

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

**HONDURAS TRANSPORTATION AND FREIGHT LOGISTICS
SECTOR REFORM PROGRAM III**

(HO-L1219)

LOAN PROPOSAL

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ABBREVIATIONS

AAH	Administración Aduanera de Honduras [Honduran Customs Authority]
AEO	Authorized economic operator
BCH	Central Bank of Honduras
CNL	Consejo Nacional de Logística [National Logistics Council]
CNSV	Consejo Nacional de Seguridad Vial [National Road Safety Council]
COMIECO	Central American Council of Ministers of Economic Integration
ECLAC	Economic Commission for Latin America and the Caribbean
ENTT	Escuela Nacional de Transporte Terrestre [National Academy of Overland Transportation]
FFF	Flexible Financing Facility
FYDUCA	Factura y Declaración Única Centroamericana [Central American Unified Invoice and Declaration]
GDP	Gross domestic product
IHTT	Instituto Hondureño del Transporte Terrestre [Honduran Overland Transportation Institute]
IMF	International Monetary Fund
INE	Instituto Nacional de Estadística [National Statistics Institute]
INSEP	Secretaría de Infraestructura y Servicios Públicos [Department of Infrastructure and Public Services]
JICA	Japan International Cooperation Agency
LAC	Latin America and the Caribbean
LIBOR	London Interbank Offered Rate
LPI	Logistics Performance Index
LRF	Fiscal Responsibility Law
NFPS	Nonfinancial public sector
OC	Ordinary Capital
PBL	Policy-based loan
PBP	Programmatic policy-based loan
PEG	Plan Estratégico de Gobierno 2018-2022 [Strategic Government Plan 2018-2022]
PGICE	Portal de Gestión Integral de Comercio Exterior [Comprehensive Foreign Trade Management Portal]
PMCLN	Plan Maestro del Conglomerado Logístico del Norte [Master Plan for the Northern Logistics Cluster]
PNLOG	Plan Nacional de Logística de Carga [National Freight Logistics Plan]
RFID	Radio-frequency identification
SDE	Secretaría de Desarrollo Económico [Department of Economic Development]
SEFIN	Secretaría de Finanzas [Department of Finance]
SIECA	Secretaría de Integración Económica Centroamericana [Secretariat for Central American Economic Integration]
UTEL	Unidad Técnica de Ejecución Logística [Technical Unit for Logistics Execution]

PROGRAM SUMMARY
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Financial Terms and Conditions			
Borrower:	Source	Amount (US\$)	%
Republic of Honduras	IDB (Regular OC):	77,012,000	65
	IDB (Concessional OC):	41,468,000	35
	Total IDB:	118,480,000	100
Executing agency:	JICA parallel financing: ^(a)	100,000,000	-
Department of Finance (SEFIN)	Grand total:	218,480,000	-
	Regular OC (FFF) ^(b)	Concessional OC	
Amortization period:	20 years	40 years	
Disbursement period:	1 year		
Grace period:	5.5 years ^(c)	40 years	
Interest rate:	LIBOR-based	0.25%	
Credit fee:	^(d)	N/A	
Inspection and supervision fee:	^(d)	N/A	
Weighted average life:	PBL: 12.75 years	N/A	
Approval currency:	U.S. dollar		
Program at a Glance			
<p>Program objective/description: The program's general objective is to support improvements in the logistics performance of Honduras through regulatory, institutional, planning, and trade facilitation reforms in the sector, with a view to boosting competitiveness and regional integration. Its specific objectives are to: (i) develop a regulatory framework with specific rules aimed at improving freight logistics services as part of a long-term vision; (ii) strengthen the institutional framework for the logistics sector by strengthening and consolidating the National Logistics Council and its technical agency; (iii) improve the sector's integrated planning and delivery of associated services; and (iv) modernize and simplify trade facilitation processes and technological systems.</p> <p>This loan is the last in a series of three operations that are technically linked but financed separately as programmatic policy-based loan operations (document CS-3633-2).</p>			
<p>Special contractual conditions precedent to the single disbursement of the loan: The sole disbursement of the loan proceeds will be contingent on fulfillment of the policy reform conditions, as established in the policy matrix, the policy letter (required link 1), and the contractual conditions established in the loan contract (paragraph 3.2).</p>			
<p>Exceptions to Bank policy: None.</p>			
Strategic Alignment			
Challenges: ^(e)	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>
Crosscutting themes: ^(f)	GE <input checked="" type="checkbox"/> and DI <input checked="" type="checkbox"/>	CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

^(a) The parallel financing will consist of a highly-concessional JICA loan (paragraph 1.33).

^(b) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations, market conditions, as well as the level of concessionality of the loan, into account when reviewing such requests, in accordance with applicable Bank policies.

^(c) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

^(d) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

^(e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(f) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROGRAM DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic considerations.** In recent years, the Honduran economy has been one of the most dynamic in Latin America and the Caribbean (LAC). From 2014 to 2019, the country's annual growth averaged 3.8%, which is above the average for Central America (3.5%) and the LAC region as a whole (2%).¹ However, in the context of the health and economic crisis caused by the COVID-19 pandemic, which was aggravated by storms Eta and Iota,² the Central Bank of Honduras (BCH) estimated a 9% drop in gross domestic product (GDP) in 2020, due to lower consumption and private investment and falling exports of goods and services (owing to a contraction in external demand). The BCH projects a gradual recovery with growth of 4.2% in 2021,³ returning to pre-crisis levels around 2023.
- 1.2 The crisis caused the nonfinancial public sector (NFPS) deficit to increase to 5.5% of GDP in 2020, the largest increase since 2013 (when it was 7.5% of GDP), compared with the 1% of GDP increase provided under the Fiscal Responsibility Law (LRF).⁴ The expansion of the fiscal imbalance was attributable to the drop in tax receipts of 3% of GDP and additional public spending to bolster the health system and support families and workers, most of which was financed with external resources. As a result, NFPS debt rose from 44.4% to 55% of GDP in 2020. The fiscal dynamics are consistent with the parameters that the country agreed upon with the International Monetary Fund (IMF) in the context of its economic program. The NFPS fiscal deficit is projected to edge down slightly in 2021 to 5.4% of GDP,⁵ and would subsequently return to 1% of GDP in 2023, in line with the parameters of the LRF. Nonetheless, risks remain, with the pandemic prolonging, a slow vaccination process, financial imbalances in the electricity sector, the uncertainty of the electoral process, and structural challenges for improving productivity.
- 1.3 The pandemic widened the existing social divide, hitting employment the hardest. According to the National Statistics Institute (INE), the open unemployment rate⁶ rose sharply from 5.7% in 2019 to 10.9% in 2020, due to the closure of businesses and lower aggregate demand as a result of the health crisis. The urban open unemployment rate is estimated at 11.2%, similar to the rural rate of 10.5%, and unemployment is higher among women (13.7%) than men (8.7%). The visible underemployment rate rose to 27.3% (from 10.6% in 2019); while the invisible underemployment rate dropped to 43.4% (from 50% in 2019). Thus, the overall

¹ That is 4.8% in 2017; 3.7% in 2018; and 2.7% in 2019 (World Bank, 2020. [Honduras. Overview](#)). Growth was below the five-year average in 2019 as a result of contracting agricultural production, due to a severe drought and a slowing global economy. These factors caused both external and internal demand to fall, particularly in exports and investment.

² In November 2020, tropical storms Eta and Iota hit Honduras leaving total damages and estimated losses equivalent to US\$2.17 billion, concentrated in the social (18%) and productive (68%) sectors; 10% of this was in infrastructure, with US\$160 million in the transportation subsector. Source: [IDB, 2021](#).

³ BCH, 2021. [Análisis Macroeconómico Programa Monetario](#).

⁴ The crisis made it necessary for the authorities to exercise the escape clause provided under the LRF in order to increase the 1% of GDP limit on the NFPS deficit, which is also required under normal circumstances.

⁵ On 15 July 2019, the IMF approved a US\$323 million contingent credit facility to support Honduras' fiscal stability, which has been extended until November 2021.

⁶ Percentage of the total economically active population that wishes to work but cannot find a job.

underemployment rate⁷ rose from 60.6% in 2019 to 70.6% in 2020, worsening poverty. Honduras has a high level of poverty, particularly in the agricultural and manufacturing sectors, with rates of 78.9% and 59%, respectively. The poverty rate is projected to increase from 53.8% to 59.3% as a result of the pandemic.⁸ Honduras also has among the highest rates of inequality in Latin America and the Caribbean and the world, with a Gini coefficient of 52.1 in 2018. This reflects the low average per capita income—20 times higher for the wealthiest quintile than the poorest one⁹—and one of the smallest middle classes in Latin America and the Caribbean (11% in 2015, compared to 35% at the regional level).¹⁰

- 1.4 In 2019, Honduras' economic structure was dominated by the tertiary sector (contributing 58.9% of GDP), with the transportation and logistics subsector being noteworthy for its influence on competitiveness. The secondary and primary sectors contributed 25.3% and 15.8% of GDP, respectively;¹¹ this structure was maintained from 2007 to 2019 but is expected to have changed in 2020.¹² In terms of foreign trade,¹³ the agricultural subsector represents 33.3% of total goods exports and 61.7% of general merchandise exports in 2020, primarily in products such as coffee, banana, and palm oil. For imports, trade activity in general merchandise linked to consumer goods (33.8%) stands out, followed by manufacturing, through imports of raw materials and intermediate products (equivalent to 30.8%).
- 1.5 **Transportation and freight logistics sector.** Given its tie-in with agriculture and manufacturing, the sector's development and performance are key for Honduras' competitiveness.¹⁴ Manufacturing is particularly associated with the maquila industry in San Pedro Sula, which accounts for 31% of manufacturing value-added and nearly 5% of GDP.¹⁵ That sector and passenger transportation together account for nearly 5% of the working population,¹⁶ although these workers are primarily men (paragraph 1.17). In the second quarter of 2020, the sector shrank 18.1%,¹⁷ associated with the decline in the movement of goods destined for the foreign market and domestic consumption and inputs for industry, due to the restrictions imposed as a result of the COVID-19 pandemic. The drop in warehousing services, stemming from slower economic activity and lower merchandise imports, also had an impact.¹⁸ The pandemic posed major challenges for the logistics sector, and a potential reconfiguration of global supply chains is anticipated in the medium term.

⁷ The sum of visible and invisible underemployment.

⁸ Source: IDB, 2020. [Desigualdad y descontento social: Cómo abordarlos desde la política pública](#).

⁹ Ibid.

¹⁰ World Bank, 2020.

¹¹ BCH, 2020. [PIB Enfoque de la Producción, 2000-2019](#).

¹² The activities hardest hit in the second quarter of 2020 were: manufacturing (-22.6%), trade (-13.32%), private construction (-33.9%), and hotels and restaurants (-46.4%). Positive contributions came from telecommunications services (4.2%) and financial intermediation (1.2%).

¹³ In 2017, 43.3% of imports were from the U.S., and 54% of exports were to that country.

¹⁴ Honduras held steady at 101 on the [Global Competitiveness Index](#) in 2018 and 2019.

¹⁵ National Freight Logistics Plan (PNLOG), 2017.

¹⁶ ECLAC, 2020. [Honduras: Perfil Nacional Socio-Demográfico](#).

¹⁷ In the same period in 2019 it grew 1.6%

¹⁸ BCH, 2020. [Comportamiento de la Economía Hondureña al Segundo Trimestre de 2020](#).

