

# PREINVESTMENT PROGRAM FOR RECONSTRUCTION AND TRANSFORMATION

## (HO-0178)

### EXECUTIVE SUMMARY

<b>Borrower:</b>	Republic of Honduras	
<b>Executing agency:</b>	Secretaría de Finanzas [Finance Department] (SEFIN) through the Unidad de Preinversión de la Dirección General de Inversión Pública [Preinvestment Unit of the General Directorate for Public Investment] (DIGIP)	
<b>Amount and source:</b>	IDB (FSO):	US\$12 million
	Local:	US\$ 3 million
	Total:	US\$15 million
<b>Financial terms and conditions:</b>	Amortization period:	40 years
	Grace period:	10 years
	Commitment period:	3 years
	Disbursement period:	4 years
	Interest rate:	1% for the first 10 years, 2% thereafter
	Inspection and supervision:	1% of the loan
	Credit fee:	0.5% of the undisbursed balance
<b>Objectives:</b>	The objective of the program is to promote effective and efficient public investment so as to increase the number of projects suitable for financing and improve the quality of processes in the public investment system.	
<b>Description:</b>	The program will consist of two components: (i) a component for the financing of preinvestment studies; and (ii) an institutional strengthening component. This latter component will include consultancies to provide support to the Preinvestment Unit and beneficiary entities.	
<b>The Bank's country and sector strategy:</b>	The Bank's strategy for Honduras centers on the following objectives: (i) to provide support for the formulation of the National Master Plan for Reconstruction and Transformation (PMRTN) and the detailed investment program under that plan; (ii) to promote international cooperation for the financing of reconstruction through the Consultative Group; and (iii) to concentrate the limited concessional resources on social programs for the poor and on the reconstruction	

program, particularly in the areas of water supply, sewerage, housing, and roads. The many tasks to be performed in the reconstruction process will require numerous sector studies, designs, and project evaluations. Such work is costly and highly specialized but the ministries and other government agencies involved do not have sufficient resources for it. A preinvestment program with clear rules of application would be the most appropriate mechanism for hiring consulting services to perform this work on an ad hoc basis.

**Environmental  
and social  
review:**

The program's environmental feasibility strategy is to ensure that preinvestment studies and institutional strengthening activities address the relevant environmental issues. Paragraph 4.4 of the loan proposal explains the procedures, principles, and institutional strengthening activities designed for this purpose. These will be included in the program Operating Regulations.

**Benefits:**

The direct impact of the program will produce short- and medium-term benefits, helping to strengthen the public investment system as part of the PMRTN strategy. This impact will be felt when the projects covered by the studies to be financed under this program are executed, benefiting Honduran society through the national reconstruction and transformation process.

**Risks:**

The risks that can be identified in connection with program execution are mainly as follows: (i) the beneficiary entities or the Preinvestment Unit may not have or retain staff trained during program execution to prepare proper project profiles and terms of reference and to supervise the consultancies; (ii) the activities of these entities and the Preinvestment Unit may not be properly coordinated; (iii) the government may not have established priorities, which could hinder or delay the selection of studies for financing under the program.

To mitigate these potential risks, the Preinvestment Unit will be strengthened with at least six professionals specialized in preinvestment; and training programs are being conducted on the project study cycle for the Preinvestment Unit and beneficiary entities. In addition, the participation agreements between SEFIN and the beneficiary entities will include the obligation to be sufficiently staffed with trained technical personnel to perform the work required. In addition, the financing will cover training throughout the four years of program execution.

**Special  
contractual  
conditions:**

Conditions precedent to the first disbursement:

1. creation of a special account for program resources (paragraph 2.7);

2. entry into force of legal provisions establishing the Preinvestment Unit within DIGIP, and the increase in staffing needed in that unit to execute the program (paragraph 3.3);
3. signature of a participation agreement between SEFIN and at least one beneficiary entity, based on a model previously agreed upon with the Bank (paragraph 3.5).
4. presentation of program Operating Regulations acceptable to the Bank (paragraph 3.8);

**Poverty-  
targeting and  
social sector  
classification:**

This operation does not qualify as a poverty-targeted investment.

**Exceptions to  
Bank policy:**

None.

**Procurement:**

International competitive bidding will be conducted for the procurement of goods in amounts of US\$250,000 or more and consulting services in amounts of US\$200,000 or more.

## I. FRAME OF REFERENCE

### A. Socioeconomic context

- 1.1 In 1999, the economy of Honduras entered a period of declining Gross Domestic Product (GDP) resulting from the destruction of much of the country's agricultural production capacity and economic infrastructure by Hurricane Mitch. The decline in GDP, estimated at 1.9%, however, is less than the rate anticipated at the beginning of that year. This moderation in GDP decline doubtless results from the reconstruction efforts that have been undertaken and the rapid recovery in certain economic sectors. On the negative side of the ledger, however, the sharp reduction in banana and coffee production and exports and — owing to the shortened season — in shrimp production, was reflected in a contraction of 8.7% in the agricultural sector, accompanied by a contraction in agribusiness as well. The in-bond assembly (*maquila*) sector, which suffered only minor damage, continued to record the vigorous growth of previous years (with value added increasing by slightly more than 30%), and other industries, such as textiles and certain construction materials, also grew significantly in 1999. Added to this was the rapid increase in construction activity as a result of public reconstruction efforts. In the balance of payments, as expected, there was a sharp increase in the overall trade deficit, but net income in the form of family remittances and net capital inflows largely offset that deficit, leading to an increase in the stock of international reserves.
- 1.2 In early June 2000, the International Monetary Fund (IMF) approved the second report on Honduran economic performance relative to the provisions of the current "Poverty Reduction and Growth Facility" (PRGF) program. The country's monetary situation continued to improve in 1999; growth in liquid debt within the financial system was only 11%, which compares favorably with growth of nearly 20% the previous year. This monetary growth was linked mainly to the increase in international capital, since moderate growth in private sector credit was more than offset by a net contraction of public sector credit. Performance with respect to the fiscal accounts surpassed the goals established in the PRGF program. Revenues were higher than expected, despite the recessionary conditions affecting the economy. That, together with the ready availability of external financing, helped to boost public expenditures above targeted levels. As result, the public sector deficit, representing 6.2% of GDP, was two percentage points lower than the level projected, with sufficient nonmonetary financing. This allowed annual inflation to be held to approximately 10% during the second half of the year, finishing with an average of 11.6% for the year.
- 1.3 At the end of 1999, external public debt stood at US\$4.297 billion. Approximately 64% of this amount was owed to multilateral agencies, among which the Inter-American Development Bank (IDB) was the leading creditor (25% of the total), although the World Bank and the Central American Bank for Economic Integration had greater exposure in terms of non-concessional resources. Despite

