

# PROGRAM FOR EFFICIENCY AND TRANSPARENCY IN GOVERNMENT PROCUREMENT

(HO-0176)

## EXECUTIVE SUMMARY

<b>Borrower:</b>	Republic of Honduras	
<b>Executing agency:</b>	Presidential Commission on the Modernization of the State (CPME)	
<b>Amount and source:</b>	IDB (FSO):	US\$14.58 million
	Local contribution:	US\$ 6.77 million <sup>1</sup>
	Total:	US\$21.35 million <sup>2</sup>
<b>Financial terms and conditions:</b>	Amortization period:	40 years, including 10-year grace period
	Disbursement period:	4.5 years
	Interest rate:	1% during the grace period; 2% thereafter
	Credit fee:	0.5%
	Inspection and supervision:	1% of the loan amount
	Currency:	dollars of the United States of America
<b>Objectives:</b>	Promote sustainable efficiency and transparency in government procurement through modernization of the public sector institutions involved, the legal framework in which procurement is carried out, and the operational and organizational instruments used.	
<b>Description:</b>	In order to achieve these objectives, the project includes the following components, the specific objectives of which are described below:	
	<b>Procurement inspection (US\$11.5 million)</b>	
	The internal control system of the Executive Branch for all procurement for investment programs and projects carried out by government agencies will be strengthened, as well as other procurement of special interest to the Executive Branch, during the inspection period. Inspection will consist of selective inspections	

<sup>1</sup> The required local contribution will be primarily composed of donations from the international community.

<sup>2</sup> Parallel financing from the MIF in the amount of US\$2 million is also being processed for the new National Procurement System component.

conducted during ongoing procurement procedures. It will cover technical (including environmental), financial (including audits of procurement management), and administrative aspects, as well as the procedures for oversight of projects and programs under the Master Plan for National Reconstruction and Transformation (PMRTN) and any other projects and programs that may be added. The procurement procedures to be inspected will be selected based on a significant and sufficiently representative sample. Once the inspections have been completed in accordance with the established summary procedures, the results will be conveyed to the government, the international community providing cofinancing for the program, and civil society. In order to carry out these activities, the Government of Honduras will hire consulting services, the terms of reference for which will be agreed upon by the international community providing cofinancing for the program and approved by the Bank.

#### **Support for procurement management (US\$5.6 million)**

Comprehensive support will be provided for procurement management by the government agencies targeted by the program, so that government projects and programs in general and the PMRTN in particular, can be properly executed on a timely basis. To this end, consulting services will be hired for each of the participating agencies in accordance with the modernization plans of the Presidential Commission on the Moderation of the State (CPME) for these agencies on the basis of the needs identified in the institutional appraisals carried out by the Bank. In addition, consulting services will be hired to prepare the harmonized bidding procedures and standard bidding documents that will be needed to support procurement management in the selected agencies and, in the future, of all other sort.

#### **National procurement training system (US\$1.4 million)**

A National Training System will be developed for management of government procurement. The system will operate through national institutions, in order to create the institutional capacity needed to ensure the continuity of the system. To this end, specialized consulting services will be hired which, on the basis of national needs, will: (1) develop training and refresher programs in procurement; (2) identify a training center where the training will be given to staff responsible for procurement; (3) form an initial core group of national trainers; and (4) formulate and implement a training plan which will include promotion, implementation, evaluation, and long-term financing of the system in the participating agencies. The proposed program will finance training for an estimated 350 employees involved in procurement management will be trained at a cost of approximately US\$1,500 per employee. Once the program funds have

been exhausted, the government will provide training to all other government staff involved in procurement, and refresher courses and extension modules will be implemented on an ongoing basis for the employees who were previously trained.

#### **National procurement system (US\$2 million from the MIF)**

A new, modern, efficient, and transparent National Procurement System, will be designed and its implementation undertaken. This component includes drafting legislation, rules, and regulations in support of this system. The new model provides for: (i) inputs for the creation and operation of a permanent system for preventive internal oversight of the Executive Branch; (ii) regulation of the regulatory office for procurement to be established under the prospective new Procurement Act; (iii) establishment and start-up of the regulatory office; (iv) establishment of a government procurement information system and data base; (v) linkage of the training system with the new human resources policies for the central government, which are being prepared with cofinancing from the Bank and the World Bank. The program design is guided by the principle that the regulatory agency and all the agencies responsible for procurement should enjoy legal and administrative independence from one another.

#### **Executing Unit (US\$2 million)**

The Executing unit of the program for efficiency and transparency in government procurement (UPET) will be attached to the Presidential Commission on the Modernization of the State. The UPET will be responsible for implementing the various components of the program, including preparation of the contracts for the consulting firm that will carry out the inspections and hiring the consulting services for management support for government agencies. The UPET will also coordinate program activities with other ongoing programs and projects for reform of the State. The UPET will carry out a number of activities prior to hiring the consultants and firms that will implement the program components, including: (i) preparing the respective documents for selection and hiring; (ii) consolidating and updating the supporting information to be attached to these documents; (iii) issuing the call for proposals and evaluating the proposals received from the consultants and firms that will provide the program services; (iv) identifying any difficulties that may arise in the government agencies in order to ensure the satisfactory performance of the program services; and (v) establishing the necessary agreements with the government agencies involved in the program implementation.

**Environmental and social review:**

The program includes an environmental strategy based on specific measures for each component. These measures, which were included in accordance with the recommendations issued by CESI at its meeting of January 18, 2000, are detailed in chapter IV (Environmental Concerns) of this document.

**Benefits:**

***Procurement Inspection:*** Stimulating the flow of contributions from the international community; recommending ways to resolve the problems in procurement procedures ascertained; curbing opportunities for deviations and irregularities in procurement procedures.

***Support for Procurement Management:*** Accelerating procurement procedures; reducing program and project implementation costs; establishing a hierarchy for staff involved in procurement.

***National Procurement Training System:*** Extending the standards of efficiency and effectiveness established under the program to all central government agencies; supporting ongoing efforts to establish an administrative career; improving the efficiency and effectiveness of procurement procedures.