- 1.6 The sector includes: (i) maritime transportation, which accounts for 68% of the value of exports and 51.5% of imports,¹⁹ with shipping companies that offer services on 21 routes and Puerto Cortés being the main access point; (ii) air transportation, which represents 11% of the value of exports and 27.7% of imports, with the San Pedro Sula International Airport being the primary infrastructure;²⁰ and (iii) overland transportation,²¹ primarily highways, which accounts for 21% of the value of exports and 20.8% of imports, in addition to being the main axis for freight movement within the country.²² The latter is generally seen as a fragmented activity associated with the informal sector, especially with respect to the flow of goods bound for domestic and regional markets. According to a World Bank survey on the perceived quality of transportation, 26.5% of companies indicated transportation was a major difficulty, compared with 0.5% in Panama, 10.5% in Nicaragua, 16% in El Salvador, and 19.2% in Guatemala. Fifty-five percent of this service is provided by 1,357 large private companies, while the remaining 45% are the so-called cargo transport units or small entrepreneurs with one to 10 vehicles; in recent years (2016-2019) this latter category totaled 28,171 transport vehicle operators²³ and around 54,000 vehicles.²⁴
- 1.7 Honduras plays a key role as a hub and distribution center for merchandise going to or coming from the Northern Triangle countries. It has both the main Mesoamerican port along the Caribbean (Puerto Cortés) and the most significant integration corridors, such as the Mesoamerican Atlantic Corridor. To consolidate this role and take advantage of the opportunity in the current global economic context and in the reconfiguration and shift of value chains to the region due to its geographic proximity (nearshoring), appropriate legislative, legal, and regulatory conditions must be put in place, logistics performance indicators improved (paragraph 1.12), and progress made on implementing trade facilitation agreements (paragraph 1.13), to help attract investment in the transportation and logistics sector.
- 1.8 **Institutional framework and planning tools.** Working in the sector are institutions responsible for ([optional link 2](#)) transportation infrastructure, regulation of services, control of foreign trade operations, and trade facilitation. In recent years, institutional adjustments were made, including notably the creation of the National Logistics Council (CNL), as the decision-making body that reports to the Office of the President of the Republic, together with its Technical Unit for Logistics Execution (UTEL), which is responsible for project management and interagency coordination. The Honduran Customs Authority (AAH) was also created to implement the authorized economic operator program and comply with the trade facilitation agreement with the World Trade Organization (WTO). Nonetheless, the pandemic and storms have forced them to focus on speeding up emergency goods and recovering affected facilities. The Bank has identified institutional weaknesses, due to the change in over 80% of their staff, and in the creation of three courses with over 700 participants to build capacity in various related areas. The Honduran

¹⁹ Source: [Anuario de Comercio Exterior 2015-2019](#).

²⁰ In 2018, the San Pedro Sula Airport moved 21,800 tons of freight and Toncontín just 3,900 tons.

²¹ In the region, 85% of freight (by weight) is transported by highway. IDB, [Development in the Americas 2020](#).

²² [PNLOG Honduras, 2015-2030](#).

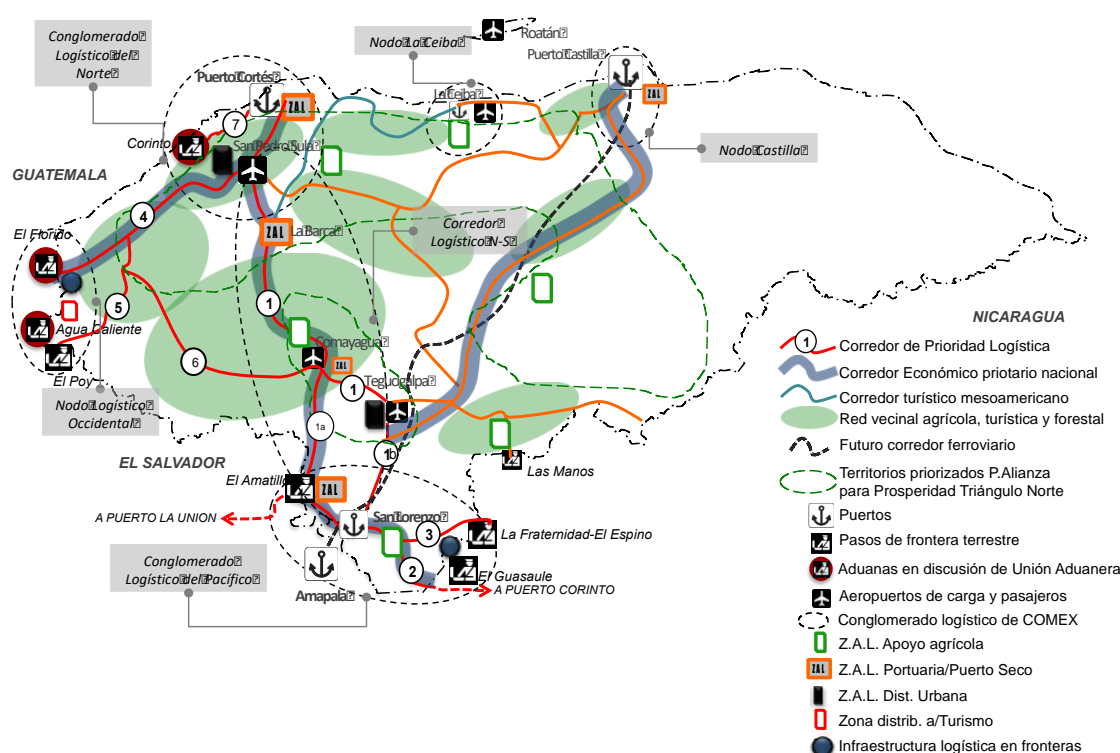
²³ Honduran Overland Transportation Institute (IHTT), 2019.

²⁴ Executive Agreement 0528 of October 2019 regulates minimum freight transportation rates, to ensure a rate that covers operating costs.

Customs Authority is aware of the information and technology divide at border posts that needs to be addressed with investments similar to those made by Nicaragua and El Salvador.

- 1.9 In 2017, to support transformation of the sector, Honduras prepared the **National Freight Logistics Plan (PNLOG)** ([optional link 6](#)) which classifies groups of logistics operations as logistics clusters and characterizes the trade relationship with the National Logistics System²⁵ (Figure 1). The Northern Logistics Cluster encompasses San Pedro Sula and its airport, Puerto Cortés, the border with Guatemala, and the road network linking them, connecting production centers (maquila and agricultural) to key infrastructure for foreign trade and in neighboring countries. The PNLOG includes an Immediate Action Plan, which was updated for the period 2020-2022.

Figure 1. National Logistics System in Honduras



Source: PNLOG, 2017.

- 1.10 The PNLOG²⁶ is a long-term instrument used to integrate transportation and logistics sector plans and initiatives; it identifies a series of needs (paragraphs 1.20-1.23) and establishes an efficient mechanism of ongoing coordination among the public and private institutions involved. Its sustainability and proper implementation of priority

²⁵ The National Logistics System is relevant at the Central American level, providing economic integration processes, specifically with the Secretariat for Central American Economic Integration (SIECA) and the Mesoamerica Project ([optional link 3](#)).

²⁶ Including: [Visión de País 2010-2038](#); [Plan de Nación 2010-2022](#); [PEG 2018-2022](#); National Competitiveness Strategy; and regional strategic documents, such as the Logistics and Mobility Regional Framework Policy.

actions and projects are based on both the consolidation of the legislative and regulatory framework to meet the sector's needs and the development of modern, effective planning and trade facilitation instruments.

- 1.11 **Productivity.** Honduras' logistics and transportation sector has experienced positive growth,²⁷ accounting for a 7.6% share of GDP in 2019,²⁸ similar to that of Guatemala (7.3%), but lower than other countries such as El Salvador (8.7%), Costa Rica (10.3%), or Panama (12.5%).²⁹ The cost of a truck with a 40-foot container is US\$2.27 to US\$2.58/km,³⁰ which is among the highest in the region.³¹ These services are characterized by: (i) overloading, due to the nonexistence of certification and weight control at origin; (ii) fleets that are highly outdated (15 years old, on average);³² (iii) high percentage of shipments that return empty (40.3% on trips under 150 km and 41.2% on longer trips); (iv) low operating speeds (4 to 18 km/hour),³³ primarily due to border controls and the inability to travel at night due to safety risks, among other things; and (v) the limited supply of refrigerated vehicles. There are also infrastructure gaps for border trade; wait times at customs and inspection stations account for 15% to 20% of total shipment time on international routes.
- 1.12 **Logistics performance.** Honduras' logistics performance faces challenges that impact its productivity and competitiveness and are closely related to the challenges of regional and social inequality (paragraph 1.3). Honduras ranks 93rd out of 160 countries on the Logistics Performance Index (LPI),³⁴ but it improved in some components of that index from 2016 to 2018, such as infrastructure (moving from 143rd to 88th), logistics competence (110th to 75th) and customs (97th to 93rd). It was also 101st out of 141 countries on the Global Competitiveness Index (2019), falling in the lower band for the region, near Guatemala (98th), El Salvador (103rd), and Nicaragua (109th), with low scores in road connectivity (120th) and airport connectivity (106th). These characteristics impact logistics performance, primarily because of the coverage and quality of strategic corridors for moving goods. This, coupled with the need to improve the speed and reliability of customs processes of agencies, transportation operators, and customs agents, translates into high import and export costs.

²⁷ The average annual growth rate in the last 10 years was 9% (BCH, 2018). Changes were made to this indicator in late 2020, due to the effects of the COVID-19 pandemic.

²⁸ ECLAC – CEPALSTAT. [Estadísticas e indicadores económicos](#).

²⁹ Ibid.

³⁰ For trips from Tegucigalpa to Guatemala and San Salvador, respectively; it drops to US\$1.40/km in Panama.

³¹ In Costa Rica, despite a very high cost structure due to its rates, the average to all destinations is US\$1.55/km. Source: surveys conducted under the "Research Project to Assess, Map, and Design the Regional Institutional Framework for Mobility and Logistics in Central America". JICA, 2017.

³² From 2016 to 2019, 49% of imported freight vehicles were used vehicles (6,235), with impacts the average age of the vehicle fleet. Source: Reporte de la Dirección General de Aduanas (DARA).

³³ Source: [JICA, 2017](#).

³⁴ [LPI Report, 2018](#). Source: World Bank.

- 1.13 **Services.** Honduras is making significant efforts to improve its infrastructure,³⁵ however inefficiencies persist in the availability and level of service necessary to effectively coordinate the National Logistics System with international trade, and its resilience to address climate change-related effects. This creates a need to plan investments with a comprehensive vision of strategic corridors, seeking to reduce logistics costs and ensure the availability of infrastructure. Regarding overland freight transportation service, not only does it have operational inefficiencies (paragraph 1.11), but there is also a need to regulate safety and implement computerized registration and management systems. Traffic congestion in urban areas impairs this service, which demonstrates the need for programs to improve urban logistics.³⁶ Logistics services are not well diversified; and supply is concentrated in auxiliary services, with few services offering value-added. There are also delays in border services that impact crossing times, due to a lack of efficient processes for screening goods and people owing to the absence of non-intrusive inspection equipment (paragraph 1.16).
- 1.14 **Customs and trade facilitation processes (economic integration).** According to the World Bank's Trading across Borders indicator,³⁷ an indicator measuring the time and costs involved in exporting and importing a product, border compliance for exports takes 108³⁸ hours in Honduras, compared to 24 hours in Panama and El Salvador and 36 hours in Guatemala (and an average of 55.3 hours for LAC as a whole). Border compliance for imports in Honduras takes 96 hours,³⁹ compared to 24 hours in Panama, 36 hours in El Salvador, and 72 hours in Guatemala. Honduras' overall position on the Ease of Doing Business Index deteriorated from 115th in 2018 to 123rd in 2019. The components of the index on which it scored the lowest were freight transportation security and the efficiency and transparency shortcomings widely perceived to exist in customs processes. Nonetheless, border crossing times for freight transportation vehicles between Honduras and Guatemala did fall considerably with the implementation of the Customs Union.⁴⁰
- 1.15 **Energy efficiency and climate change.** The frequency and magnitude of natural disasters in Latin America and the Caribbean linked to the effects of climate change, such as hurricanes, drought, and flooding, rose in the region (from 2010 to 2019 the frequency was triple that in the period from 1970 to 1979); the damage to roads, buildings, machinery, equipment, and crops from those phenomena jumped from US\$7.4 billion to US\$102.7 billion ([Development in the Americas 2020](#)). In 2016,

³⁵ Cumulative public investment (2010-2017): US\$1.8189 billion ([IDB/INFRALATAM](#)). In all, 23% of the national road system was in good repair, 52% in fair condition, and 25% in poor condition, according to the Department of Infrastructure and Public Services (INSEP, 2017).