the Bank's large share in the country's foreign debt, IDB loan payments accounted for only 10% of total debt servicing, given the high concessional content of the financing.

## **B. The sector**

- 1.4 In response to the damage caused by Hurricane Mitch, the Bank convened a first Consultative Group meeting in Washington in December 1998, followed by a second Consultative Group meeting in Stockholm in May 1999. During the meeting of this Consultative Group, the Government of Honduras presented the Master Plan for National Reconstruction and Transformation (PMRTN), entailing a portfolio of 368 projects targeting the social sectors, infrastructure, and productive capacity. The financing requirement was approximately US\$3,724,000,000. The international community responded with offers of financial support totaling US\$2,763,400,000.
- 1.5 Out of this total amount, US\$2,057,600,000 had been reprogrammed, underwritten, or committed for the emergency phase as of June 2000, accounting for 74.4% of the funds offered. Added to these funds were US\$214,400,000 obtained through signature of the Expanded Structural Adjustment Facility (ESAF), and US\$742,500,000, which are under negotiation. As of May 2000, US\$857,400,000 had been disbursed, i.e. 61.8% of total financing underwritten.
- 1.6 The volume of these investments created a bottleneck in the financing for feasibility studies, obstructing the timely submission and consideration of projects by donors and financing sources. The many tasks to be performed in the reconstruction process will require numerous sector studies, designs, and project evaluations. Such work is costly and highly specialized, but the ministries and other government agencies involved do not have sufficient resources for it. A preinvestment program with clear rules of application would be the most appropriate mechanism for hiring consulting services to perform this work on an ad hoc basis.

## **C. The Preinvestment System in Honduras**

### **1. The Public Investment System (SISPU)**

- 1.7 SISPU provides the technical, regulatory, and information framework for the country's entire public investment process, which entails a series of activities, inputs, and outputs ordered on the basis of the project life-cycle (preinvestment, investment, and operation). SISPU has two purposes: (a) aligning the public investment process with national development objectives and resource availability, coordinating government investment activity with the annual budget; and (b) ensuring that budgetary resources for public investment are allocated and used in a timely and efficient way. The system consists of four components:
  - a. **Institutional component:** coordinating investment-related interaction between public sector agencies.

- b. **Technical/methodological component:** a set of tools to systematize the process of project identification, formulation, and evaluation, including criteria for prioritizing projects and forms and guidelines for the collection and presentation of information on the various project stages.
  - c. **Regulatory component:** including provisions with respect to the responsibilities of each institution within the investment programming process, public investment policy, the budget, and external debt, as well as manuals on SISPU procedures and rules.
  - d. **Information systems component:** based on an integrated project database for the collection and processing of information on the various project stages for the purpose of permitting feedback for consideration in decision-making at various stages in the project cycle.
- 1.8 Although SISPU has begun to operate, its deployment has been adversely affected by frequent changes in the authorities, and its effectiveness has been limited by the lack of a definitive legal framework. Additional mechanisms must therefore be found to strengthen the country's public investment process.

## **2. The Honduran Preinvestment Fund (FOHPREI)**

- 1.9 FOHPREI was created on 13 September 1979 as a decentralized agency of the Planning, Coordination, and Budget Department (SECPLAN) with full legal status and its own assets. During the period up to 1994, when its financing was allocated mainly to preinvestment studies in public sector institutions, FOHPREI carried out its functions expeditiously and was reasonably successful in fulfilling institutional objectives.
- 1.10 Starting in 1995 and 1996, substantial financing was extended to the private sector, based on credit decisions taken without the proper analysis, professional evaluation, technical criteria, or operational and legal monitoring, placing the portfolio at risk in terms of recoverability.
- 1.11 In addition to the loss of technical administrative capacity, demand for reimbursable financing from public and private institutions for preinvestment studies declined considerably. As a result, FOHPREI has been virtually inactive since 1996.
- 1.12 Based on these factors, Honduran authorities decided to reallocate available resources to a new Preinvestment Unit within the General Directorate of Public Investment (DIGIP). The country's new preinvestment process is being implemented through the development of rules, procedures, methodologies, training programs, advisory assistance, technical assistance, and institutional coordination.

- 1.13 Thus, through a legislative decree in 1996, the government eliminated SECPLAN and made SEFIN responsible for investment programming. Conceptually and operationally, this means making SISPU an investment process based on criteria of efficiency and rational resource use.
- 1.14 Regulations established in the context of this decree define the objectives and functions of SEFIN and its relationship with other government institutions in the investment field, including mainly the Central Bank of Honduras, the Technical Support Unit of the Economic and Social Council, and the Department of Technical and International Cooperation, as well as international financial institutions and planning and evaluation units (UPEGs) in the various ministries.
- 1.15 The new role assigned to SEFIN in the investment area is to administer the rational allocation of financial resources for public sector investments and projects in the country. SEFIN's role is thus to regulate, administer, and coordinate the public investment process, with special attention to the institutionalization of SISPU and its component mechanisms and instruments – preinvestment and investment programs in particular.
- 1.16 The preinvestment and investment programs SEFIN is to prepare in accordance with the administrative and financial reform will be a permanent function of DIGIP, working with the Integrated Financial Administration System (SIAFI) in pursuing SISPU objectives. DIGIP is currently working to implement SISPU.