***New National Procurement System:*** Stimulating transactions between the private sector (domestic and foreign) and the public sector; achieving verifiable savings due to shorter procurement processing periods, better guarantees, reference prices, and publicity for transactions; institutional strengthening of procurement, as reflected in the overall country risk.

**Risks:**

**Firm political will is required** to ensure program implementation. Indeed, decisive, sustained political support is necessary because implementation of the program components will affect nearly all government agencies. The current administration in Honduras has expressed its willingness to support program implementation on numerous occasions, and this support has taken the form of concrete measures. In addition, political will is a factor in the slow pace of reforms in connection with government plans to modernize the State. However, the recent award to a private company of the concession for administering the country's four main airports is considered a positive sign of the government's efforts.

**The change of administration that will occur in January 2001** will mean that the above-mentioned political support will have to be reaffirmed, since the implementation period of the program will concern the next administration. However, the need for transparency in the administration of public resources is an issue being raised by all of the candidates currently in the race.

**The financial support of the international community** is essential for program implementation. Letters of Intent and Memoranda of Understanding are being exchanged to formalize the contributions by the international community. These documents must be submitted as conditions precedent to the submission of this operation to the Bank's Board of Executive Directors and as a condition precedent to the first disbursement, respectively.

**The Bank's country and sector strategy:**

The program is consistent with the strategy of the Bank for Honduras set forth in the country paper (GN-2070-1) of October 14, 1999. The main elements of the strategy include providing support for the development of the PMRTN and its detailed investment plan, including strengthening the executability of these investments, and, through the Consultative Group, promoting international cooperation finance reconstruction. Consequently, timely, efficient execution of the proposed project is essential for implementation of the strategies of both the Government of Honduras and the Bank.

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

This operation does not qualify as a project that promotes social equity, as described in the key objectives for the activities of the Bank contained in the report on the Eighth General Increase in Resources (document AB-1704). Neither does this operation qualify as a poverty-targeted investment project (PTI).

**Exceptions to Bank policy:**

None.

**Procurement:**

The procurement of goods valued at more than US\$350,000 will be subject to competitive bidding, and the awarding of contracts for consulting services valued at more than US\$200,000 will be subject to international competitive bidding. The program will not require any construction work.

**Special contractual clauses:**

In addition to the standard contractual conditions, the following special conditions will be included:

**I. Conditions precedent to the first disbursement**

1. establishment of the executing unit of the program (UPET), which will have at least a general coordinator and senior technical advisor (paragraph 5.4);
2. submission of the Operating Regulations for the program, which will at least include the elements described in paragraph 5.4, to the Bank for approval;

3. Letters of Understanding signed under which the international donors undertake to provide the Government of Honduras with cofinancing for implementation of this component, which resources will be administered by the Bank in accordance with its rules and procedures (paragraph 5.9).

**II. Conditions precedent to the disbursement of funds for the management support component**

1. interagency cooperation agreements signed between the Executing Unit and the respective government agencies (paragraph 5.23); and
2. approval of a legal framework and regulations that include legislation on procurement that at least stipulates the elements described in paragraph 5.8.

**III. Conditions precedent to the disbursement of funds for the training component**

1. approval of a legal framework and regulations that include legislation on procurement that at least stipulates the elements described in paragraph 5.8; and
2. establishment of a Procurement Regulatory Office, whose responsibilities include those described in paragraphs 2.18 and 5.21.

**IV. Other previously fulfilled conditions**

In addition to the above conditions, the loan contract will stipulate that the Borrower must submit the following documents to the satisfaction of the Bank prior to the approval of this document:

1. the draft Government Procurement Act to the National Congress (paragraph 5.8); and
2. the Letters of Intent through which the international donors formally undertake to provide cofinancing for the program (paragraph 5.9).

**Special disbursements:**

The special conditions precedent to the first disbursement notwithstanding, once the conditions set forth in Article 4.01, paragraphs (a), (b), and (c) of the General Conditions in the contract for the prospective loan, the Bank may make special disbursements of up to US\$250,000 for essential additional work carried out for calls for bids for the consulting firms that will provide services under the components for procurement inspection and procurement management support.

**Recognition of  
previous  
expenditures:**

Up to US\$200,000 in expenses incurred after April 1, 2000 for the hiring of UPET staff may be recognized as part of the local counterpart funding, provided the applicable Bank policies and procedures were followed.

## **I. BACKGROUND**

### **A. Frame of Reference**

- 1.1 Near the end of 1998, Central America was devastated by Hurricane Mitch, the most violent natural phenomenon to strike the region in the past 100 years. According to official figures, in Honduras there were more than 5,000 deaths, more than 8,000 missing, more than 12,000 wounded, and 1.5 million left homeless. According to ECLAC, the country suffered US\$3.794 billion in damages, equivalent to approximately 70 percent of GDP. In addition, the cost of recovery was estimated at more than US\$5 billion (nearly 100 percent of GDP). According to figures provided by the Central Bank of Honduras, damage to production caused the real GDP growth rate to fall from 5.2 percent to 2.9 percent in 1998 and from 5.5 percent to -1.9 percent in 1999. The 1999 current account deficit grew to US\$505 million (9.4 percent of GDP), and created a fiscal deficit of 6.2 percent.
- 1.2 The response of the international community to the emergency and to national reconstruction efforts will channel sizeable significant financial resources to the region. The availability of these resources is predicated on the need to strengthen the administrative and control capacities of the public sector entities responsible for utilizing these funds, thus ensuring full adherence to the principles of efficiency and transparency required by both the beneficiary countries and the donors. Upgrading the existing systems provides an opportunity to strengthen and modernize the national procurement systems. A permanent, sustainable institutional transformation can thus be achieved, based on the principles of ethics, efficiency, and transparency in the management of public resources, in coordination with other governmental reform efforts and existing or future institutions for internal oversight.
- 1.3 In this context, the Government of Honduras requested the collaboration of the Bank and the international community in designing a program to strengthen and modernize the national procurement system, under a program to strengthen the preventive internal oversight mechanisms of the Executive Branch (currently under study). This system would cover all procurement procedures, regardless of the source of financing. The program is part of the Master Plan for National Reconstruction and Transformation (PMRTN) that the Government of Honduras presented to the international community at the Meeting of the Consultative Group for the Reconstruction and Transformation of Central America, which was held in Stockholm in May 1999.
- 1.4 The master plan also refers to the need to strengthen management of operations and oversight in the public sector units responsible for utilizing government funds. This provides the international community with an opportunity to support Honduras in the transparent management of public resources, not only with respect to resources for reconstruction but also with respect to the national budget as an integral part of



the process of transforming the country. During the above-mentioned meeting, it was reiterated that the beneficiary countries should be able to support their requests for cooperation with a commitment to create the institutional capacity necessary to efficiently and transparently manage both aid from the international community and their own domestic financial resources.