³⁶ Effective steps need to be taken to integrate freight transportation and mobility and relieve congestion by using new technologies to facilitate more efficient use of available urban space (IDB, [Development Impact in the Americas-2020](#) and [Logística en América Latina y el Caribe: Oportunidades, desafíos y líneas de acción](#)).

³⁷ [Doing Business 2020](#).

³⁸ This backslid from 88 hours in 2019.

³⁹ This remained unchanged from 2019.

⁴⁰ The Honduran Customs Authority recorded average dispatch times in 2020 of 14 hours and 24 minutes at the El Amatillo Customs Station but 23 hours 17 minutes in Guasaule for general freight. Those times, however, are cut to less than 15 minutes for the transit of import or export goods between the two countries at Deep Integration Facilitation Centers. [World Bank, 2019](#).

CO₂ emissions in Honduras totaled 9,812.89 k/ton, which was 0.027% of the worldwide total for that year; the transportation sector represents 39%⁴¹ with around 2,100 Gg of CO₂/year. It will continue to trend upward due to the increase in the stock of vehicles; from 2014 to 2018 the stock rose from 1,266,099 vehicles to 1,849,649⁴²—a 46.1% increase. According to the 2015 National Energy Balance Sheet, 38.6% of energy consumed was from oil derivatives, with 46.6% of those imported products being consumed by the transportation sector. Diesel's share fell from 56% in 2000 to 48% in 2015, while gasoline's share rose from 39% to 46%.⁴³ In this context, the main challenges to promoting clean and sustainable mobility⁴⁴ are: (i) development of institutional and legal frameworks that include climate change mitigation and adaptation guidelines; (ii) professionalization of the transportation sector; (iii) fleet renewal and optimization; and (iv) training drivers in efficient driving techniques. The attached technical note ([optional link 4](#)) presents guidelines for policy-making on energy transition in the transportation and logistics sector, to guide the country in taking long-term strategic measures.

1.16 Innovation and technology. Recent IDB studies⁴⁵ show that supply chains (including logistics activities) in Latin America and the Caribbean are a decade behind in terms of the digital transformation process seen in the more advanced economies. The Government of Honduras has developed at the level of a State policy a technology and innovation agenda⁴⁶ to reduce the digital divide, including modernization of technology processes and infrastructure.⁴⁷ For the transportation and logistics sector, the PNLOG establishes the need to adopt good practices in information and communications technology, to support the operation of logistics chains, expecting this to produce efficient digitalized processes to support the operation of the public and private sectors and logistics communities. In the case of customs management, since the Honduran Customs Authority was established, it has adopted an agenda for modernizing the digital platform and processing online payments—an agenda that was accelerated with the pandemic. The following actions were taken: (i) digital tracking of files; (ii) paperless customs project, including peripheral customs stations with Guatemala under the Customs Union; and (iii) identity cards for and registration of individuals or companies involved in customs management functions. Despite this progress, for Honduras to strengthen its standing as a global logistics hub it needs to promote an innovation agenda and create guidelines for designing a public agenda aimed at phasing in green power.

1.17 Gender. According to the June 2018 survey on [Women's Participation in Honduras' Logistics Sector](#) conducted by the IDB and the National Logistics

⁴¹ [World Bank, 2016.](#)

⁴² Motorcycles (41.1%), automobiles and pick-ups (20.7%), private vehicles (18.8%), SUVs (9.5%), trucks (3.7%), buses (3.1%) and others (3.0%). [INE, 2019.](#)

⁴³ [ECLAC, 2019.](#) Consumption of vehicle natural gas or electricity is insignificant relative to diesel and gasoline.

⁴⁴ IHTT. [Visión hacia una movilidad limpia y sostenible.](#)

⁴⁵ [Cadena de suministro 4.0: Mejores prácticas internacionales y hoja de ruta para América Latina.](#) Calatayud and Katz, 2019.

⁴⁶ It includes the 2014-2018 Digital Agenda, the Digital Government Master Plan and, at the institutional level, the creation of a sectoral cabinet on administrative simplification.

⁴⁷ In all, 30% of Hondurans have access to the Internet (LAC average: 56%). Also, 26% have broadband access (LAC average: 35%). National Household Survey, INE, 2016.

Council, women account for less than 15% of jobs involving physical labor or operating equipment and machinery (including driving light and heavy vehicles), and of jobs in maintenance, post-manufacturing, packaging, labeling, and the operation of measuring tools.⁴⁸ By contrast, women's participation is over 15% in management, office work, or data analysis jobs; and in decision-making and management functions, 30% of the companies surveyed report women's participation at more than 50%.

- 1.18 Women face barriers to employment in the sector associated with working conditions and training opportunities. In occupations such as driving transportation vehicles, the absence of standardized training perpetuates informal learning, which is provided in a predominately male environment; this barrier to equal opportunities is also an obstacle to boosting sector productivity. Gender diversity in a company has been proven to improve client focus, foster greater employee satisfaction, reduce conflicts between groups, and promote creativity and innovation,⁴⁹ resulting in an inclusive labor force that is more innovative and productive.⁵⁰
- 1.19 **Persons with disabilities.** According to the National Statistics Institute (INE), there were 205,423 persons with disabilities⁵¹ in Honduras in 2013 or 2.37% of the population. That year, the labor force participation rate for this population was 32%, most of whom were self-employed. The logistics system indicators on access and social and labor market integration for persons with disabilities are even more unfavorable. A 2019 survey by the National Logistics Council found that persons with disabilities make up less than 4% of the workforce at 11 public and 22 private companies of the transportation and logistics sector.⁵² Moreover, 59.5% of these companies reported a lack of knowledge of the issue and not being used to hiring persons with disabilities as the greatest roadblocks to access to employment, while 27.5% said logistics and transportation infrastructure was not accessible. Meanwhile, 13% of private companies reported that their vacancies were not suitable for persons with disabilities, and 15% of public agencies reported that jobs in the sector required higher standards of training.
- 1.20 **Problem to be addressed.** These issues are related to deficiencies in institutional coordination and capacity to sustainably implement sector policies, and legislative and regulatory instruments that incentivize competition and promote efficiency and access to quality logistics services;⁵³ they also entail a low level of inclusion of technological innovation, little consideration for the resilience of infrastructure, scant

⁴⁸ Nearly 77% of companies reported 15% female employment. In machinery operation, 84% of companies reported less than 15% female employment. A sector is considered traditionally female- or male-oriented when the participation of one gender is less than 25%. Hegewisch, A. and Hartmann, H., 2014.

⁴⁹ Hunt, Vivian et al. (2014). Diversity Matters.

⁵⁰ [Innovation, Science, and Technology Sector Framework Document \(document GN-2791-8\)](#).

⁵¹ Person with some type of health, physical, or mental problem that has lasted or will last more than six months and hinders his/her activities. 2013 Census, INE.

⁵² The requirement for the workforce to comprise 4% persons with disabilities was established in [Decree 160 of 2005 \(Law on Equity and Integral Development for Persons with Disabilities in Honduras\)](#).

⁵³ According to the World Economic Forum (WEF), the quality of infrastructure services improved less in LAC than in any other region (except Sub-Saharan Africa) and the gap with other regions continues to widen. In Honduras, from 2008 to 2018, there was a 6% change in this measure, slipping from 3.40 to 3.59. Source: [Development in the Americas 2020](#).

alignment of infrastructure plans, and services with climate and economic development objectives.

- 1.21 **Regulatory framework for freight logistics and trade facilitation.** The absence of an integrated planning system has made it difficult to set a national logistics policy addressing sector issues in a long-term manner. The Government of Honduras is formulating the Logistics Law that promotes sustainable planning practices, incorporating the environmental and innovation dimension in the National Logistics System's components and in energy transition. Its regulations will set standards for logistics infrastructure where there currently are none, with a focus on resilience to natural disasters. Once passed, the Logistics Law will complement the Overland Transportation Law, which was revised in 2016, and its specific regulations, including freight insurance and weight and dimension checks, that are key to improving the safety and efficiency of overland transportation. These regulations are part of the commitments under the Central American Road Transit Agreement.⁵⁴ Likewise, progress is needed on regulations and standards for checks and implementation of measures to promote vehicle fleet modernization aimed at energy efficiency.
- 1.22 **Institutional framework for transportation and freight logistics.** In the first phase of the program, the country moved forward by creating institutions to support sector transformation (paragraph 1.8); the challenge is to make them more efficient: the new management institutions need to improve their coordination processes, align needs, and assign responsibilities to all stakeholders across different government levels and sectors, both public and private. The inclusion within the Strategic Government Plan (PEG) of all the priority freight transportation and logistics projects of the institutions involved in the sector, duly coordinated by the National Logistics Council and its technical agency, will ensure that it is an efficient coordination mechanism and will consolidate its sustainability. This operation, through the Logistics Law, and by monitoring and evaluating the progress made on implementation of the PEG 2018-2022, including recommendations for strengthening its implementation, consolidates the role of the National Logistics Council as coordinator of the involved public entities—determining the responsibilities of each according to their regional and sector competencies—and facilitator with the private sector.
- 1.23 **Establishment and modernization of comprehensive planning, transportation and freight logistics, and trade facilitation processes.** To strengthen the logistics structure, a specialized logistics infrastructure with a comprehensive vision needs to be developed (e.g. activity and urban distribution zones, logistics parks, and dry ports). Infrastructure is currently distributed across disconnected logistics facilities (e.g. warehouses, parking facilities, and small-scale distribution centers) that exclusively house auxiliary logistics activities. There is virtually no value-added logistics infrastructure, which affects small and medium-sized producers. The Master Plan for the Northern Logistics Cluster is an important tool, crafted through a participatory process involving all sector entities. The Master Plan, which is to be approved by the National Logistics Council, identifies the cluster's strategic business lines, based on an analysis of growth trends in demand segments that are attracted by specialized logistics services ([optional link 5](#)). The hypothesis is that creating

⁵⁴ As mandated by the Central American Council of Transportation Sector Ministers (SIECA, 2014).

specialized logistics infrastructure will help optimize national and regional distribution networks, serving as a basis for the emergence of collaborative services, such as freight exchange services and digital crowd logistics platforms, in line with the mobility trends signaled by [Development in the Americas 2020](#).⁵⁵ It also includes an environmental dimension in development of resilient infrastructure. Progress is also needed on modernizing overland freight transportation services, by spelling out strategies for technological advancement in the fleet and strengthening logistics training processes,⁵⁶ in a way that encourages women's participation in particular (paragraph 1.17) and bolsters the work done by the National Academy of Overland Transportation (ENTT) and private driver training schools. Lastly, regarding trade facilitation, the consolidation of the Guatemala-Honduras Customs Union is a milestone in Central American integration that requires strengthening the regulatory operating framework through nonintrusive, interoperable technology. Steps to implement international trade agreements underscore the need to include actions that reduce logistics costs.⁵⁷

