000</b>	<b>5,000</b>	<b>3,500</b>	<b>38,500</b>	<b>80,000</b>	<b>12,000</b>	<b>9,690</b>	<b>101,690</b>

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(SECTIONS OF THE CA-5 NORTE HIGHWAY)  
(HO-L1020)**

## HONDURAS

Mejoramiento del Corredor Atlántico del PPP (tramos de la CA-5 Norte) (HO-0207)



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SECTOR DE INFRAESTRUCTURA