## **B. Appraisal of the Government Procurement System**

- 1.5 The Government Procurement Act is the specific law that directly regulates public sector procurement. The Act was passed on August 29, 1985, and was amended by subsequent legislation. In addition, other legislation indirectly regulates matters related to procurement, such as: the Law on the Office of the Comptroller General of the Republic, the Law on the Office of Public Prosecution, the Law on the Office of the Attorney General of the Republic, and the Law Against the Illicit Acquisition of Wealth by Civil Servants. Procurement is also regulated by the Basic Law on the Budget and the General Provisions of the Annual Budget.
- 1.6 As a result of an appraisal carried out by the Bank, it was determined that the Procurement Act that currently regulates public sector procurement: (i) does not cover all government agencies; (ii) in the absence of regulation, has led to a situation in which each institution applies the law in its own way; (iii) although the procurement procedures of the central government were decentralized in 1994, no regulatory mechanisms were established; thereby bring the opportunity to coordinate procurement procedures and standardize government systems; (iv) Article 8 of the Act gives the President of the Republic the authority to approve all contracts, which does not contribute to the efficiency of the process; (v) does not recognize the mechanism of international arbitration, which creates an obstacle to foreign investment; and (vi) limits competition and efficiency by requiring the participation of a large number of local firms and/or professionals.
- 1.7 The Executive Branch, through the Presidential Commission on the Modernization of the State (CPME) and with the participation of a range of interested parties in Honduras and international cooperation organizations, prepared a new Government Procurement Act that will be submitted to Congress prior to the submission of the proposed program to the Bank's Board of Executive Directors. The Bank worked with the government on revising the bill, which will incorporate the following improvements: (i) creating a regulatory office that will stipulate regulations, provide advisory services and coordinate activities to provide guidance and systematize procurement procedures and clearly define their functions; (ii) establishing the basic principles of efficiency, publicity, transparency, equality, and free competition in procurement procedures; (iii) defining areas of responsibility for procurement and the various levels of administration; (iv) creating a database and the use of information technology for procurement procedures; (v) identifying procurement procedures and exceptions to them; (vi) banning the breakup of contracts or of projects by executing several contracts in order to elude

the procedures established by law; (vii) providing for sanctions against government officials, civil servants, and contractors who fail to perform their obligations; and (viii) establishing that international agreements and treaties take precedence over national legislation in the event of a conflict between them. The government requested that the Bank assist with preparing the regulations for the new Government Procurement Act, which will enter into force once the draft law is submitted to Congress.

### **C. Institutional framework**

- 1.8 The following activities were undertaken to prepare the program design: (a) a country procurement assessment; and (b) institutional assessments, which demonstrated that government procurement capacity varies greatly (some procurement staff have better training and/or experience than others), but is generally weak (there is a clear lack of systematic training programs in the public sector and there are few training opportunities). In addition, regulations have not been established for the current Government Procurement Act. Consequently, interpretations of the general provisions of the Act may differ.
- 1.9 As a result, standard mechanisms and organizational systems for procurement have not been developed and procedures have not been put into place. Consequently: (i) bidding documents have not been standardized, which has caused the bidding conditions to vary from one agency to another and even within the same agency; (ii) the awarding of contracts is not always governed by preestablished criteria that are communicated to bidders in due course; and (iii) the internal oversight mechanisms of the various agencies are ineffective.
- 1.10 According to the World Trade Organization (WTO), government procurement accounts for 15 percent of world GDP. In carrying out these activities, it is estimated that governments pay an additional 15 percent due to internal structural inefficiencies. If governments improve the transparency and efficiency of procurement procedures, they will generate budgetary savings, promote investment, and contribute to the political, social, and economic stability of their countries. The development and establishment of a new procurement model is an essential part of State reform in Honduras.

### **D. Government strategy**

- 1.11 In the Master Plan for National Reconstruction and Transformation (PMRTN), the Government of Honduras outlined a “development strategy that will involve a long process of transforming social, cultural, and economic structures.” One of the primary goals of the plan is to: “achieve a level of per capita GDP equivalent to what would have been achieved in 1998 in the context of macroeconomic stability, streamlined, better-trained, and more efficient public administration, strengthened regional integration, and a reduced external debt burden.” In addition, the second

priority set out in the strategy is “to establish a solid foundation for national transformation.” To this end, activities to stimulate the productive sectors are included. As for infrastructure, the plan proposes to use foreign aid, concessioning and privatization of public services and their decentralization to the municipalities in order to achieve specific objectives with respect to the road system, ports, airports, water and sanitation, energy, and telecommunications. The government reaffirmed its commitment to these reforms in Stockholm through the Plan for National Reconstruction and Transformation it presented.

- 1.12 More specifically, the government has demonstrated its commitment to the program by means of: (i) the execution of letters of agreement between the Government of Honduras and the Bank on the basic outlines of the program; (ii) a meeting of the full cabinet with the Bank mission during which, in accordance with the President’s instructions, the program was given the highest priority; (iii) an agreement with the Bank to allocate significant resources from the Fund for Special Operations to finance the project; and (iv) repeated verbal and written statements during government presentations at the recent meeting of the Consultative Group for Honduras held in Tegucigalpa (February 7 and 8), during which the government reaffirmed its intentions, commitment, and expectations regarding implementation of the program.

**E. Bank Strategy**

- 1.13 The program is consistent with the Bank strategy for Honduras presented in the country paper (GN-2070-1) of October 14, 1999. The main elements of the strategy include providing support for the development and implementation of the Master Plan and its detailed investments plan, including strengthening the capacity to execute these investments, and, through the Consultative Group, promoting international cooperation to finance reconstruction. Consequently, the timely and efficient implementation of the proposed project is indispensable for the strategies of the Government of Honduras and the Bank to be carried out.