- 1.24 **Intervention.** To help bridge the gaps in the sector (paragraphs 1.11-1.19) and improve the performance and quality of logistics services and national and regional integration, by helping to leverage its potential as a regional transportation and freight logistics hub, the program, implemented through a three-phase programmatic policy-based loan, addresses the determinants identified in the diagnostic assessment (paragraphs 1.20-1.23), in line with the agenda introduced in [Development in the Americas 2020](#) to promote more efficient, inclusive, and sustainable transportation services.
- 1.25 **Proposed solution.** During the first operation,⁵⁸ the Honduran government made progress in setting sector reform priorities, in line with the guidelines established by the National Freight Logistics Plan, including prioritization at the public policy level in the Government Strategic Plan 2018-2022. The institutional framework of the National Road Safety Council (CNSV) was updated, regulations to strengthen freight transportation safety were drafted, and the facilitation agreements between Guatemala and Honduras were implemented. On the institutional front, the organizational structure for managing freight logistics was approved, creating the National Logistics Council and establishing its Technical Unit for Logistics Execution. Regarding sector planning, an interagency agreement was approved with key guidelines for preparing the Master Plan for the Northern Logistics Cluster (PMCLN); a smartcard-based vehicle registration system was implemented; and a national driver-training system was created. Lastly, regarding trade facilitation, the following began: creation of the Comprehensive Foreign Trade Management Portal (PGICE), implementation of the pilot phase of the authorized economic operator program, adoption of technological requirements to implement radiofrequency identification

⁵⁵ [Development in the Americas 2020: From Structures to Services. The Path to Better Infrastructure in Latin America and the Caribbean](#). The study offers an in-depth diagnostic assessment of accessibility, quality, and affordability of infrastructure services in the region, together with examples of regulatory policies that have made progress in service delivery.

⁵⁶ The universities offer undergraduate and postgraduate courses in logistics and supply chains, but technical training is nonexistent. PNLOG, 2017.

⁵⁷ Central American Strategy for Trade Facilitation and Competitiveness and the World Trade Organization's Trade Facilitation Agreement.

⁵⁸ Loan 4625/BL-HO Honduras Transportation and Freight Logistics Sector Reform Program.

(RFID) tracking devices, and use of the Central American Unified Invoice and Declaration (FYDUCA) for trade in goods that move freely within the Honduras-Guatemala Customs Union.^{59, 60}

- 1.26 The second operation⁶¹ centered on drafting legal instruments to support sector reforms, responding to the needs identified when publicizing the PNLOG, including: (i) the Freight Logistics Bill to update the sector's regulatory framework taking energy efficiency issues into account; (ii) regulations established under the existing Transportation Law that included freight safety considerations; and (iii) regulations for modernization of the vehicle fleet to improve service efficiency. To strengthen the institutional framework and comprehensive planning, the program strengthened and implemented the National Logistics Council and the Technical Unit for Logistics Execution, this latter being responsible for coordinating the development of policies and projects in the sector, taking measures such as energy efficiency and fostering the inclusion of persons with disabilities. As regards trade facilitation, the program supported the implementation of the measures under the Central American Strategy for Trade Facilitation and Competitiveness, specifically those concerning technological systems and equipment for trade processes.⁶²
- 1.27 This third and final operation, in keeping with the recommendations from [Development in the Americas 2020](#) on the need for governments to be actively engaged in policy-making in order to modernize their institutions (paragraph 1.22) and innovate in the use of regulatory and planning instruments, will complete the proposed reforms, locking in the gains made in strengthening logistics and transportation in the country (paragraphs 1.44, 1.46, 1.49, and 1.51). Key measures include approval of the Logistics Bill, regulations on overland freight transportation insurance, the Master Plan for the Northern Logistics Cluster, the logistics and transportation fleet modernization plan, and the technical and financial sustainability plan for the ENTT; the Comprehensive Foreign Trade Management Portal will begin functioning and operation, and the authorized economic operator program will take effect, together with the framework for the Customs Union with Guatemala.
- 1.28 **Program rationale.** The proposed reforms will help modernize services in the logistics sector and help them gain a foothold in international markets, through institutional and regulatory capacity, planning and rule of law, laying the foundation and establishing incentives for developing specialized logistics infrastructure, quality transportation and logistics services, and through consolidation of the Central American Customs Union ([optional link 2](#)) in an environment of greater

⁵⁹ Implementation is mandatory under Resolution 02-2019 of the Central American Council of Ministers of Economic Integration (COMIECO).

⁶⁰ An electronic legal document for recording transfers (previously exports) and purchases (previously imports) of goods that move freely among countries in the Customs Union. Secretariat for Central American Economic Integration (SIECA).

⁶¹ Loan 5017/BL-HO Honduras Transportation and Freight Logistics Sector Reform Program II.

⁶² Incorporating multiagency algorithm-driven risk management processes to detect fiscal risk, as well as single windows, and a registration system for carriers.

transparency.⁶³ This will be done by: (i) adopting the Logistics Bill; (ii) consolidating the National Logistics Council and monitoring its performance; (iii) adopting, evaluating, and updating multisector, planning mechanisms (National Freight Logistics Plan, Immediate Action Plan, PMCLN); and (iv) implementing up-to-date, internationally recognized trade facilitation processes that are integrated and interoperable. The program will help to improve services in the area of transportation safety based on an inclusive social vision, and bridge divides stemming from the pandemic and natural disasters in 2020. The activities provided for in the Master Plan for the Northern Logistics Cluster and the Immediate Action Plan will be incorporated into the Sustainable Development and Reconstruction Plan, in response to the damage caused by tropical storms Eta and Iota.⁶⁴

- 1.29 The execution sequence provides for a first operation that laid the foundations for reform by establishing key elements of the legislative and institutional framework; in the second phase, regulations and legal, regulatory, normative, management, and planning tools were prepared; while in this tranche, those regulations and tools will be implemented (including trade facilitation agreements, the Logistics Bill, and the Master Plan for the Northern Logistics Cluster) and evaluated—a task for which maintaining a consolidated multisector institutional framework is key.
- 1.30 **Correlation between logistics sector reforms and economic growth.** The literature confirms that legal frameworks linked to logistics performance are a determinant of long-term growth.⁶⁵ Institutional reforms in the sector are positively correlated with economic growth and increased foreign direct investment.⁶⁶ It has been shown that each reform to cross-border trade regulations is associated with an average increase of 0.88% in economic growth.⁶⁷ In addition, a World Bank study (2014) compares the regulatory frameworks and logistics performances of 14 countries, concluding that to positively influence the LPI,⁶⁸ countries need to establish regulatory frameworks that take the special features of the freight

⁶³ The implementation of international agreements (e.g. Convention on Facilitation of International Maritime Traffic, Bali Agreement, and Automated Customs Revenue System) mean better freight handling efficiency (in terminals and in the inspection of merchandise), while also facilitating the simplification of bureaucratic procedures in customs facilities, with the attendant reduction in logistics costs attributable to discretionality, the duplication of processes, information system interruptions, the lack of risk management systems, and processes for the joint inspection of merchandise. The digitalization of process and improved access to information from the PGICE portal may also help improve transparency in the logistics system.

⁶⁴ This plan is a foundation of priority programs and projects to boost productivity and revitalize economic activity. In the transportation sector, it falls under the priority lines of action to restore functionality and resilience, incorporating measures to reduce vulnerability and mitigate risks. It is currently being formulated by the Government of Honduras, with the support of the Bank and other agencies, in consultation with the international community, private sector, and civil society.

⁶⁵ [*Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution*](#), The Quarterly Journal of Economics. (Nov. 2002).

⁶⁶ [*Hard or Soft? Institutional Reforms and Infrastructure Spending as Determinants of Foreign Direct Investment in China*](#), Japanese Economic Review (2005) and [*The Economic Growth Effect of Logistics Industry FDI Analysis*](#), Wang & Wang.

⁶⁷ Result for a sample of 172 countries in the period 2006-2010. [*The Impact of Business Regulatory Reforms on Economic Growth*](#). Haidar (2012). This is aligned with the specific program objectives to: (i) develop a regulatory framework with specific rules aimed at improving logistics services; and (ii) modernize and simplify trade facilitation processes and technological systems.

⁶⁸ [*Review of Logistics Service Regulations for Freight Forwarding Businesses: What Should Be Addressed for a Better Logistics Regulatory Framework?*](#) Policy Research Working Paper. World Bank.

transportation industry into account. The IDB (2010) used Doing Business indicators for Panama and found that each regulatory reform focused on improving the business climate was associated with a 0.03% increase in economic growth;⁶⁹ Moreover, the IDB Transportation Sector Framework Document indicated that implementation of Panama's Logistics Strategy would reduce costs by an estimated 9% to 13% (SPIM-ABECEB-Briher, 2019). In Colombia, implementation of its Logistics Policy since 2007 has created financial mechanisms for executing a program to renew and reposition the freight vehicle stock⁷⁰ leading to the removal of over 7,000 vehicles from 2008 to 2013, modernizing the fleet, with the ensuing impacts on productivity and emissions; it also introduced trade facilitation measures that cut export times by 10 days and import times by 5, thereby improving logistics performance indicators (Cipoletta, 2010). Other studies show that streamlining customs procedures at border crossings (Volpe, et al., 2015; Carballo et al., 2019), and establishing expedited procedures for international transit and authorized economic operator programs (Carballo et al., 2016; Volpe Martincus, 2016) have significant impacts on exports (IDB, 2019a).

- 1.31 **Bank experience in the sector and lessons learned.** The Bank worked on 10 other policy reform processes in transportation in various countries⁷¹, producing lessons such as: (i) have up-to-date, sector-specific regulatory instruments; (ii) design integrated planning tools that draw information from state-of-the-art databases; (iii) provide support for aligning the sectors through technical inputs and diagnostic assessments; (iv) strengthen dialogue with the private sector and its active engagement in the processes as a factor in reform sustainability; (v) have an interagency coordination body at the highest level of government;⁷² (vi) include a technical unit with multisector capability that can implement crosscutting agendas such as those on innovation, persons with disabilities, and gender; and (vii) implement streamlined management based on digitalization and innovation. The completion of the three tranches of the program makes it possible to consolidate those lessons, which were built into its design, for example by strengthening and consolidating operation of the National Logistics Council, promoting interagency agreements and a mechanism for managing and monitoring the effective implementation of the PMCLN, adopting technical requirements and guidelines related to crosscutting issues in the Logistics Law and its regulations, etc.
- 1.32 **Additionality attributable to the Bank's involvement.** The conceptualization of the program with a phased approach has been helpful in terms of maintaining the Bank's sector dialogue with the Government of Honduras. It will also lend continuity

⁶⁹ [Freight Logistics in Latin America and the Caribbean: An Agenda to Improve Performance. Technical Note IDB-TN-103 \(2010\).](#)

⁷⁰ [La evolución de la Política Nacional Logística de Colombia y el Apoyo del BID](#), 2016.

⁷¹ Air Transportation Reform (loan 1042/SF-GY); Air Transport Reform Program (loan 2682/OC-BH); Fiscal Stability Consolidation Program for the Economic and Social Development of the State of Alagoas (loan 3061/OC-BR); Program to Support the National Logistics Policy (loan 2540/OC-CO); Support for Panama's Transport and Logistics Sector Reform Program (loans 3486/OC-PN, 3675/OC-PN, and 4560/OC-PN); Transportation Sector Policy Reform Program (loans 3181/BL-BO and 4292/BL-BO); and Program to Support Mobility, Overland Transportation, and Road Safety in the Dominican Republic (loan 4914/OC-DR).