### **3. Legal and administrative system of FOHPREI**

- 1.17 Once all of the resources of loan 906/SF-HO have been disbursed for the financing of studies, no new resources will be allocated to FOHPREI. FOHPREI will be formally liquidated and dissolved by a decree now under consideration in the National Congress. This decree would: (1) repeal the FOHPREI Act; (2) dissolve and liquidate its operational and administrative activities within six months; (3) create a liquidation committee, which would be responsible for transferring FOHPREI's assets, liabilities, and accounting records to the SEFIN Directorate of Public Credit and the documentation on preinvestment studies to DIGIP. The inventory of assets and liabilities to be used in this process has already been prepared.
- 1.18 Administratively, FOHPREI has continued to work on recovering loans, mainly those to the public sector. Legal steps to recover at least part of the portfolio in arrears are being handled by the Prosecutor General of the Republic as the State's legal representative.
- 1.19 While the National Congress is considering the liquidation decree, work in the area of preinvestment is being conducted through DIGIP. At the same time, the government is making progress in the negotiations on reimbursable and

nonreimbursable International Financial Cooperation. These new resources and those to be transferred from FOHPREI would be pooled and, if administered efficiently, can contribute to the studies to be conducted on projects included in the PMRTN.

#### **D. The Bank's experience in preinvestment**

- 1.20 In September 1993, the Bank approved a preinvestment program for Honduras (906/SF-HO) in the amount of US\$8 million with FOHPREI as executing agency. The program consists of two components, one for institutional strengthening, and the other to finance preinvestment studies. With respect to the first component, it has not been possible to implement all of the measures planned to strengthen SISPU; as for the second component, after a long delay, FOHPREI is now using the available resources for water and sanitation sector studies.
- 1.21 As of 10 November 2000, 80.3% of the loan resources had been committed and 49.5% had been disbursed. At present, US\$4 million in resources that were reallocated to support a highway reconstruction program (1029/SF-HO) are being disbursed, and it has been agreed that the rest would be used by the National Autonomous Water Supply and Sewerage Service (SANAA) to prepare designs for water and sanitation systems in 22 cities, as part of a water and sanitation investment program (1048/SF-HO). The deadline for the final disbursement of financing has been extended for six months, to 18 August 2001, to permit full use of the funds by SANAA.
- 1.22 With the signature of contracts to perform the water supply and sewerage studies the resources for the program currently in execution have now been committed. Even so, the Bank, in coordination with Honduran authorities, has carefully analyzed the factors entering into the decision to liquidate FOHPREI and affecting the execution of program 906/SF-HO, which have been taken into consideration to ensure the success of the new operation.

#### **E. Lessons learned**

- 1.23 During the process of preparing this operation, the government and the Bank carefully reviewed the experience gained from the previous preinvestment program (906/SF-HO). The following lessons were drawn from that analysis: (i) there was little demand for preinvestment resources within the **private sector**, which has been reluctant to take on the requirements of analysis and evaluation in preparing the studies, raising doubts about the ability to meet program objectives and generating a major portfolio recovery situation; (ii) responsibility for coordinating and executing a preinvestment program cannot rest with a board of directors composed of several ministers. For a program of this nature, clear responsibilities and "**ownership**" must be assigned to the state institution responsible for overall public sector investment programming; (iii) preinvestment programs need to be **institutionalized**



and operate within Government structures with clear rules of operation and a medium and long-term vision. The proposed program draws on these lessons in that: (i) it has been designed as a mechanism of budgetary allocation for preinvestment, and not as a credit program; (ii) it will finance studies for the public sector only; (iii) it assigns responsibility for coordination, execution, and monitoring to SEFIN, the government agency responsible for medium- and long- term investment programming; and (iv) it will support the process of preparing the studies necessary to move priority investments forward within the PMRTN.

**F. The Bank's country strategy**

- 1.24 The Bank's strategy for Honduras centers on the following objectives: (i) to provide support for the formulation of the PMRTN and execution of the investment program under that plan; (ii) to promote international cooperation for the financing of reconstruction through the Consultative Group; and (iii) to concentrate the limited concessional resources on social programs for the poor and on the reconstruction program, particularly in the areas of water supply, sewerage, housing, and roads.

## **II. THE PROGRAM**

### **A. Objectives and description**

#### **1. Objective**

- 2.1 The objective of the program is to promote effective and efficient public investment so as to increase the number of projects suitable for financing and improve the quality of processes in the public investment system.

#### **2. Description**

- 2.2 The program will consist of two components: (i) the financing of preinvestment studies; and (ii) institutional strengthening. This latter component will include consultancies to provide support to the Preinvestment Unit and beneficiary entities.

#### **Component 1. Financing of preinvestment studies (US\$12,864,000)**

- 2.3 The studies component will finance the hiring of consulting services to prepare general and specific preinvestment studies, mainly for projects and programs arising out of the PMRTN, agreed upon with the Bank and other financing sources, and included in the national public investment program. This component will entail the purchase of inputs, materials, and supplies. Seventeen studies will be ready to award on a competitive basis upon program initiation (see paragraphs 2.10 and 2.11).