**F. Coordination with the World Bank**

- 1.14 The World Bank is processing a technical-cooperation loan to deepen reform of the State by improving financial transparency and accountability in the management and oversight of public finances and human resources management. The total cost of the program will be US\$17 million, of which the World Bank will finance US\$15 million. The components of the program include the following:
- 1.15 **Internal oversight and management of public finances.** In addition to strengthening the Department of Finance, an integrated financial management system is being introduced throughout the public sector in both the central government and in decentralized government agencies, including an internal auditing and oversight system for the Executive Branch.

- 1.16 **Technical and administrative reorganization of the Office of the Comptroller General of the Republic (CGR).** The objective of this component is to strengthen auditing and oversight institutions, with emphasis on aspects of public feedback, economic reporting, and the efficiency and effectiveness of public sector operations, with particular emphasis on the use of all resources earmarked for the reconstruction process (whether from domestic or international sources or under bilateral agreements with foreign donors).
- 1.17 Other components of the program include: (i) strengthening human resources management; (ii) development of planning and institutional management capacity; (iii) consolidation of reforms of the regulatory framework and the expansion of privatization. Consequently, the IDB project team has been coordinating the proposed IDB project with the World Bank program, since the two are mutually complementary.

## II. OBJECTIVES AND DESCRIPTION

### A. General objective

- 2.1 The general objective of the program is to promote sustainable efficiency and transparency in government procurement through modernization of the public sector institutions involved, the legal framework in which procurement is carried out, and the operational and organizational instruments used.
- 2.2 On the basis of the assessments conducted and as explained in the preceding paragraphs, the program has been designed with two parallel and simultaneous development objectives. The first is to transform the country over the long term and on a sustainable basis by reforming the national procurement system. The second is to address the temporary need over the medium term for support in the areas of oversight and management during reconstruction and to transfer technology, know-how, and training to help ease the transformation process towards the new government procurement model.

### B. Specific objectives

- 2.3 **Procurement inspection:** Strengthen the internal oversight system of the Executive Branch, for all procurement under investment programs and projects carried out by government agencies, as well as other procurement that the Executive Branch may wish to oversee because of its special importance, during the inspection period (see paragraphs 5.13 and 5.14) to help achieve the general objective of the program.
- 2.4 **Support for procurement management:** Provide comprehensive support for procurement management by the government agencies targeted by the program (see paragraph 2.14), so that the implementation schedules for government projects and programs in general and the PMRTN in particular can be properly prepared in due course.
- 2.5 **National procurement training system:** Develop a national training system in government procurement management. The system will be developed through national institutions in order to create the institutional capacity needed to ensure the continuity of the system.
- 2.6 **National procurement system:** Design and launch a new, modern, efficient, and transparent national procurement system, including the drafting of legislation, rules, and regulations in support of the system. To this end, the modifications and innovations that arise from the legal reforms that are currently being made, the field experience gained from other program components, the introduction of new

technology to improve management, and the guidelines emerging from other public sector reform programs will be combined to form a harmonious whole.

- 2.7 **Executing unit:** In addition to implementation and management of each program component, ensure the necessary coordination between them, as well as between the proposed program and the other governmental reform programs and projects currently under way.

**C. Description**

- 2.8 This program concerns government procurement procedures for works and/or services provided by individuals or firms, from budgeting to delivery of the final product, by all possible methods, such as purchasing, leasing, or rental, with or without an option to purchase, the sale of assets, or any combination thereof, regardless of the source of financing.
- 2.9 The program is divided into five components: (a) procurement inspection (during reconstruction); (b) support for procurement management (during reconstruction); (c) development and implementation of a procurement training system; (d) development and implementation of a new national procurement system; and (e) establishment and financing of the program executing unit.
- 2.10 In order for the country to be reconstructed in a transparent manner and according to the planned schedules, there is an immediate need to support the internal oversight systems of the Executive Branch, the future systems to be implemented under the above-described World Bank project, and the capacity to implement programs and projects. At the same time, the new procurement system will be designed and instituted through the establishment of the regulatory office prescribed under the draft law. The program has thus been conceived in such a way that its components simultaneously have a short-term impact and contribute synergistically to building the medium- and long-term model.
- 2.11 The program has been designed so that: (i) the project inspection component will address the current internal oversight needs of the Executive Branch and will transfer experience to other program components; (ii) the support for management component will help ensure timely, proper implementation, of the commitments undertaken in the PMRTN by the key agencies, and will also develop methods and procedures that will be incorporated into the beneficiary agencies through on-the-job training; this know-how will then be transferred to the remaining government agencies through the application of the new procurement model; (iii) the training system component will develop and implement a sustainable technical and practical training program, which will serve as the system's tool for training operators; and (iv) the component for the new national procurement system, which will be developed simultaneously, will use the inputs derived from the above components

in such a way that it will be more easily implemented as a result of the capacities transferred during program execution.

- 2.12 The components for project inspection and support for procurement management have been designed to address weaknesses in these areas during the reconstruction process, while the components for the development and establishment of the training system and the development of the new national procurement system deal with the modernization and transformation of the country in this respect. As stated earlier, the two areas will be linked by the experience gained during their implementation and by the transfer of know-how in the management methodologies that are part of the first two components. The program executing unit, which will be attached to the Presidential Commission on the Modernization of the State, will ensure the necessary coordination between the four components of the program and with the other initiatives being carried out in Honduras in connection with modernization of the State.