⁷² In this case, the National Logistics Council, led by a Presidential appointee. This leadership made it possible to overcome the public and private interagency coordination challenges.

to the reform process, taking into account the complexity and timelines that were needed for its maturation, and thereby contributing to the sustainability of the program as State policy. The Bank has also contributed to interagency coordination and the participation of civil society and the private sector in the discussion of the plans developed under the program. Through regional technical-cooperation operations ATN/OC-14002-RG and ATN/MR-14003-RG, the Bank provided support for drafting the PNLOGs in Honduras (and in a number of other Mesoamerican countries), which have served as a foundation for the proposed reforms; the updating of the PNLOG and preparation of the Immediate Action Plan (PAI) were financed with technical-cooperation operations ATN/OC-16133-RG and ATN/OC16134-RG. Technical cooperation operation ATN/OC-17685-HO, "Support for the Honduras Transportation and Logistics Reform Program," supported the preparation of baseline studies and key activities for this third operation, such as the design of specific regulations, the PMCLN, the PGICE, and guidelines for the development of a national innovation system for the logistics sector ([optional link 4](#)).

- 1.33 **Coordination with other donors.** The Japan International Cooperation Agency (JICA) expressed interest in providing parallel financing to the Government of Honduras, leveraging the policy matrix of this operation. The cofinancing is framed in the cooperation agreement between the IDB and JICA through Cooperation for Economic Recovery and Social Inclusion (CORE). In this way, the Bank would contribute to the coordination of donor efforts and facilitate the mobilization of additional financing in support of a robust, inclusive, and resilient recovery for Honduras.⁷³ The Bank also works with the Central American Bank for Economic Integration (CABEI), coordinating with the Honduran Overland Transportation Institute (IHTT) on plans to renew the vehicle fleet. In trade facilitation, the initiatives in the policy matrix are connected to a regional context that relies on the support of donors, for example the United States Agency for International Development, the European Union, and Spanish Agency for International Development, in the framework of the Central American Digital Trade Platform Model.
- 1.34 **The Honduran government's strategy.** National policy instruments that establish guidelines for developing the sector include: the Country Vision 2010-2038, Plan for the Nation 2010-2022, and the Government Strategic Plan 2018-2022; these promote logistics development in Honduras based on its potential for maritime connections and its geographic location in relation to Mesoamerica's established overland and maritime corridors. The National Competitiveness Strategy 2018-2022 is consistent with these guidelines and sets important objectives for logistics sector operations in the areas of infrastructure, economic development, and market efficiency. These national guidelines and objectives are strategically incorporated into the formulation and updating of the National Freight Logistics Plan, thereby creating a roadmap, thanks to the support from this PBP.
- 1.35 **The Bank's strategy with the country.** The program is consistent with the Bank's Country Strategy with Honduras 2019-2022 (document [GN-2944](#)), specifically the pillar on expansion of sustainable production opportunities, which includes among its objectives improving logistics performance, through better infrastructure

⁷³ The parallel cofinancing, of up to US\$100 million, is being processed by JICA and approval is expected in the coming months of 2021. JICA will be using the policy and results matrixes of this operation.

coverage and quality, measured in terms of its LPI. The operation is included in Annex III of the 2021 Operational Program Report (document GN-3034).

- 1.36 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy 2020-2024 (document AB-3190-2), aligned with the development challenges of: (i) economic integration, including logistics and international trade processes, as well as harmonizing the regional regulatory framework; and (ii) productivity and innovation, by contributing to more efficient logistics, supporting institutional and policy reforms to facilitate business, attract foreign direct investment and promote more competitive exports, by improving customs and trade facilitation processes ([optional link 3](#)), and implementing actions to bridge the digital divide. The program is also aligned with the crosscutting areas of: (i) institutional capacity and rule of law, by supporting actions to improve and modernize interagency coordination, through the consolidation of the National Logistics Council and the updating of multisector planning mechanisms; improving trade facilitation processes and incorporating technology, with emphasis on issues of transparency and accountability; developing regulations, i.e. for overland freight transportation insurance, which would facilitate the improvement of and compliance with the Overland Transportation Law; and consolidating the process for registering transport vehicle operators, which would help to advance toward the formalization of the sector and establish minimum rates as a point of negotiation between operators and clients, in order to discourage unfair competition practices and safeguard for proper market development; (ii) [gender](#) equality,⁷⁴ by providing formal job opportunities and supporting incentives to reduce the barriers women face to accessing nontraditional activities, through programs to train women freight transportation drivers, in coordination with the Ciudad Mujer program; (iii) diversity, by promoting access for persons with disabilities to the logistics system on equal footing, in coordination with the National Logistics Council, the Departments of Labor and Social Security, Development and Social Inclusion, and Human Rights; and in the economic recovery, by prioritizing the Master Plan for the Northern Logistics Cluster and the Immediate Action Plan in the Sustainable Development and Reconstruction Plan (paragraph 1.28), as well as updating the Customs Union Operating Regulations by adopting biosafety measures; and (iv) climate change and environmental sustainability, through the incorporation of energy efficiency criteria in the Logistics Bill and the plans developed by the National Logistics Council and IHTT, such as modernization of the freight transportation fleet and the inclusion of efficient driving guidelines that result in fuel savings and reduce the associated emissions ([optional link 4](#)). According to the [joint methodology of the multilateral development banks for tracking climate finance](#), an estimated 12.5% of the IDB financing will go to climate change mitigation—conditions 2.2.2 and 7.1. These resources will contribute to the IDB's climate finance target (30% of the volume of annual approvals). The program is also consistent with the Bank's [Vision 2025](#), by emphasizing actions for economic integration and strengthening global value chains, a gender perspective, digital transformation, climate change resilience, and environmental sustainability that will produce opportunities for post-pandemic recovery.

⁷⁴ With line of action (i) the Update to the Gender Action Plan for Operations 2020-2021 (document GN-2531-19), the purpose of which is to support building capacity and opportunities for women to access nontraditional jobs in the infrastructure sector, particularly as part of the post-COVID-19 recovery.

- 1.37 The program supports the Corporate Results Framework 2020-2023 ([document GN-2727-12](#)), through the following indicators: (i) women beneficiaries of economic empowerment initiatives; (ii) regional integration agreements and cooperation initiatives supported; and (iii) agencies with strengthened digital technology and managerial capacity. It is also aligned with the Plan that the private sector has just presented “Towards a National Agenda for Economic Growth and Revitalization 2021-2025.”
- 1.38 In addition, it is aligned with the IDB’s Sustainable Infrastructure Strategy for Competitiveness and Inclusive Growth (document [GN-2710-5](#)), by promoting ongoing improvements in transportation and logistics sector governance to make service delivery more efficient. It is consistent with the following lines of action of the Transportation Sector Framework ([document GN-2740-9](#)) (i) “Improve logistics performance in Latin America and the Caribbean, promoting the development of efficient, sustainable logistics services,” by promoting policies to strengthen logistics comprehensively, including services, institutions, and technology; build logistics management and planning capacity; and promote greater service efficiency and quality, complementing this with reforms for greater regional integration, trade facilitation, digital transformation of supply chains, and professionalization of providers; (ii) “Strengthen sector institutions and regulations,” promoting innovation in institutional arrangements and fostering inclusion and sustainability in transportation; and (iii) “Promote technological transformation in the sector.”
- 1.39 Lastly, this operation is consistent with the Integration and Trade Sector Framework (document [GN-2715-8](#)), in: (i) line of action 1 (Promote efficient customs-logistics and transportation interconnectivity) by modernizing customs administrations and border control agencies under the coordinated border management concept; and (ii) line of action 3, by promoting mechanisms to build the technical capacity of governments to negotiate and implement international trade and investment agreements.

B. Objectives, components, and cost

- 1.40 The program’s general objective is to support improvements in the logistics performance of Honduras through regulatory, institutional, planning, and trade facilitation reforms in the sector, with a view to boosting competitiveness and regional integration. Its specific objectives are to: (i) develop a regulatory framework with specific rules aimed at improving logistics services as part of a long-term vision; (ii) strengthen the institutional framework for the logistics sector by strengthening and consolidating the National Logistics Council and its technical agency; (iii) improve the sector’s integrated planning and delivery of associated services; and (iv) modernize and simplify trade facilitation processes and technological systems.
- 1.41 **Components.** The policy matrix sets out the sequence of policy condition commitments for the program, divided into three phases and the following components. The adjustments made to the policy matrix ([optional link 1](#)), due to the current context and implementation progress, do not affect the objectives of the series.
- 1.42 **Component I. Macroeconomic stability.** The objective is to ensure that the macroeconomic context is consistent with the program’s objectives as set out in the policy matrix and the sector policy letter.

- 1.43 **Component II. Reform of the regulatory framework for freight logistics and trade facilitation.** This will support the development of a regulatory framework that provides for a long-term vision and establishes strategic guidelines, as well as the updating of the legal framework for overland freight transportation to encompass the areas of transportation safety and freight transportation services. This component will also consolidate the commitments Honduras made under the Central American Customs Union, thus helping to position the country as a regional hub. The Freight Logistics Bill is aimed at updating energy efficiency elements and adopting the regulations needed for legal modernization in aspects related to freight safety.
- 1.44 Consistent with the reforms implemented in the first two phases (paragraph 1.25), this operation will support: (2.1) an evaluation of the progress made on implementing the Government Strategic Plan 2018-2022, by the Department of General Government Coordination; (2.2.1) the evaluation and updating of the Immediate Action Plan by the National Logistics Council; (2.2.2) approval, by the executive branch, of the Freight Logistics Bill;⁷⁵ (3.1) preparation of a National Road Safety Council action plan that includes the implementation of measures relating to overland freight transportation safety; (3.2) approval by the IHTT of regulations on overland freight transportation insurance; and (4.1) ratification of the operating regulations for the Guatemala-Honduras Customs Union, by the Department of Economic Development (SDE). In preparing this tranche, condition 4.1 was amended, to reflect progress on ratifying the aforementioned regulations rather than on preparing them (this strengthens Honduras' position in its future dialogue with other countries in the subregion) and to not include El Salvador in the condition, since that country decided to pause joining the Protocol.
- 1.45 **Component III. Consolidation of the institutional framework for freight logistics and transportation.** This will support the strengthening of the institutional framework through the creation of: a high-level decision-making body made up of key institutions linked to the sector; a coordination and execution entity; and mechanisms for monitoring the impact of policies and projects on the performance of the logistics sector.
- 1.46 To advance this institutional strengthening effort (paragraph 1.22), this operation includes the following, both by the National Logistics Council: (5.1.1) approval of the institutional management report, to include progress made on the actions set out in the Immediate Action Plan; and (5.1.2) approval of the management report of the Technical Unit for Logistics Execution. During preparation, no changes were made to the policy matrix for this component.
- 1.47 **Component IV. Establishment and modernization of comprehensive planning, transportation and logistics services, and trade facilitation processes.** This component will help to strengthen comprehensive planning in the sector and promote measures aimed at improving the quality of transportation services. It will also support efforts to ensure interoperability between the systems of agencies involved in international trade and their alignment with international and regional standards. It is divided into the following two subcomponents:

⁷⁵ This seeks to regulate aspects for harmonious development of components in Honduras' logistics system: long-distance logistics; last mile; supply, distribution, and return logistics; and national and customs transit chains.