#### **Component 2. Institutional strengthening (US\$300,000)**

- 2.4 SEFIN started a training program for the public sector in August 2000. Courses are being given on the preparation and evaluation of projects at the profile level. By the end of 2000, courses will also be provided on project management, financial analysis, and logical frameworks. This training will be financed with unutilized resources left over from loans 906/SF-HO (FOHPREI) and 968/SF-HO (public sector reform program). The new preinvestment program will therefore provide additional resources to expand the scope and coverage of training to the levels required (see paragraph 2.5).

### **B. Structure of the program**

- 2.5 To meet the training needs of beneficiary entities and the Preinvestment Unit, as executing agency, the following activities are planned in addition to the training to be provided by SEFIN: (i) courses on the formulation, evaluation, and sustainability of investment projects at the profile level in program-related areas not covered by the training currently under way (paragraph 2.4); (ii) courses on the preparation of

terms of reference for prefeasibility and feasibility studies; (iii) courses on the supervision and monitoring of preinvestment studies; and (iv) targeted consultancies as needed to review particularly complex or specialized studies. With at least 16 courses – four each year of program execution – and 10 targeted consultancies, it is considered that adequate provision has been made for the training required by the preinvestment program.

### C. Cost and financing

- 2.6 The total cost of the program would be the equivalent of US\$15 million, US\$12 million of which would be financed by the Bank with resources from the Fund for Special Operations (FSO). The Government of Honduras, through SEFIN, would provide the equivalent of US\$3 million. The following table shows costs by investment category.

Costs (US\$ 000)				
Investment category	IDB	Local counterpart	Total	%
<b>I. Direct costs</b>	<b>10,664</b>	<b>2,520</b>	<b>13,184</b>	<b>87.9</b>
1.1 Financing for the studies	10,464	2,400	12,864	85.8
1.2 Short-term consultancies and support services	200	—	200	1.3
1.3 Equipment, materials, and supplies	—	120	120	0.8
<b>II. Indirect costs</b>	<b>250</b>	<b>410</b>	<b>660</b>	<b>4.4</b>
2.1 Institutional strengthening	250	50	300	2.0
2.2 Additional personnel	—	360	360	2.4
<b>III. Unallocated</b>	<b>618</b>	<b>22</b>	<b>640</b>	<b>4.3</b>
3.1. Contingencies	618	22	640	4.3
<b>IV. Financial costs</b>	<b>468</b>	<b>48</b>	<b>516</b>	<b>3.4</b>
4.1. Interest	348	—	348	2.3
4.2. Credit fee	—	48	48	0.3
4.3 Supervision and monitoring	120	—	120	0.8
<b>TOTAL</b>	<b>12,000</b>	<b>3,000</b>	<b>15,000</b>	<b>100.0</b>
<b>% of total</b>	<b>80</b>	<b>20</b>	<b>100</b>	

### D. Revolving fund

- 2.7 Based on the progress made thus far in preparing the profiles and terms of reference, a revolving fund equivalent to 5% of the loan amount will be established in accordance with applicable policies, so that program expenses can be met in a timely and efficient way. The program resources will be deposited in a special account, the establishment of which will be a condition precedent to the first disbursement of program resources.

**E. Program scope**

- 2.8 The initial estimate of investments required in connection with the PMRTN is approximately US\$3,724,000,000. However, a recent review of investment requirements, which excluded projects with assured financing (US\$857,400,000), revealed demand of US\$2,866,600,000. Of that amount, it is estimated that over the next four years, multilateral institutions, the IDB, and the International Bank for Reconstruction and Development (IBRD), could finance approximately US\$1 billion for projects with assured sources of preinvestment financing. Thus, the preinvestment needs correspond to projects entailing a total investment of US\$1,866,600,000 if all of the investment plans are carried out.
- 2.9 Assuming an average cost for the preinvestment studies of 5% of each investment, total preinvestment financing requirements would amount to US\$93.3 million. This means that the proposed loan would finance approximately 16% of the needs indicated and would go to priority projects for which SEFIN has included financing in its investment program for the period covered by program execution. The remaining preinvestment needs would be covered by bilateral sources or would be self-financed.
- 2.10 DIGIP put together a representative sample of projects in order to determine the installed technical capacity for program execution and prepare a project pipeline that will ensure timely startup of the program. The sample consists of 17 studies. As part of the studies, 12 project profiles have been reviewed and recommendations have been submitted to DIGIP on their content and on the terms of reference for the next preinvestment stages. These recommendations will be considered by DIGIP in connection with subsequent studies under the program. DIGIP instructed the beneficiary entities to improve the profiles reviewed and make any necessary corrections. Recommendations and guidelines were also presented to the Preinvestment Unit for reference in reviewing later studies to be financed under the program, especially with respect to the preparation of terms of reference.
- 2.11 The total cost of the studies in the sample amounts to US\$4.42 million (34.3% of the studies component of the program). The studies cover 10 subsectors of the Honduran economy in 10 executing agencies. It is estimated that the studies could generate projects with investments totaling US\$210 million.
- 2.12 The program would be carried out into an environment where demand among the beneficiary entities is greater than the availability of preinvestment resources, and thus will be demand-driven. It should also be noted that these estimates do not take into account projects that may result from the poverty reduction strategy currently under preliminary analysis by the government. The operation therefore covers only part of the preinvestments required for the governments investment program, which consists of projects assigned priority by SEFIN taking into account the operational and institutional limitations of the agencies involved.

- 2.13 Based on debt-carrying and installed institutional capacity it was decided that the scope of the program would be US\$15 million with an execution period of four years.

### III. PROGRAM EXECUTION

#### A. Borrower, guarantor and executing agency

- 3.1 The program will be executed by SEFIN through DIGIP, whose Preinvestment Unit will coordinate with the other government departments and centralized and decentralized institutions that will be using the procedures to be formulated for program execution. Other DIGIP units will provide administrative and accounting support to the Preinvestment Unit, with technical support to be furnished as necessary.