#### **1. Component A: Procurement inspection (US\$11.5 million)**

- 2.13 This component consists of performing selective inspections concurrently<sup>1</sup> with the procurement procedures. These inspections will cover technical, financial, and administrative aspects (including the performance of concurrent procurement audits<sup>2</sup>), and oversight procedures for PMRTN projects and programs and any others that may be included. In addition, the selection of the inspections to be performed will be based on a significant and sufficiently representative sample, to which, the consulting services will determine with absolute independence. Once the inspections have been completed in accordance with the established summary procedures, the results will be conveyed to the government, the international community cofinancing the program, and civil society. In order to carry out these activities, the Government of Honduras will hire consulting services, the terms of reference for which will be agreed to by the international community providing cofinancing and will be approved by the Bank.
- 2.14 It should be noted that the inspections **are no substitute for existing internal and/or external oversight**, Accordingly: (a) Origin: the inspections will be performed at the expense and by order of the Executive Branch, given that the other agencies exercising oversight (the Comptroller's Office, the Office of Administrative Integrity, and the Attorney General's Office) report to other branches of the government; (b) Scope: their scope exceeds that of the other

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<sup>1</sup> Selective inspections will be understood to mean that inspections will be carried out on a representative sample of all of the projects being implemented. "Concurrently" will be understood to mean that the inspections will be carried out at the same time as the inspected procedures are being conducted.

<sup>2</sup> A concurrent or ongoing audit is a methodology that enables independent auditors to provide reasonable security in writing on an issue through a series of reports submitted by the auditors at the same time as, or a short time after, the occurrence of the respective facts.

oversight systems currently in force, which basically consist of financial audits and do not examine procurement procedures in their entirety; (c) Timing: the inspections will be performed at the same time as the inspected procedures, while the other applicable oversight systems are actually for ex post review.

## **2. Component B: Support for procurement management (US\$5.6 million)**

- 2.15 In principle, the agencies that will receive support are: the Honduran Social Investment Fund (FHIS), the Department of Public Works, Transportation, and Housing (SOPTRAVI), the Department of Agriculture (SAG), the National Water and Sewerage Authority (SANAA), the Department of Health (SESAL), and the Department of Education (SEDUC). Support will also be provided for the Department of Finance (SEFIN). Although the SEFIN does not have any specific projects under the master plan, it participates directly or indirectly in all government procurement procedures.
- 2.16 In order to meet the objectives of this component, consulting services will be hired for each of the participating agencies in accordance with the modernization plans of the CPME for these agencies and on the basis of the needs identified in the above-mentioned institutional assessments. As agreed with the government, the consulting services will be hired by the executing agency of the program (CPME) based on terms of reference and model contracts agreed to by each of the agencies to receive support and approved by the Bank. In addition, consulting services will be hired to prepare the common documents including environmental documentation needed to support procurement management by the selected agencies and, in the future, all government agencies (in view of the broad scope of the tasks, the consulting services have been included in the budget for the national procurement system component).
- 2.17 The objectives of the above-referenced consulting services will include a strong on-the-job training component in procurement management and procedures, along with activities to promote, disseminate, and monitor the experience gained in supporting the participating agencies. The terms of reference will therefore specify the activities to be carried out by the consulting firms to achieve these objectives. Each consulting contract will be for an estimated duration of 24 months.

## **3. Component C: Development and establishment of the government procurement training system (US\$1.4 million)**

- 2.18 The program will finance the new training system, under which an estimated 350 employees involved in procurement management will be trained at a cost of approximately US\$1,500 per employee. Once the program funds are exhausted, the government will provide training to the rest of the government employees involved in these tasks and will implement the refresher and extension modules on an ongoing basis for the employees who were already trained through the system.



- 2.19 A specialized consulting firm will be hired to implement this component. On the basis of national needs, the consulting firm will: (1) develop training and refresher programs in procurement, (2) identify a national training center where the courses and training programs for employees responsible for procurement will be taught; (3) form an initial core group of national trainers; and (4) formulate and implement a training plan that will include promotion, implementation, evaluation, and long-term financing of the system in the participating agencies. The system will be consistent with the applicable legal framework of Honduras.

**4. Component D: Development and establishment of the national procurement system (US\$2 million from the MIF)**

- 2.20 The new model provides for: (i) inputs for the creation and operation of a permanent system for preventive internal oversight of the Executive Branch; (ii) the formulation of regulations for the procurement regulatory office called for under the new draft Procurement Act; (iii) the establishment and startup of the regulatory office, to which the draft law attributes primary responsibilities; (iv) the establishment of a government procurement information system and data base; (v) linkage of the training system to new human resources policies for the central government. These policies are being prepared with cofinancing from the IDB and the World Bank. The regulatory office and all the agencies responsible for procurement will have legal and administrative independence from each other.
- 2.21 In accordance with the draft Procurement Act, the regulatory office will be responsible for keeping the legal and regulatory framework of the national procurement system up to date. In addition, the program will assign responsibility to the regulatory office for: (i) administering the training system and coordinating it with the agencies responsible for procurement; (ii) administering and updating the government procurement information system and data base, which, in the future, should handle procurement procedures electronically; and (iii) ensuring that information about the system is widely available.
- 2.22 In order to set up the procurement information system the following activities will have to be carried out: (i) select and adopt an electronic procurement information system; (ii) adapt the selected system to local needs; (iii) obtain computer equipment to operate the system; (iv) recruit technical staff to operate and maintain the system; (v) provide specific training to the new staff on how to operate the system; and (vi) ensure system installation and startup.
- 2.23 Given that the regulatory office will have several key elements for the organization of the national procurement system<sup>3</sup> within its purview, according to the legal

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<sup>3</sup> These elements include: updating and interpreting regulations; preparing standard documents, manuals, and instructions; supervising the content of the procurement and contracting training system; administering the procurement data base; implementing procurement procedures on the Internet; and registering government suppliers.

provisions currently pending approval, MIF funding has been requested for the establishment and operation of this office for 24 months. Once these resources are exhausted, the Government of Honduras will include the necessary items in the national budget.

#### **5. Component E: Executing unit (US\$2 million)**

- 2.24 The UPET will perform a number of activities before hiring the consultants and firms that will be responsible for implementing the program components, including the following: (i) prepare the necessary documents for selection and hiring; (ii) consolidate and update the supporting information to be attached to those documents; (iii) issue the calls for proposals and evaluate the consultants and firms that will provide program services; (iv) identify any difficulties that may arise in the government agencies in order to ensure the satisfactory implementation of the program services; (v) establish the necessary agreements with the government agencies involved in program implementation; (vi) prepare and submit disbursement requests for the program to the Bank; and (vii) preparing and submitting procurement inspection reports for the program to the Bank and the Advisory Board.