- 1.48 **Subcomponent IV.1. Establishing comprehensive planning processes and improving transportation and logistics services.** The objective of this subcomponent is to improve comprehensive planning in the sector by preparing subnational master plans focused on priority logistics clusters and their harmonious integration with urban logistics systems. It will also seek to improve transportation services by mainstreaming a gender and diversity perspective in freight transportation.
- 1.49 To fulfill these goals, the operation will complement the actions taken under the previous phases (paragraph 1.25) through: (6.1) approval, by the National Logistics Council, of the Master Plan for the Northern Logistics Cluster; (7.1) approval by the IHTT of the plan to modernize the freight logistics and transportation fleet; and (7.2) approval of the ENTT technical and financial sustainability plan. No changes were made to conditions related to this component in the policy matrix.
- 1.50 **Subcomponent IV.2. Modernizing trade facilitation processes.** The objective of this subcomponent is to make headway on transforming the operating framework and technological systems at the national level to support implementation of Honduras' commitments under trade facilitation agreements, including: (i) the International Maritime Organization's Convention on Facilitation of International Maritime Traffic (FAL-65) and the World Trade Organization's Trade Facilitation Agreement (Bali Package); and (ii) implementation of technological tools and processes to meet Honduras' priority commitments under the trade facilitation agreements established by the Central American Council of Ministers of Economic Integration (COMIECO) and the commitments under the Guatemala-Honduras Customs Union.
- 1.51 Building on the results of the first two phases (paragraph 1.25), the operation calls for: (8.1) approval by the SDE of the functional and operational design of the PGICE; (8.2) entry into force of the authorized economic operator program by the Honduran Customs Authority; (9.1) implementation by the National Health and Agrifood Safety Service of the regional agreement governing the dataset for the issuance of plant and animal health certificates; and (10.1) creation by the Revenue Administration Service (SAR) of a tool to cross-check FYDUCAs by beneficiary company origin. In preparing this tranche, condition (8.1) was modified to set forth the greater progress made on the condition, with the approval of the functional and operational design of the PGICE, through a multiagency agreement to include and update the information from processes on the platform, without needing to modify the regulatory framework as stipulated in the second phase of the program; and condition (8.2) to present evidence of the launch of the authorized economic operator program in Honduras, a prerequisite for joining that program's mutual recognition agreement with the two countries that have signed thus far.

C. Key results indicators

- 1.52 This operation will help to improve the logistics performance of Honduras, as reflected in the LPI and will help boost national economic activity, through the logistics GDP/nominal GDP ratio. This operation is expected to produce the following outcomes: (i) improved safety in logistics services through the enforcement of specific regulations; (ii) institutional strengthening of the sector, with the implementation of leading-edge vehicle fleet management systems; (iii) more efficient multisector prioritization of the sector's strategic actions; (iv) improved

quality of freight services delivery with an inclusive social vision; and (v) reduced crossing times at the El Amatillo customs post, upgrading technological systems and processes. The indicators were not changed, with the exception of updates to the expected targets for outcomes 2 and 4,⁷⁶ to reflect expectations and the degree of actual progress, given the country context in 2020.

- 1.53 **Beneficiaries.** With the implementation of the program, economic benefits will be generated in the production and trade sectors at both the national and regional levels, primarily in the productive sectors that contribute more to the economy. The reforms promoted will further institutional improvements, planning, regulation of overland transportation logistics services, and customs management across the national territory. This is especially the case for the agriculture sector, which contributes 13.3% of GDP and generates approximately 33% of exports. The main agricultural productive areas are located within the area covered by the PMCLN, with Puerto Cortés being the point of departure for their exports. Also noteworthy is the impact on the maquila sector, which contributes 5.2% of GDP, as most of its operations are located within that same area. Accordingly, the efficiencies of foreign trade operations and management of logistics areas can help unlock the market potential with the United States, as the main destination market for these products. Producers and marketers⁷⁷ will have greater access to domestic and international markets; logistics operators⁷⁸ will have processes and infrastructure that are more orderly and efficient and tailored to needs. Transportation and logistics services users⁷⁹ will be able to have cost-effective services. The increase in textile sector exports, attributable to improvements in logistical performance, will also indirectly impact formal employment and narrow the gender gap in that sector, which employees some 150,000 people and approximately 75% of the female labor force.
- 1.54 **Economic evaluation.** Based on the recommendations of the Office of Evaluation and Oversight in its 2011 Evaluability Review of Bank Projects⁸⁰ and the standards for the evaluation of policy-based lending, prepared by the Evaluation Cooperation Group, which is comprised of the independent evaluation offices of multilateral development banks,⁸¹ and as described in paragraph 1.3 of document GN-2489-5, indicating, *inter alia*, that there is no need to include an analysis of efficiency in the use of financial resources, and as reported to the Bank's Board of Executive Directors, no economic analysis will be performed for loans of this type. Therefore,

⁷⁶ Number of freight vehicles registered using the smartcard (lowered from 20,000 to 12,000), number of certifications to drivers (from 4,500 to 2,500) and women drivers specifically (from 450 to 250) issued by the ENTTE.

⁷⁷ According to the BCH, in 2019 the country had: 1.2 million people (72% of the economically active population; 37% of the total population) linked to agriculture, livestock, forestry, and fisheries; 537,000 in the manufacturing industry; and 762,000 in trade.

⁷⁸ Including nearly 340 companies operating in free trade zones and 273 companies in the 17 existing business parks. PNLOG, 2017.

⁷⁹ Including 20,000 freight vehicle owners expected to register vehicles using the smartcard and 4,500 drivers who will receive training.

⁸⁰ Document RE-397-1: "Currently, Economic Analysis section is computed as the maximum between the CBA (cost/benefit analysis) and the CEA (cost-effectiveness analysis). Yet neither a CBA nor a CEA is applicable to PBLs and PBP's."

⁸¹ *Good Practice Standards for the Evaluation of Public Sector Operations*. Evaluation Cooperation Group, working group on public sector evaluation, 2012 revised edition.

this operation does not include an economic analysis and, consequently, none is considered for the purposes of measuring the evaluability score in the development effectiveness matrix for this program.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 2.1 This program is structured as a programmatic policy-based loan operation (PBP) in accordance with Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2); this is the last in a series of three technically linked operations. This modality is suitable for fostering ongoing policy dialogue and is also appropriate considering the complexity and time frames involved in implementing the reforms.
- 2.2 **Dimensioning.** This operation will be for US\$118.48 million, 65% of which will be from Regular Ordinary Capital resources and 35% from Concessional Ordinary Capital. The size was determined in accordance with the provisions of paragraph 3.27(b) of the document "Policy-based Loans: Guidelines for Preparation and Implementation. New version (document CS-3633-2)," which refers to the country's fiscal resource needs. The program represents 8.41% of net financing needs in 2021, which are projected at US\$1.4079 billion (5.4% of GDP).

B. Environmental and social safeguard risks

- 2.3 Pursuant to Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation does not require ex ante impact classification. The operation supports the establishment of policies, standards, management tools and other institutional strengthening actions and, accordingly, no social and environmental impacts are anticipated.

C. Fiduciary risks

- 2.4 This is a low-risk operation, because the funds to be provided are unrestricted and managed through country budget support systems, based on the existence of a responsible fiscal policy framework. The updated evaluation of country budgeting, treasury, accounting, and reporting systems undertaken in 2018 concluded that the level of development was high in budgeting and treasury and medium in accounting and reporting. It noted that these systems were used to manage 100% of Honduras' portfolio.

D. Other program risks

- 2.5 The operation has a medium-low risk since it has political support, and the Honduran government has made a commitment to the sustainability of the agreed-upon policies.⁸² There is a medium-high risk that, as a result of the sustained economic slowdown stemming from the effects of the COVID-19 pandemic and natural disasters in 2020, restrictions might emerge on the expected investment in logistics system infrastructure (project-sustainability risk taxonomy). To mitigate this, it was agreed that the investments set forth in the PMCLN and its Immediate Action Plan will be given priority and included in the Sustainable National Reconstruction Plan.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Republic of Honduras, and SEFIN the executing agency. The latter will have the following responsibilities: (i) coordinating with the entities involved that are responsible for defining, approving, and adopting the operation's policy reforms; (ii) submitting reports and evidence of fulfillment of the operation's conditions, and any other reports the Bank may require; (iii) promoting actions related to attainment of the policy objectives set in the program; and (iv) compiling, documenting, and providing the Bank with all information, indicators, and parameters to help the borrower and the Bank monitor, measure, and evaluate the program's outcomes.
- 3.2 **As special contractual conditions precedent to the single loan disbursement, said disbursement is contingent on compliance with the policy reform actions laid out in the policy matrix, the policy letter ([required link 1](#)), and the conditions established in the loan contract.**

B. Summary of arrangements for monitoring and evaluating results

- 3.3 SEFIN will coordinate the timely fulfillment of the commitments associated with this third operation (policy matrix and results matrix annexes), and it will submit to the Bank the evidence envisaged in the means of verification matrix ([required link 2](#)). With respect to monitoring, it was agreed to track program execution as per the monitoring and evaluation plan ([required link 3](#)), in which the results matrix indicators will guide implementation progress. The project completion report will be prepared within 24 months after disbursement of the last operation.
- 3.4 The aim of the program evaluation is to verify whether the outcomes were achieved, and whether program actions had an impact on the LPI and sector GDP. A reflexive evaluation will be prepared in 2023, once the period for achieving results has ended in late 2022.

⁸² The risk related to medium-term sustainability and in the context of the change in government has been mitigated with the phased approach and the sequence in which this programmatic series has been implemented; this has also been mitigated with the level of progress and development of the reforms (associated more with State policies than government measures, for example, in the customs integration with Guatemala under SIECA) achieved in previous phases by strengthening the institutional framework (with the consolidation of the National Logistics Council) and civil society and private sector engagement in the discussions and formulations of the project's plans.

IV. POLICY LETTER

- 4.1 **Policy letter ([required link 1](#))**. The policy matrix for the operation is aligned with the policy letter issued by the Honduran government; it reflects the agreement with the Bank on the macroeconomic and sector policies to be supported under this program and confirms the government's commitment to implement the agreed-upon activities.

Development Effectiveness Matrix		
Summary		HO-L1219
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	<div>-Productivity and Innovation</div> <div>-Economic Integration</div> <div>-Gender Equality and Diversity</div> <div>-Climate Change</div> <div>-Institutional Capacity and the Rule of Law</div>	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	<div>-Regional integration agreements and cooperation initiatives supported (#)</div> <div>-Women beneficiaries of economic empowerment initiatives (#)</div> <div>-Agencies with strengthened digital technology and managerial capacity (#)</div>	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2944	Improve logistics performance
Country Program Results Matrix	GN-3034	The intervention is included in the 2020 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.7
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.2
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium Low
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	<div>Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.</div> <div>Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.</div>
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Through the CT, HO-T1333, the operation HO-L1219 is supported via the financing of key activities for the design of the actions necessary to achieve the PBL's objectives.

To improve Honduras' regional positioning as a Central American logistics hub, the government of Honduras designed a National Logistics Plan. Its correct implementation required the existence of a normative and regulatory framework that could cater to the needs of the logistics sector and under which planning and modernization instruments could be developed. This legal and regulatory framework is what this PBP series has been supporting since the first operation in the series. This will be the third operation of the PBP for an amount of US\$118 million and it supports the same objectives as the prior two. The general objective of the program is to contribute to the improvement of logistics performance in Honduras through sectorial reforms in the domains of regulations, institutions, and commercial mechanisms that allow for gains in competitiveness and regional integration. The specific objectives of the program are: (i) to consolidate a normative framework with regulations specific to the improvement of logistics and freight services with a long-term vision; (ii) the strengthening of institutions in the logistics sector through the consolidation of the National Logistics Advisory Board (CNL for its initials in Spanish) as a technical body; (iii) the improvement in a holistic planification for the sector and the provision of associated services; and (iv) the modernization and simplification of the processes and technological systems that facilitate commerce. Among others, some of the results to highlight will include an increase in the percent of cargo vehicles that are registered and insured against damages to third parties; that the annual budget exercise consider the priorities of the CNL for the logistics sector (verified by the projects in the sector with budgetary allocation); and that the time required to cross the red canal of the Amatillo border (Honduras – El Salvador) decreases. In the long-term, an improvement is expected in the country's scoring in the Logistics Performance Index. At closure, a reflexive evaluation of the results of the program will be used.