#### B. Program execution and administration

- 3.2 National and local public sector agencies and institutions, centralized as well as decentralized, will participate in the program. Financing will be provided for the studies required in these entities in the projects cycle. These entities will submit proposals to the Preinvestment Unit with the corresponding terms of reference, which will be considered by the Preinvestment Unit and the Bank. DIGIP/Preinvestment Unit will work and coordinate very closely with the beneficiary entities in preparing the profiles, drafting the terms of reference for the studies, selecting the consulting firms and individual consultants, and monitoring the preparation of studies so that they can be finalized on a timely basis with the quality required.
- 3.3 In addition to professional staff currently working on preinvestment matters, the Preinvestment Unit will be backed up by the technical capacity existing or to be developed in other DIGIP units, such as: Investment Programming, Project Analysis and Evaluation, and the Integrated Project Database. The Preinvestment Unit will be staffed with a minimum of six professionals specialized in the preparation of project profiles, terms of reference, project evaluation and administration, and procedures for the selection and hiring of consulting firms and/or individual consultants. **This additional staffing and the entry into force of legal provisions formally establishing the unit will be conditions precedent to the first disbursement.**
- 3.4 In addition, to strengthen the Unit's institutional capacity, SEFIN is conducting training programs for professionals in the Preinvestment Unit and the Management Planning and Evaluation Units (UPEGs) in the participating ministries.
- 3.5 The executing agency will ensure that the participation agreements to be signed with the beneficiary entities to govern the financing of preinvestment studies under the program (**a condition precedent to the first disbursement**) include the obligation of these entities to have the necessary trained technical staff to prepare

the terms of reference and profiles and to monitor the studies and evaluate the consulting reports.

- 3.6 The resources will be disbursed directly to SEFIN, which will be responsible for conducting the preinvestment financing and institutional strengthening activities in close coordination with the beneficiary entities and in accordance with the program Operating Regulations, presentation of which will be a condition precedent to the first disbursement.
- 3.7 SEFIN will make the corresponding payments. At SEFIN's request, resources may also be disbursed directly to the consultants for services rendered.

**C. Processing of operations**

- 3.8 Operations will be processed in accordance with the Operating Regulations prepared by SEFIN for administration of the program, subject to agreement with the IDB.
- 3.9 Requests for the use of program funds by the beneficiary entities will be approved by SEFIN through the DIGIP Preinvestment Unit. This unit will provide advice and assistance in preparing the necessary profile for the preinvestment studies to be financed at the request of the interested beneficiary entity.
- 3.10 Once finalized, in terms of form and content, the profile will be presented for approval to the Preinvestment Unit, which, in turn, will guide the beneficiary entity in preparing terms of reference for the studies.

**D. Procurement of goods and selection and hiring of consulting services**

- 3.11 The consulting firms and individual experts that will carry out the studies will be selected jointly by the DIGIP Preinvestment Unit and the corresponding beneficiary entity. A proposal evaluation committee will be appointed for each selection process, composed of specialists from these institutions and from SEFIN. The committee will evaluate the technical, legal, institutional, environmental, financial, economic, and other relevant aspects of each proposal. DIGIP is responsible for approving the committee's recommendation, which is also subject to the non objection of the Bank. Once the process of evaluating, selecting, and negotiating with the winning consulting firm and/or individual expert has been completed, SEFIN will finalize the contractual arrangements.
- 3.12 In any case, the consulting firms and/or individual consultants will be selected in such a way as to ensure a high level of technical expertise and experience in the subject of the study, as defined in the terms of reference. Among other considerations, the consulting services selected should demonstrate relative experience in the type of work, success in previous work, knowledge of the region or other similar regions, and the ability to complete the work efficiently within the

established time frame. Only consultants from IDB member countries can be hired, subject to the IDB's rules and policies for the selection of consulting services.

- 3.13 The international competitive bidding system must be used when the estimated value of the consulting services is US\$200,000 or more. The goods to be procured under the program have a value below the threshold for international competitive bidding. The procuring entity must in any event follow Bank procurement procedures and rules. The work of the consultants will be supervised by the beneficiary entity and the consulting reports must be approved by the entity, the Preinvestment Unit, and the Bank. After the first year of program execution, the Bank will evaluate whether or not to stipulate that the consulting contracts for amounts below a certain level (to be defined according to the evaluation capacity of the executing agency) should be reviewed by the Bank ex post, in which case amendments to the Operating Regulations would have to be agreed upon.

**E. Execution period and disbursement timetable**

- 3.14 The period for committing program resources will be three years, reckoned from the effective date of the loan contract; the deadline for the final disbursement of financing will be four years after that same date.

**F. Evaluation and monitoring**

- 3.15 The beneficiary entities will be responsible for direct supervision of the technical aspects of preparing the studies, and DIGIP will be responsible for ensuring consistency between the recommendations contained in the studies and the overall economic policies.
- 3.16 A total of 19 entities involved in program execution took part in preparing the Logical Framework. These entities were representative of the infrastructure, production, and social sectors, central and local governments, and consulting firms.
- 3.17 Once the study has been completed, the beneficiary entity and DIGIP will examine the draft of the final consulting report and will issue their opinions within 30 days. The final reports must also be presented to the Bank. The final consultant report must reflect the comments made by DIGIP, the beneficiary entity, and, as the case may be, the Bank.
- 3.18 During program execution, SEFIN will present semiannual progress reports covering, inter alia: (a) progress in preparing studies, including the prioritization of studies planned for the following semiannual period; (b) a profile of each of the contracted studies, indicating the cost of each study and the consulting services hired to conduct it; (c) the results of studies completed during the prior six-month period, including final reports; (d) progress made in the institutional strengthening activities; (e) investments made during the semiannual period, and the cumulative



total as of the end of that period, by investment category and financing source; and (f) progress in the fulfillment of contractual clauses.