#### **D. Program rationale**

- 2.25 The rationale for the **procurement inspection component** is based on the following considerations: (a) the Executive Branch has expressed interest in exercising internal oversight to ensure the efficient management of government procurement, proper use of the funds allocated to these projects, and the ultimate quality of the expected products; (b) although the various donors and international financial institutions have different procurement oversight systems, the Executive Branch deems it advisable to establish its own inspection system on a temporary basis to address the large-scale emergency situation entailed by reconstruction of the country; and (c) there is evidence that, despite the efforts of the Honduran government and the various cooperating countries and organizations, there is broad dissatisfaction in the country and in the international community with the level of accountability in the management of public resources. In addition, the sizing of this component is based on Government of Honduras public investment projections over the next several years according to the documents prepared for the ESAF negotiations with the International Monetary Fund.
- 2.26 The rationale for the **support for procurement management component** is based on: (a) the current institutional weaknesses in government procurement management, which were confirmed and detailed in the individual assessments that were performed during the program design phase; and (b) the pressures and demands imposed by the implementation of the PMRTN projects.

- 2.27 The rationale for the **national procurement training system component** is based on the Honduran government's concern for ensuring the sustainability of improvements made in procurement management during the reconstruction process, by incorporating them into the agenda for transformation of the country, with a development perspective. Ongoing operation of the training system, which will be designed to keep employees who are currently involved in procurement up to date and to train new employees, will provide the new national procurement system with the human resources needed for its implementation.
- 2.28 The rationale for the **national procurement system** is based on the fact that the Government of Honduras, the international community, and the Bank view the destruction caused by Hurricane Mitch as a historic opportunity to transform the country by profoundly reforming the State in general and procurement management in particular. To this end, a program has been designed that will not only correct existing weaknesses related to the legal framework, inefficient procedures, high prices, and lack of training, but will also address future needs for budget savings and the use of information technology.
- 2.29 The UPET will play a major role as facilitator, in addition to performing the administrative tasks of hiring and monitoring the consultants and consulting firms that will implement the program. Although the government is committed to ensuring that all the government agencies will cooperate in the implementation of each program component, constant monitoring will be needed in order to verify that such cooperation actually takes place.

### III. COST AND FINANCING

- 3.1 **Financing.** The total cost of the project is US\$21.34 million. The Bank will finance US\$14.58 million with resources from the Fund for Special Operations, and the local contribution, which will primarily consist of grants from the international community, will total US\$6.77 million. The contributions of the donors will be delivered to the Bank through the execution of administration agreements for the project in accordance with the policies and procedures of the Bank. To this end, letters of intent have already been received from USAID (US\$3 million) and the Government of Sweden (US\$1 million). The Governments of Spain, Canada, Japan, and Switzerland have also expressed interest in cofinancing the program. In addition, the MIF is expected to provide approximately US\$2 million in financing.
- 3.2 **Criteria for preparing the budget of the procurement inspection component.** Given the particular features of the inspection component, it was sized on the basis of two criteria: (a) preparation of the budget, which was determined according to the number and quality of the activities to be performed; and (b) the need to assess the actual fees for the work to be performed by the consulting firm. These two criteria are explained below:
- a. *Preparation of the itemized budget.* The costs were based on three factors: (i) considering the activities to be performed, the consulting firm, will need an office in the country for a period of four years; (ii) given the number of projects to be carried out (see paragraph 5.13), the consulting firm would need three teams of specialists to inspect the procurement procedures of a significant and sufficiently representative sample on a full-time basis; and (iii) the consulting firm should have a solid core of international specialists to lead the above teams, which will be supported by local specialists on the professionals and administrative staff (see itemized budget in the technical annexes).
  - b. *Assessment of consulting fees.* In accordance with the above-described criteria (paragraph 2.12), the portfolio of projects to be inspected will be determined when the consulting firm is hired. In addition, the fees charged by the consulting firm will be based on completed inspections, for which purpose the first step will be to determine the significant and sufficiently representative sample. Since these two variables have not been determined, the consulting fees cannot be precisely calculated at this time. Consequently, the project team estimates that the cost will be approximately 1.5 percent of the portfolio to be inspected, or 1.5 percent of government disbursements during the inspection period. The Government of Honduras projects that investments will total US\$250 million to US\$300 million annually (for the period of 2001 to 2004). Accordingly, disbursements will total an estimated US\$1 billion to US\$1.2 billion.

**Table 1**  
**Consolidated program Budget**  
(in thousands of US\$)

Budget category		IDB/FSO	GOH	Total	%
<b>A.</b>	<b>Procurement inspection</b>			<b>11,500.0</b>	<b>53.9</b>
	1. Consulting services	5,000.0	5,576.8	10,576.8	
	2. Equipment		259.3	259.3	
	3. Support staff		377.9	377.9	
	4. Infrastructure		286.0	286.0	
<b>B.</b>	<b>Support for procurement management</b>			<b>5,600.0</b>	<b>26.2</b>
	1. Consulting services	3,780.0		3,780.0	
	2. Travel and per diem	1,820.0		1,820.0	
<b>C.</b>	<b>National procurement training system</b>			<b>1,400.0</b>	<b>6.6</b>
	1. Consulting services	672.0		672.0	
	2. Training institution	728.0		728.0	
<b>E.*</b>	<b>Executing unit</b>			<b>2,000.0</b>	<b>9.3</b>
	1. Consulting services	1,344.0		1,344.0	
	2. Travel and per diem	297.2		297.2	
	3. Support staff	88.8		88.8	
	4. Equipment	70.0		70.0	
	5. Auditing	100.0		100.0	
	6. Final evaluation	100.0		100.0	
	Finance charges			854.2	<b>4.0</b>
	1. Interest	439.0	140.0	579.0	
	2. Credit fee		135.2	135.2	
	3. Inspection and supervision	145.0		145.0	
<b>Grand total:</b>		<b>14,584.0</b>	<b>6,775.2</b>	<b>21,359.2</b>	<b>100.0</b>

\* Component D will be financed by the MIF.