POLICY MATRIX

PROGRAM OBJECTIVE:	The program's general objective is to support improvements in the logistics performance of Honduras through regulatory, institutional, planning, and trade facilitation reforms in the sector, with a view to boosting competitiveness and regional integration. Its specific objectives are to: (i) develop a regulatory framework with specific rules aimed at improving freight logistics services as part of a long-term vision; (ii) strengthen the institutional framework for the logistics sector by strengthening and consolidating the National Logistics Council and its technical agency; (iii) improve the sector's integrated planning and delivery of associated services; and (iv) modernize and simplify trade facilitation processes and technological systems.
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OBJECTIVE AND SCOPE	POLICY CONDITIONS FOR PBP I	POLICY CONDITIONS FOR PBP II	POLICY CONDITIONS FOR PBP III	FULFILLMENT STATUS OF THE POLICY CONDITIONS FOR PBP III
Component I. Macroeconomic stability				
1. Ensure there is a macroeconomic context consistent with program objectives as established in the Policy Matrix and the sector policy letter	1.1 The borrower's macroeconomic environment is stable and consistent with the program objectives and sector policy letter	1.1 The borrower's macroeconomic environment is stable and consistent with the program objectives and sector policy letter	1.1 The borrower's macroeconomic environment is stable and consistent with the program objectives and sector policy letter	Fulfilled
Component II. Reform of the regulatory framework for freight logistics and trade facilitation				
2. Develop a logistics regulatory framework that introduces a long-term vision and establishes guidelines for the sector, including: (i) objectives, programs, and projects; (ii) long-term vision, intervention strategy, and monitoring system; and (iii) policy guidelines, fundamental elements of the freight logistics sector, and institutional competencies.	2.1 Approval of the government's priorities for the 2018-2022 period, with the inclusion of the logistics sector as a strategic pillar in preparation of the Government Strategic Plan (PEG) 2018-2022	2.1 Approval of the PEG 2018-2022, reflecting the priority given to the logistics sector in government policies	2.1 Evaluation of the progress achieved in implementing the PEG 2018-2022, including recommendations to strengthen implementation	Fulfilled (Q4 2020)
	2.2 Approval of the National Freight Logistics Plan (PNLOG) by the National Logistics Council (CNL), reflecting a multisector, interagency public-private agreement regarding strategic orientation in the prioritization of actions and projects in the freight logistics sector	2.2.1 Approval by the CNL of the five-year Immediate Action Plan	2.2.1 Evaluation and updating of the five-year Immediate Action Plan by the CNL	Fulfilled (Q4 2020)
		2.2.2 Drafting of a logistics bill, to include energy efficiency criteria, aimed at modernizing the sector regulatory framework in consultation with the CNL's technical unit	2.2.2 Approval of the logistics bill by the executive branch	Fulfilled (Q4 2020)

OBJECTIVE AND SCOPE	POLICY CONDITIONS FOR PBP I	POLICY CONDITIONS FOR PBP II	POLICY CONDITIONS FOR PBP III	FULFILLMENT STATUS OF THE POLICY CONDITIONS FOR PBP III
<p>3. Modernize the legal framework for overland freight transportation, expanding the treatment of issues relating to:</p> <ul style="list-style-type: none"> (i) transportation safety; and (ii) freight transportation services. 	<p>3.1 Updating of the institutional framework for the National Road Safety Council (CNSV) to reflect the current legal framework, including institutions with authority over the freight logistics and transportation sector</p>	<p>3.1 Updating of the National Road Safety Council's strategic plan, incorporating overland freight transportation safety issues.</p>	<p>3.1 Preparation of a National Road Safety Council action plan that includes the implementation of measures relating to overland freight transportation safety</p>	<p>Pending (Q3 2021)</p>
	<p>3.2 Preparation of regulations to strengthen freight transportation safety:</p> <ul style="list-style-type: none"> (a) overland freight transportation insurance, including, at a minimum: <ul style="list-style-type: none"> (i) third party liability; (ii) transportation coverage; and (iii) freight coverage. (b) Weights and dimensions, including, at a minimum: <ul style="list-style-type: none"> (i) weight and dimension limits; and (ii) penalties. 	<p>3.2 Approval of the regulations governing weights and dimensions, including:</p> <ul style="list-style-type: none"> (i) weight and dimension limits; and (ii) penalties. 	<p>3.2 Approval of the regulations on overland freight transportation insurance, including, at a minimum:</p> <ul style="list-style-type: none"> (i) third party liability; (ii) transportation coverage; and (iii) freight coverage. 	<p>Fulfilled (Q4 2020)</p>
<p>4. Consolidate the regulatory agreements to which Honduras is committed under the Central American Customs Union, thus helping to position the country as a regional hub</p>	<p>4.1 Implementation of the first phase of the customs union process between the Republic of Guatemala and the Republic of Honduras—including the creation and implementation of a regulatory framework—as set out in the enabling protocol for the process of deep integration towards the free transit of goods and persons between the two countries</p>	<p>4.1 Updating of the operating regulations for the Guatemala-Honduras Customs Union</p>	<p>4.1 Ratification of the operating regulations for the Guatemala-Honduras Customs Union (adopting the biosecurity recommendations)</p>	<p>Pending (Q3 2021)</p>

OBJECTIVE AND SCOPE	POLICY CONDITIONS FOR PBP I	POLICY CONDITIONS FOR PBP II	POLICY CONDITIONS FOR PBP III	FULFILLMENT STATUS OF THE POLICY CONDITIONS FOR PBP III
Component III. Consolidation of the institutional framework for freight logistics and transportation				
<p>5. Strengthen the institutional framework for the logistics sector through the creation of:</p> <ul style="list-style-type: none"> (i) a high-level decision-making body made up of key institutions linked to the freight logistics sector; (ii) a body responsible for coordination and execution; and (iii) mechanisms for monitoring the impact of policies and projects on the performance of the freight logistics sector. 	<p>5.1 Approval of the organizational structure designs for freight logistics management, including:</p> <ul style="list-style-type: none"> (i) A high-level decision-making body made up of key public and private institutions linked to the freight logistics sector; 	<p>5.1.1 Consolidation and functioning of the CNL, comprising the main agencies with authority over the freight logistics sector, with responsibility for agreement on strategic guidelines and multiyear plans.</p>	<p>5.1.1 Approval of the CNL Institutional Management Report, including progress on Immediate Action Plan actions</p>	<p>Fulfilled (Q4 2020)</p>
	<ul style="list-style-type: none"> (ii) A technical body made up of the executing agencies, responsible for project management and coordination between the different agencies; (iii) Permanent arrangements for monitoring, analysis, and market intelligence, with the participation of the public and private institutions involved in freight logistics; and (iv) The annual budgetary allocation and financing mechanism to support the operations of the technical body and the CNL's objectives. 	<p>5.1.2 Consolidation and functioning of the Technical Unit for Logistics Execution (UTEL) including:</p> <ul style="list-style-type: none"> (i) Coordination of activities with ministries and public and private institutions to develop and implement freight logistics sector plans and projects, considering energy efficiency measures, and fostering inclusion of persons with disabilities; and (ii) Activities aligned with the PNLOG that are assigned by the sectoral cabinets. 	<p>5.1.2 Approval of the UTEL Management Report, including records of the coordination activities that have been implemented (considering energy efficiency measures, gains and challenges associated with the pandemic, interagency cooperation for social and labor access and placement of persons with disabilities in the logistics sector, and on the issue of gender).</p>	<p>Fulfilled (Q1 2021)</p>

OBJECTIVE AND SCOPE	POLICY CONDITIONS FOR PBP I	POLICY CONDITIONS FOR PBP II	POLICY CONDITIONS FOR PBP III	FULFILLMENT STATUS OF THE POLICY CONDITIONS FOR PBP III
Component IV. Establishment and modernization of comprehensive planning, transportation and logistics services, and trade facilitation processes				
Subcomponent IV.1. Establishment of comprehensive planning processes and improvement of transportation and freight logistics services				
<p>6. Improve comprehensive planning in the sector by preparing subnational master plans focused on priority logistics clusters and harmonious integration with urban logistics systems</p>	<p>6.1 Approval of an interagency agreement containing the following guidelines for the preparation of a Master Plan for the Northern Logistics Cluster (PMCLN), together with the supervision mechanism:</p> <ul style="list-style-type: none"> (i) analysis of current and future freight demand among client chains throughout the cluster's area of influence, allowing the planning and identification of the logistics services needed based on a long-term vision, and considering the impact of the PMCLN on the area of influence (particularly urban networks); (ii) preparation of a plan of investments in transportation and logistics infrastructure, as well as operational proposals; (iii) information technology requirements for optimizing the integral logistics of the cluster; and (iv) proposal for models of logistics collaboration in client agricultural chains. 	<p>6.1 Creation of the interagency mechanism for supervision of the PMCLN, as regards:</p> <ul style="list-style-type: none"> (i) demand analysis; (ii) infrastructure investment plan and models of operation; (iii) technological tools; and (iv) models of cooperation with production chains. 	<p>6.1 Approval by the CNL of the PMCLN</p>	<p>Fulfilled (Q4 2020)</p>

OBJECTIVE AND SCOPE	POLICY CONDITIONS FOR PBP I	POLICY CONDITIONS FOR PBP II	POLICY CONDITIONS FOR PBP III	FULFILLMENT STATUS OF THE POLICY CONDITIONS FOR PBP III
<p>7. Improve transportation services—incorporating a gender and diversity perspective in the area of overland freight transportation, including issues related to:</p> <ul style="list-style-type: none"> (i) modernization of the vehicle fleet; and (ii) driver training. 	<p>7.1 Implementation of a smartcard-based vehicle registration system in order to obtain a diagnostic assessment for modernization of the overland freight transportation fleet</p>	<p>7.1 Formulation of a plan to modernize the vehicle fleet and freight logistics, considering energy efficiency criteria and financial incentives pursuant to the Overland Transportation Law</p>	<p>7.1 Approval of the plan to modernize the vehicle fleet and freight logistics, considering energy efficiency criteria and financial incentives pursuant to the Overland Transportation Law</p>	<p>Fulfilled (Q4 2020)</p>
	<p>7.2 Creation of a national driver training system, including:</p> <ul style="list-style-type: none"> (i) a National Driver Training Program for the different categories of license in Honduras; (ii) regulations governing the operations of the National Academy of Overland Transportation (ENTT); and (iii) regulations governing the operations of public and private schools, consistent with the Transportation Law mandate administered by the Honduran Overland Transportation Institute (IHTT) 	<p>7.2.1 Launch of private driving school operations, including training in efficient driving techniques and a program of incentives for training women, consistent with the Transportation Law mandate administered by the IHTT</p> <p>7.2.2 Launch of ENTT operations, including training in efficient driving techniques and a program of incentives for training women, consistent with the Transportation Law mandate administered by the IHTT</p>	<p>7.2 Approval of the ENTT technical and financial sustainability plan including annual budget allocation; and functionality of private driver training schools, including the program of incentives for training women.</p>	<p>Fulfilled (Q4 2020)</p>
Subcomponent IV.2. Modernization of trade facilitation processes				
<p>8. Implement an operating framework and technology systems at the national level that facilitate the implementation of the international trade facilitation commitments assumed by Honduras, including:</p> <ul style="list-style-type: none"> (i) the International Maritime Organization's Convention on Facilitation of International Maritime Traffic (FAL 65); and (ii) the World Trade Organization's Trade Facilitation Agreement — Bali Package. 	<p>8.1 Begin development of the Comprehensive Foreign Trade Management Portal (PGICE)</p>	<p>8.1 Begin implementing the necessary processes and tools in the context of the PGICE, including:</p> <ul style="list-style-type: none"> (i) Integrated Risk Management Module; and (ii) Maritime single window. 	<p>8.1 Approval of the functional and operational design of the PGICE</p>	<p>Fulfilled (Q1 2021)</p>
	<p>8.2 Launch of the implementation of the pilot phase of the authorized economic operator program</p>	<p>8.2 Approval of a ministerial agreement creating the economic operator program, and of a procedural manual launching the program</p>	<p>8.2 Entry into force in Honduras of the authorized economic operator program</p>	<p>Fulfilled (Q1 2021)</p>