- 3.19 Eighteen months after the effective date of the loan contract, the executing agency and the Bank will conduct an interim evaluation covering, inter alia, the level of resource commitments. If the level of commitments is below 40% of the total resources allocated to studies, or if fewer than six training courses have been executed, the executing agency and the Bank will agree on measures necessary to improve program execution.

## **G. Operational aspects**

### **1. Selection criteria**

- 3.20 The studies to be financed with program resources must be consistent first of all with national plans and priorities established in PMRTN. The inclusion of studies in the program will be approved by DIGIP at the request of a beneficiary entity based on the following criteria:

#### **a. General studies**

- 3.21 Any proposed general studies must correspond to sectors, subsectors, and/or PMRTN or national priority areas where problems exist and require study for the development of solutions. To optimize the use of program resources, a preliminary analysis must be conducted to determine the relevant technical, economic, environmental, and social parameters that will guide the focus of the proposed study. Each proposal must be presented so as to indicate what results are expected and how the study's conclusions might be applied.

#### **b. Specific studies**

- 3.22 The specific studies must address the points indicated below, by type of study:
- 3.23 **Prefeasibility studies:** As a prerequisite for preparing this type of study, the problems to be solved must have first been identified in the corresponding profile, together with possible solutions. Information on the estimated cost and benefits; beneficiaries; technical, environmental, financial, or institutional problems; and any other relevant matter should be provided for each of the alternative solutions.
- 3.24 **Feasibility studies:** As a prerequisite for preparing this type of study, it must have been demonstrated by means of a preliminary study (prefeasibility), that the project is viable, in terms of economic returns, and feasible from the technical, environmental, financial, legal, and institutional standpoints. It must also have been demonstrated that all aspects requiring analysis in greater depth have been properly identified.

- 3.25 **Final engineering designs:** As a prerequisite for preparing this type of study, it must have been demonstrated, by means of a proper feasibility study, that the project is technically, environmentally, economically, financially, and institutionally feasible, and has been assigned priority from the standpoint of its source of financing.

## **2. Local counterpart**

- 3.26 The executing agency will furnish the local counterpart resources and will seek to ensure that the beneficiary entities contribute their own resources, whenever possible, to finance part of the total costs of the studies concerned.

## **3. The use of program resources**

- 3.27 The program resources will be disbursed to SEFIN and used to hire professional consulting services for the purpose of conducting general preinvestment studies, mainly in connection with the PMRTN, and conducting the institutional strengthening activities in accordance with the Operating Regulations of the program.
- 3.28 These Regulations must provide for: (i) financing for the studies consistent with the national plans and priorities established in the PMRTN and the selection criteria agreed upon by the executing agency and the Bank; (ii) participation in the program by national and local public sector entities, centralized as well as decentralized; (iii) use of the resources exclusively to hire professional consulting services from Bank member countries; (iv) the selection and hiring of consultants in accordance with Bank rules; (v) simultaneous preparation of no more than two studies by the same consulting firm –or studies valued at no more than US\$150,000 by the same individual consultant– subject to a maximum total amount of US\$1 million during program execution; (vi) a maximum financing amount of US\$1 million for any given study, unless justification is provided and the Bank has indicated its non objection; (vii) the requirement that international competitive bidding be conducted for studies with amounts of US\$200,000 or more; (viii) use of up to US\$200,000, or the equivalent thereof, to hire consultants specialized in support activities for studies and terms of reference; (ix) use of up to US\$300,000 for spending on institutional strengthening for the entities involved in the program; and (x) prohibition of the use of resources for salaries and recurrent administrative expenses of the executing agencies or beneficiary entities. SEFIN will make the payments for the consulting services, subject to prior approval of the work performed by the beneficiary entities and the IDB.
- 3.29 The maximum amount of financing with program resources for any single study will be the equivalent of US\$1 million. When duly justified, financing may be provided for a study in excess of the amount indicated, but subject to the non objection of the IDB.

- 3.30 Out of the total amount of program resources: (a) up to US\$200,000 equivalent can be used to hire specialized consulting services to support DIGIP and to help prepare the additional studies that may be required for projects in the formulation stage and/or for the preparation of terms of reference for the studies to be financed with program resources; (b) up to US\$300,000 equivalent for institutional strengthening expenditures and activities for the Preinvestment Unit and the beneficiary entities of the program.

#### **4. Financing modalities**

- 3.31 Program resources will be allocated by SEFIN for studies requested by national and local government agencies for the purposes indicated in section III.G above.
- 3.32 In any case, the consulting firms and/or individual consultants will be selected in such a way as to ensure a high level of technical expertise and experience in the subject of the study, as defined in the terms of reference. Among other considerations, the consulting services selected should demonstrate relative experience in the type of work, success in previous work, knowledge of the region or other similar regions, and the ability to complete the work efficiently within the established time frame. Only consultants from IDB member countries can be hired, subject to the IDB's rules and policies for the selection of consulting services.

#### **5. Financial statements**

- 3.33 Financial statements on the program will be prepared annually by SEFIN in accordance with IDB requirements. Within 120 days after the close of each fiscal year, SEFIN must provide the Bank with financial statements on the program audited by an independent public accounting firm acceptable to the Bank.

## IV. FEASIBILITY AND RISKS

### A. Institutional visibility

- 4.1 The Preinvestment Unit will be strengthened by the technical capacity developed and installed in the other DIGIP units: Investment Programming and Project Analysis and Evaluation. The Preinvestment Unit will be staffed with at least 6 professionals in the preparation of project profiles, terms of reference, project evaluation and administration, and procedures for the selection and hiring of consulting firms and/or individual consultants.
- 4.2 Training programs are being conducted on the project cycle, which will benefit the Preinvestment Unit and the beneficiary entities. The executing agency will ensure that the participation agreement it signs with the beneficiary entities include the obligation to maintain the qualified technical staff necessary for normal execution of the program.