#### **IV. ENVIRONMENTAL CONCERNS**

- 4.1 The environmental feasibility of the program is ensured by the adoption of the following environmental protection measures: (i) in the procurement inspection component, the inspections will cover technical aspects, including environmental requirements such as licensing and environmental impact assessments; (ii) in the components for support for procurement management and the national procurement system, the consulting services to prepare the standard documents will address environmental issues related to procurement; and (iii) in the component for the national procurement training system, the system will include the attendant environmental issues. These measures, which are consistent with the recommendations made by CESI at its meeting of January 18, 2000, will be included in the terms of reference for the consultants hired to implement the program.

## V. IMPLEMENTATION

### A. Borrower and executing agency

- 5.1 The borrower will be the Republic of Honduras. The executing agency will be the Presidential Commission on the Modernization of the State (CPME). In support of the CPME, funding has been included for the establishment of an executing unit, which will be responsible for implementation of the program.

### B. Institutional organization

#### 1. Executing unit

- 5.2 The executing unit will be designated the executing unit of the program for efficiency and transparency in government procurement (UPET) and will be attached to the CPME. The UPET will be composed of: a general coordinator, who will also be the coordinator for the national procurement system component; a coordinator of the procurement inspection component; and a coordinator of the support for procurement management component and the national procurement training system component. In addition, a senior (International) technical advisor will assist the general coordinator, and a fund for limited consulting services will be established in order to meet the need for any such services during program implementation.
- 5.3 Once the consultants and consulting firms have been hired, the executing unit will perform activities such as: (i) administering the contracts; (ii) ensuring strict compliance with contractual obligations; (iii) receiving and processing the reports submitted by the consultants and consulting firms; (iv) providing logistical support and facilitating the work for the consultants and consulting firms with all of the means at its disposal; (v) preparing periodic progress reports on the program as a whole and on each of its components; and (vi) preparing and submitting program disbursement requests to the Bank. Plans also call for administrative staff and equipment to be included.
- 5.4 In view of the complexity of the program (the number of participating agencies, consulting services to be hired and sources of financing), which will require tight coordination and supervision by the UPET, Operating Regulations need to be prepared and implemented to govern program activities. These regulations must stipulate and regulate at least the following areas: (i) programming; (ii) coordination; (iii) information; (iv) disbursements; (v) reports; (vi) the hiring of auditors to inspect procurement; and (vii) monitoring, supervision, and evaluation of consultants. *The establishment of the executing unit of the program for efficiency and transparency in government procurement (UPET), with at least a general coordinator and senior technical advisor, and submission of the*

***Operating Regulations of the program to the Bank for its approval will be a condition precedent to the first disbursement of the loan.***

## **2. Advisory Board**

- 5.5 In order to ensure greater transparency in the reports produced by the consulting firms hired to execute the procurement inspection component, an **Advisory Board** will be established and will be composed of the general coordinator of the UPET, the coordinator of the procurement inspection component, one or more representatives of the financial donors of the program (the international community), a representative of the Commission for the Participation of Civil Society in National Reconstruction and Transformation (which was created by Executive Agreement Number 047-99 of August 23, 1999), and representatives of any other entities the Advisory Board may deem appropriate.
- 5.6 The Advisory Board will be convened by the Chief Coordinator of the UPET, provided that an inspection report (see below) is submitted to the UPET. The financial donors of the program and the Commission for the Participation of Civil Society in National Reconstruction and Transformation will determine the appointing systems and terms for their representatives. The executing unit will sign the agreements for the establishment of the Advisory Board with the two above-referenced institutions, establishing the working hours, rights, and obligations of the participants.
- 5.7 The Advisory Board will take note of the reports, and the general coordinator of the UPET will submit them through the CPME to the Office of the Presidency, which will take whatever measures it deems appropriate under the law. The consulting firm responsible for the inspection component will be required to follow up on the measures taken for the inspected cases.

## **3. Government Procurement Act**

- 5.8 ***The submission of the draft Government Procurement Act to the National Congress will be a condition precedent to the approval of the proposed program by the Bank's Board of Executive Directors. In addition, as a condition precedent to the first disbursement for the components for management support, the national training system and the new national procurement system, the legal framework and regulations that include legislation for procurement that must at least establish the following principles, must be approved: (i) efficiency, publicity, transparency, bidder equality, and free competition in procurement; (ii) a clear definition of the areas of responsibility of the various levels of management with respect to procurement; (iii) establishment of the regulatory body described in paragraph 2.18; (iv) a clear description of procurement procedures and their exceptions; (v) a ban on subdividing procurement or the implementation of projects by executing various contracts in order to elude the procedures***



*established by law; (vii) the establishment of sanctions against public officials, civil servants, or contractors who fail to perform their obligations; and (viii) precedence of international agreements and treaties over national laws.*

#### **4. Administration of the resources provided by the donors cofinancing the program**

- 5.9 The program will be cofinanced with contributions from the international community. Each of the cooperating donors will agree to provide these resources by executing a letter of intent, specifying the amount of the contribution. In addition, it has been agreed that donor resources will be administered by the Bank through the establishment of a single account, for which purpose a memorandum of understanding will be executed by the Government of Honduras, the donors, and the Bank. *Receipt of the letters of intent of the cooperating donors by the government and the Bank will be a condition precedent to approval of the program by the Bank's Board of Executive Directors. Execution of the memorandum of understanding by the government, the cooperating donors, and the Bank will be a condition precedent to the first disbursement of the loan.*

#### **5. Monitoring mechanism**

- 5.10 In view of the active participation of the international community in designing and cofinancing the program, the Government of Honduras and the Bank will periodically invite representatives of the participating countries and institutions to program implementation monitoring meetings (approximately every six months). The participants will be designated by the respective authorities of the Government of Honduras, the donors, and the Bank. The Government of Honduras, in cooperation with the Bank, will propose the venues and dates of the meetings, which will be determined by mutual agreement with the donors.

#### **6. Rules for implementation**

- 5.11 **Procurement inspection component.** All government agencies, both the centralized ones and the decentralized and deconcentrated local government agencies may be involved in the implementation of the procurement inspection component, if they administer procurement using central government funds, whether these are from internal or external sources. The Executive Branch has pledged to take whatever measures might be necessary, through directives, legal instruments, or any other means it considers appropriate, to ensure that the consulting firm that is hired is able to perform its inspections without restrictions of any kind. To this end:
- a. The consulting firm will have free access to all technical, legal, administrative, and financial documents related to the projects and procurement procedures subject to inspection and may make copies of them.