OBJECTIVE AND SCOPE	POLICY CONDITIONS FOR PBP I	POLICY CONDITIONS FOR PBP II	POLICY CONDITIONS FOR PBP III	FULFILLMENT STATUS OF THE POLICY CONDITIONS FOR PBP III
9. Implement technological tools and processes to comply with priority commitments assumed under Honduras' trade facilitation agreements established by the Central American Council of Ministers of Economic Integration (COMIECO)	9.1 Adoption of the technological requirements necessary for implementation of the first phase of the coordinated border management strategy: RFID traceability	9.1 Implementation of the first phase of the coordinated border management strategy: RFID traceability and cameras	9.1 Implementation with at least two countries of the regional agreement on the data set for transmitting plant and animal health certificates	Fulfilled (Q4 2020)
10. Implementation of Honduras' commitments under the Guatemala-Honduras Customs Union, thus helping to position the country as a regional hub	10.1 Implementation of the Single Central American Invoice and Declaration (FYDUCA) for goods that move freely in the Guatemala-Honduras Customs Union, through an electronic/computerized issuance mechanism	10.1 Upgrading of technological and digital tools for consolidating FYDUCA information in the tax authority's institutional data warehouse for monitoring and management through the business intelligence tool	10.1 Creation of a tool to cross-check FYDUCAs by beneficiary company origin, to measure functionality in terms of attributes, metrics, and datasets	Fulfilled (Q4 2020)

RESULTS MATRIX

PROGRAM OBJECTIVE:	The program's specific objectives are to: (i) develop a regulatory framework with specific rules aimed at improving freight logistics services as part of a long-term vision; (ii) strengthen the institutional framework for the logistics sector by creating the National Logistics Council (CNL) and its technical agency; (iii) improve the sector's integrated planning and delivery of associated services; and (iv) modernize and simplify trade facilitation processes and technological systems.
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GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline ¹	Baseline year	Final target (2022)	Means of verification	Comments ²
The general objective is to support improvements in the logistics performance of Honduras through regulatory, institutional, planning, and trade facilitation reforms in the sector, with a view to boosting competitiveness and regional integration.						
<u>INDICATOR 1: Improve the performance of the logistics sector in Honduras</u>						
Logistics Performance Index (LPI) ³	Index	2.46	2016 ⁴	2.82	LPI – World Bank	
<u>INDICATOR 2: Increase in the importance of logistics in the country's economic activity</u>						
Honduras' Logistics GDP/Nominal GDP	%	6.9	2017	7.1	Statistics. Central Bank of Honduras (BCH) national accounts	

¹ The baselines precede the reforms because they are captured across the three PBP operations, which have provided for continuous and consecutive implementation of the reforms; there will be a single project completion report.

² See comments in [required link 3](#), Monitoring and Evaluation Plan.

³ The change of 0.36 of a point improvement in the perception of the sector is incorporated in the 2016 LPI (baseline). This 0.36 corresponds to the aggregate improvement observed in the index for 2010 and 2014 when Honduras posted positive changes in the index.

⁴ Year prior to implementation of reform program (PBP-I), relative to which the indicator's progress will be measured.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline	Baseline year	2019	2020	2021	Final target (2022)	Means of verification	Comments ⁵
Specific objective 1: Consolidate the regulatory framework with specific regulations for long-term improvement of freight logistics services									
Percentage of registered ⁶ freight vehicles or trailers with third-party insurance	Percentage	0	2018	—	—	—	50%	Database of the Property Institute, vehicle inspections	
Specific objective 2: Strengthen the logistics sector's institutional framework by creating the National Logistics Council and its technical agency									
Annual budget exercise taking into account the priorities identified for the sector by the CNL	Document	0	2018	1	1	1	3	CNL report setting out Department of Infrastructure and Public Services (INSEP) priorities for logistics projects	
Specific objective 3: Improve comprehensive planning in the sector and related services delivery									
Number of freight vehicles registered by smartcard ⁷	Number	29	2018	2,595	—	4,409	20,000	IHTT annual report in the framework of the freight vehicle renewal plan	
Specific objective 4: Modernize and streamline trade facilitation technology systems and processes									
Number of driver certifications issued by the National Academy of Overland Transportation (ENTT)	Number	0	2018	200	—	2,046	2,500	ENTT driver registration	
Number of driver certifications issued by the ENTT to women	Number	0	2018	20	—	236	250	ENTT driver registration	
Reduction in time taken to clear the red channel at the El Amatillo customs post (ES-HO) ⁸	Hours and minutes	74:35	2016	—	—	—	29:50	Customs Revenue Office (DARA) report	

⁵ See comments in [required link 3](#), Monitoring and Evaluation Plan.

⁶ Vehicle registration is defined as registration of ownership of new and used vehicles, and documents concerning the registration, and transfer of ownership. Definition established by the Honduran Property Institute.

⁷ Estimates based on counting the number of vehicles registered under the old system at the time the baseline was established whose certificate would expire in 2022, bringing them into the new vehicle registration system.

⁸ Analysis of customs operations centers on measuring the simple average time from the registration of a customs declaration through to release of the goods by customs. The source of the measurement is *Análisis de tiempos de despacho para la automatización de procesos en El Amatillo*, USAID, 2017.

OUTPUTS

The outputs are the commitments set out in the policy matrix and means of verification matrix. As this is a programmatic policy-based loan (PBP) operation, all outputs will be achieved when the disbursement is made.

Output indicator ⁹	Unit	Baseline (2020)	Target (2021)	Means of verification
Component II. Reform of the regulatory framework for freight logistics and trade facilitation				
2.1 Evaluation of the progress made in implementing the Government Strategic Plan (PEG) 2018-2022, including recommendations for strengthening its implementation	Document	0	1	2.1 Certification from the Ministry of the Interior approving the PEG Monitoring Report
2.2.1 Evaluation and updating by the CNL of the five-year Immediate Action Plan	Plan	0	1	2.2.1 Certification from the CNL approving the Immediate Action Plan Update Report
2.2.2 Executive Branch approval of the Logistics Bill	Bill	0	1	2.2.2 Department of General Government Coordination (SCGG) official letter sending the Logistics Bill to the National Congress, to include energy efficiency criteria
3.1 Preparation of the National Road Safety Council's (CNSV) action plan, incorporating overland freight transportation safety measures	Plan	0	1	3.1 CNSV certification approving the 2021 Operating Action Plan and the 2020 Execution Report
3.2 Approval of the regulations governing overland freight transportation insurance, to include at least: (i) civil liability; (ii) coverage of modes of transportation; and (iii) coverage of freight.	Regulations	0	1	3.2 IHTT certification approving the overland freight transportation safety regulations
4.1 Ratification of the Operating Regulations for the Guatemala-Honduras Customs Union (adopting the recommendations on biosecurity)	Report	0	1	4.1.1 SIECA Technical-Legal Report ratifying the Operating Regulations for the Guatemala-Honduras Customs Union.
	Document	0	1	4.2.1 Confirmation from the Department of Economic Development of receipt of the SIECA document on the update to the Operating Regulations for the Guatemala-Honduras Customs Union, agreeing to adopt the recommendations contained in the IDB's report to the ministerial agency on biosecurity

⁹ See Table 1 of the Monitoring and Evaluation Plan ([required link 3](#)) to consult the comments for each output indicator.

Output indicator ⁹	Unit	Baseline (2020)	Target (2021)	Means of verification
Component III. Consolidation of the institutional framework for freight logistics and transportation				
5.1.1 Approval of the CNL Institutional Management Report, to include progress on actions under the Immediate Action Plan	Report	0	1	5.1.1 CNL certification, approving the Institutional Management Report
5.1.2 Approval of the management report of the Technical Unit for Logistics Execution (UTEL), with minutes of the coordination activities implemented (considering energy efficiency measures, pandemic-related achievements and challenges, interagency cooperation to promote the social and labor market integration of persons with disabilities into the logistics system, and gender consideration)	Report	0	1	5.1.2 CNL certification approved the UTEL management report, considering measures for energy efficiency and to promote the inclusion of persons with disabilities
Component IV. Establishment and modernization of comprehensive planning, transportation and logistics services, and trade facilitation processes				
Subcomponent IV.1. Establishing comprehensive planning processes and improving transportation and logistics services				
6.1 Approval by the CNL of the Master Plan for the Northern Logistics Cluster (PMCLN)	Plan	0	1	6.1 Certification from the CNL approving the PMCLN
7.1 Approval of the plan to modernize the transportation and freight logistics fleet, considering financial incentives and energy efficiency criteria in keeping with the Overland Transportation Law	Plan	0	1	7.1 IHTT certification approving the plan to modernize the transportation and freight logistics fleet
7.2 Approval of the ENTT technical and financial sustainability plan, which includes annual budget allocation; and functionality of private driving schools, to include the program of incentives for training women	Plan	0	1	7.2 IHTT certification approving the ENTT technical and financial sustainability plan
Subcomponent IV.2. Modernizing trade facilitation processes				
8.1 Approval of the functional and operational design of the Comprehensive Foreign Trade Management Portal (PGICE)	Document	0	1	8.1 Official letter from SDE approving the functional and operational design of the PGICE for Phase I
8.1 Entry into force in Honduras of the authorized economic operator (AEO) program	Document	0	1	8.2.1 Publication in the Gazette of the Honduran Customs Authority (AAH) Agreement on the entry into force of the AEO program
	Report	0	1	8.2.2 AAH Report confirming the launch of the AEO program.
9.1.1 Regional exchange resolution on the dataset for transmission of animal and plant health certificates with at least two countries	Resolution	0	1	9.1.1 Resolution of plant and animal health notification, adopted by the ministerial agency for the Guatemala-Honduras Customs Union
	Report	0	1	9.1.2 Report on implementation between Guatemala and Honduras through the Community IT Platform
10.1. Creation of a tool that cross-checks the FYDUCAs by origin of the beneficiary companies, to measure functionality in terms of attributes, metrics, and datasets	Report	0	1	10.1 Report from the Revenue Administration Service on the impact and results of implementation of the business intelligence module

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Honduras. Loan ____/BL- HO to the Republic of Honduras
Honduras Transportation and Freight Logistics Sector
Reform Program III

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Honduras Transportation and Freight Logistics Sector Reform Program III. Such financing will be chargeable to the Bank's Ordinary Capital (OC) resources in the following manner: (i) up to the amount of US\$41,468,000, subject to concessional financial terms and conditions ("Concessional OC"); and (ii) up to the amount of US\$77,012,000, subject to financial terms and conditions applicable to loan operations financed from the Bank's regular program of OC resources ("Regular OC"), as indicated in the Project Summary of the Loan Proposal, and subject to the Special Contractual Conditions of said Project Summary.

(Adopted on ____ 2021)