### B. Financial feasibility

- 4.3 The financial feasibility of the program will be ensured by budgetary allocations from the national counterpart, which the Government of Honduras (SEFIN) has agreed to provide. The financial feasibility of the production capacity investments will be demonstrated ex ante through feasibility studies to be financed by the program.

### C. Environmental impact

- 4.4 Since the operation would provide support in establishing the process for preparing preinvestment studies, its environmental feasibility strategy is to adopt procedures and provide institutional strengthening so that each study will adequately evaluate a project's environmental impact. To that end, the program Operating Regulations will include the following procedures, principles, and measures: (1) the projects will comply with all the requirements of **national legislation** on the environment and natural resources; (2) **environmental criteria** (including the proper handling of environmental liabilities) are incorporated into every stage of the project cycle; (3) effective **participation** by stakeholders will be encouraged; (4) the environmental impact of a project, whether direct or indirect, will be identified; (5) the prepared projects will include a design for **technical environmental specifications**, with all measures required to avoid, mitigate, correct, or offset adverse environmental impact directly related to the project; (6) as necessary, the prepared projects will include a design for **environmental protection programs** with all the measures required to avoid, mitigate, correct, or offset any adverse environmental impact a project may **indirectly** have, which programs will indicate the institutional mechanisms for effective execution; (7) as necessary, the studies

will evaluate the **institutional capacity** of the executing agencies and will design institutional strengthening activities to ensure the effective handling of environmental aspects in the projects concerned; (8) **financing** will be provided for the environmental protection measures designed for each project; (9) for projects that may entail resettlement, all possible measures will be studied to avoid or reduce the need for involuntary resettlement to a minimum, and it will be necessary to comply with Bank policy in this area.

**D. Benefits**

- 4.5 The direct impact of the program will produce short- and medium-term benefits, helping to strengthen the public investment system as part of the PMRTN strategy. This impact will be felt when the projects covered by the studies to be financed under this program are executed, benefiting Honduran society through the national reconstruction and transformation process.

**E. Risks**

- 4.6 The risks that can be identified in connection with program execution are mainly as follows: (i) the beneficiary entities may not have or retain staff trained during program execution to prepare proper profiles and terms of reference and to supervise the consultancies; (ii) the activities of these entities and the Preinvestment Unit may not be properly coordinated; (iii) the Preinvestment Unit and beneficiary entities may not have staff qualified to coordinate, supervise, and monitor the studies; and (iv) the government may not have established priorities, which could hinder or delay the selection of studies for program financing.
- 4.7 To mitigate these potential risks, the Preinvestment Unit will be strengthened with at least six professionals specialized in preinvestment; and training programs are being conducted on the project study cycle for the Preinvestment Unit and beneficiary entities. In addition, the participation agreements between SEFIN and the beneficiary entities will include the obligation to be sufficiently staffed with trained technical personnel to perform the work required. In addition, the financing will cover training throughout the four years of program execution.

**LOGICAL FRAMEWORK, PREINVESTMENT PROGRAM HO-0178  
(DIGIP)**

	<b>NARRATIVE SUMMARY</b>	<b>INDICATORS</b>	<b>MEANS OF VERIFICATION</b>	<b>ASSUMPTIONS</b>
<b>PROGRAM GOAL</b>	To make public investment more efficient and effective	Number and quality of studies financed.		
<b>OBJECTIVE OF THE PROGRAM AND PROJECT GOAL</b>	To increase the number of quality projects financed.	20 studies in five sectors financed within 18 months and 50 studies for five sectors financed within four years.	Record of financed projects	Financing for preinvestment maintained.
<b>OBJECTIVE OF THE PROJECT</b>	To improve the quality of processes in the public investment system.	A reduction in the number of documents presented that are rejected.	Record of the DIGIP approved projects.	1. Continued government support given to the project. 2. Signed interinstitutional agreements are obtained.
<b>COMPONENTS</b>	<ol style="list-style-type: none"> <li>1. Prepare, unify, reach consensus on, and deliver methodologies to the UPEGs</li> <li>2. Disseminate information on simplified procedures.</li> <li>3. Provide training.</li> <li>4. Deliver annual programming reports to the UPEGs.</li> <li>5. Develop and apply interinstitutional coordination mechanisms.</li> <li>6. Develop and apply intrainstitutional coordination mechanisms.</li> <li>7. Establish and deploy the system for monitoring the preinvestment portfolio.</li> </ol>	<ol style="list-style-type: none"> <li>1. 16 methodologies for both subsectors delivered in four years</li> <li>2. Five procedures manuals for five sectors in four years.</li> <li>3. 320 experts trained at 16 events in four years.</li> <li>4. Four programming reports delivered in four years.</li> <li>5. Intrainstitutional agreement document delivered.</li> <li>6. Interinstitutional agreement document delivered.</li> <li>7. 16 UPEGs monitored in 18 months.</li> </ol>	<ol style="list-style-type: none"> <li>1. UPEG records of receipt.</li> <li>2. Record of receipt.</li> <li>3. Participant lists and aide-mémoires for the 16 events</li> <li>4. Record of receipt.</li> <li>5. Signed ministerial instrument.</li> <li>6. Signed agreement.</li> <li>7. 16 progress reports.</li> </ol>	<ol style="list-style-type: none"> <li>1. The UPEGs apply methodologies proposed.</li> <li>2. The UPEGs apply methodologies proposed.</li> <li>3. The knowledge gained is applied.</li> <li>4. The UPEGs are included in the annual programming.</li> <li>5. Coordination is effective.</li> <li>6. The ministries are involved (external cooperation).</li> <li>7. Recommendations and observations are applied.</li> </ol>

	NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>COMPONENTS</b> <b>(cont.)</b>	<p>8. Apply the agreed uniform information system.</p> <p>9. Complete the consultancies.</p> <p>10. Deliver the equipment.</p> <p>11. Prepare and distribute the project selection criteria.</p>	<p>8. Information compilation, processing, and dissemination instruments standardized.</p> <p>9. 10 consultancies completed for 10 projects in five sectors in four years.</p> <p>10. program equipment delivered within 8 months after program startup.</p> <p>11. Selection criteria submitted.</p>	<p>8. Record of receipt.</p> <p>9. Consultant reports and records.</p> <p>10. Certification of receipt.</p> <p>11. Certified selection criteria document.</p>	<p>8. The information system used.</p> <p>9. The consultant recommendations.</p> <p>10. Equipment requirements met.</p> <p>11. DIGIP and the UNDP the selection criteria.</p>

**LOGICAL FRAMEWORK, PREINVESTMENT PROGRAM HO-0178  
(UPEG)**

	<b>NARRATIVE SUMMARY</b>	<b>INDICATORS</b>	<b>MEANS OF VERIFICATION</b>	<b>ASSUMPTIONS</b>
<b>PROGRAM GOAL</b>	To make public investment more effective and efficient.	Number and quality of studies completed.		All of the sectors involved (ministerial) are coordinated and engaged in the process.
<b>OBJECTIVE OF THE PROJECT AND PROJECT GOAL</b>	To increase the number of projects financed.	20 studies in five sectors financed within 18 months.	Signed financing agreements	All of the sectors involved (ministerial) are coordinated and engaged in the process.
<b>OBJECTIVE OF THE PROJECT</b>	To increase the number of projects suitable for financing in terms of quantity and quality.	12 projects suitable for financing presented each year.	DIGIP certification of receipt	All of the sectors involved (ministerial) are coordinated and engaged in the process.
<b>COMPONENTS</b>	<ol style="list-style-type: none"> <li>1. Receive and apply agreed methodologies.</li> <li>2. Apply the training.</li> <li>3. Unify, apply, and use the information system.</li> <li>4. Formulate, negotiate, and receive preinvestment consulting requirements.</li> </ol>	<ol style="list-style-type: none"> <li>1. Application of the methodologies by UPEGs in the five sectors to their projects.</li> <li>2. Reduction in the level of terms of reference rejected.</li> <li>3. A) Three criteria: 1) investment programming; 2) reports to third parties; 3) situation of the preinvestment portfolio. 3. B) Monitoring information delivered to DIGIP. 3. C) Reduction in complaints from system users.</li> <li>4. "x" number of terms of reference, "y" number of consultancies negotiated; "z" number of consultancies financed in "t" time.</li> </ol>	<ol style="list-style-type: none"> <li>1. DIGIP-UPEG verification meetings.</li> <li>2. DIGIP evaluations.</li> <li>3. Information system records.</li> <li>4. DIGIP records</li> </ol>	<ol style="list-style-type: none"> <li>1. The verification mechanism is effective.</li> <li>2. DIGIP is trained and evaluated.</li> </ol>



	NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
COMPONENTS (cont.)	5. Formulate, negotiate, and receive logistical support requirements.  6. Formalize and apply procedures. 7. Define the project portfolio.	5. "x" number of logistical support requirements, "y" negotiated, and "z" financed in "t" time.  6. Reduction in the time required to process requests. 7. "x" number of projects in sectors a, b, and c added to the preinvestment portfolio.	5. DIGIP records  6. DIGIP records  7. DIGIP records	5. Procedures are updated regularly.     7. Other decision-making mechanisms do not affect the process.

**PREINVESTMENT PROGRAM HO-0178**  
**DISBURSEMENT PROGRAMMING**

**VALUE IN THOUSANDS OF US\$**

CATEGORIAS DE INVERSION	YEAR 1		YEAR 2		YEAR 3		YEAR 4		TOTAL	
	IDB	LOCAL	IDB	LOCAL	IDB	LOCAL	IDB	LOCAL	IDB	LOCAL
Investment studies	2,384.00	589.50	3,141.00	649.02	3,141.00	644.69	1,636.00	639.92	10,302.00	
Technical strengthening	40.00	160.50	75.00	100.98	75.00	105.31	60.00	110.08	250.00	
Services consultancies	50.00		70.00		50.00		30.00		200.00	
Monitoring and auditing	12.00		27.00		12.00		27.00		78.00	
Monitoring and supervision	120.00								120.00	
Other agencies	234.90		284.40		282.00		248.70		1,050.00	
	<b>2,840.90</b>	<b>750.00</b>	<b>3,597.40</b>	<b>750.00</b>	<b>3,560.00</b>	<b>750.00</b>	<b>2,001.70</b>	<b>750.00</b>	<b>12,000.00</b>	
	<b>3,590.90</b>		<b>4,347.40</b>		<b>4,310.00</b>		<b>2,751.70</b>		<b>15,000.00</b>	
<b>AVERAGE</b>	<b>24%</b>		<b>29%</b>		<b>29%</b>		<b>18%</b>		<b>100%</b>	

PROPOSED RESOLUTION

HONDURAS. LOAN \_\_\_\_/SF-HO TO THE REPUBLICA DE HONDURAS  
Preinvestment Program for Reconstruction and Transformation

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 República de Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Preinvestment Program for Reconstruction and Transformation. Such financing will be for the amount of up to US\$12,000,000, or its equivalent in other currencies, except that of Honduras, which are part of the resources of the Bank's Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.