- b. The consulting firm may take samples and verify measurements, or it may request that the construction supervisors or contractors do so.
  - c. The consulting firm may perform any type of technical testing in the course of performing its inspections.
  - d. In the event that the executing unit of a project, or a firm or nongovernmental organization hired for valuable consideration or without recompense refuses to provide the documents requested by the consulting firm in the course of performing its inspections, or blocks these inspections in any way, the Executive Branch, through the CPME, will take any necessary measures to enable the consulting firm to perform the inspections in accordance with its best professional judgement.
- 5.12 The consulting firm will select the procurement projects, programs, and procedures that will be subject to inspection, as well as the stages of these projects, programs, and procedures, with complete independence and freedom in accordance with the provisions of its technical proposal, under its own responsibility and initiative, and it will not be required to provide advance notice of the inspections that it intends to perform.
- 5.13 The universe of procurement procedures from which the consulting firm will select the significant and sufficiently representative sample to be inspected will be composed of: (i) an initial portfolio with all the procurement procedures under way at the time the contract is signed, according to the list submitted by the executing unit of the program at that time, indicating the stage of the procurement on that date; (ii) a subsequent portfolio with all procurement under projects or programs which, having been approved by the respective agencies, are beginning their preparatory activities on the date on which the consulting firm begins its services, for a period of 24 months from that date. The executing unit of the program will provide the consulting firm with the list of such projects on a monthly basis.
- 5.14 At the end of month 24 after startup of the consulting services, the consulting firm will continue to provide these services under the same conditions until all procurement procedures in the universe under inspection have been completed, or until the end of 48 months after startup of the consulting services, whichever comes first. The consulting firm will set forth the inspection methodology in its inspection implementation plan. The inspections will cover each individual stage of the procurement procedures, from planning and initial budgeting to completion and final acceptance of goods, works, or services. The methodology will imply that all procurement will be subject to inspection concurrent to implementation, whether at each stage or certain stages, and on one or more occasions.
- 5.15 The selection and inspection methodologies must guarantee that the inspections are performed on a sufficiently representative sample to allow the objectives of the

program to be achieved. The consulting firm will perform the inspections without obstructing implementation of the projects and programs. The inspections will be conducted separately from the auditing and oversight procedures of the respective executing agencies of the projects and separately from any rules and procedures that may be required by borrowers and/or donors, and consequently may not replace any of these procedures. The findings of the inspections may in no way impede the implementation of the projects and programs.

- 5.16 **Reports.** All of the reports produced under the procurement inspection component will be submitted to the executing unit of the program, which will meet with the Advisory Board to consider them. The consulting firm will submit an inspection report whenever it completes an inspection, regardless of its finding, any previous inspections and the inclusion of the inspection in the respective periodic reports. These inspection reports must contain at least the following sections:
- a. identification of the program or project inspected
  - b. identification of the procurement procedures inspected
  - c. the scope and objectives of the inspections
  - d. the findings of the inspection
  - e. recommendations
- 5.17 The executing unit of the program must immediately forward send the above inspection reports to the executing unit responsible for the procurement procedures inspected and, if deemed appropriate, to the contractors whose work was inspected. Within 15 calendar days after receiving the inspection reports, the executing unit of the inspected procurement procedures and, if applicable, the respective contractors, may submit any comments, objections, or response concerning the inspection report to the executing unit of the program. Within 15 calendar days of receiving such comments, objections, or response, the consulting firm will provide the executing unit of the program with its final inspection report, which will contain all of the background information on the case and its final recommendations.
- 5.18 In order to ensure the necessary transparency and free access to information, the final inspection reports referred to above will be considered by the Advisory Board. Based on the final inspection report, the Executive Branch will make its best effort to implement the recommendations made in the report and will take whatever measures it deems appropriate under the law.
- 5.19 **Support for procurement management component.** The Executive Branch pledges to take whatever measures are necessary, including the promulgation of regulations, to ensure that the consulting firms and individual consultants responsible for this component perform to the best of their abilities. To this effect:

- a. The executing unit of the program will be responsible for selecting and hiring the consulting firms and individual consultants who will provide services for this component, and will also be responsible for administering and monitoring the respective contract.
- b. Each agency to receive support will provide the consulting firm or the individual consultants, as applicable, with the necessary physical space to perform its or their duties in the agency's main offices.
- c. Each agency to receive support will designate an official in charge of procurement to act as codirector of the consulting services, along with a consultant designated by the firm or with the individual consultant, as applicable.
- d. Each agency to receive support will designate the particular staff involved in procurement who will take part in the consulting services, with the agreement of the consulting firm or individual consultant who will provide the support.
- e. The agencies to receive support and the particular staff who will take part in the consulting services will agree to provide their full cooperation in order to contribute to the success of the consulting services.
- f. The highest authority of the agency to receive support (the minister, director, manager, general coordinator, or official with another title) will hold a working meeting with the director of the consulting services each month, and on other occasions upon request.

5.20 **Procurement training system component.** All government agencies, both from the central government and decentralized and deconcentrated agencies, and, eventually, local governments with significant involvement in procurement (Tegucigalpa, San Pedro Sula, Puerto Cortés) may be involved in the implementation of the first stage of the procurement training system component. In the medium term, all government officials involved in procurement management are expected to go through the training system. The Executive Branch pledges to take whatever measures are necessary to ensure the implementation of this component, including the promulgation of regulations. To this effect:

- a. The Executive Branch will require and facilitate the participation of government officials identified as "lead trainers" in the training sessions.
- b. The Executive Branch will require and facilitate the participation of government officials identified as subject to the training to be provided by the system.
- c. The Executive Branch will require government officials who have received training in the system to participate in all procurement procedures that are carried out in the agencies to which they belong.

- d. The Executive Branch will stipulate that government officials involved in procurement management who demonstrate that they have gone through the system be eligible for benefits and/or incentives through the government human resources management system currently being designed.
- e. The Government of Honduras agrees to include the necessary funds in its budget to maintain the training system after the program funds have been exhausted.

5.21 **National procurement system component.** The government agrees to include the necessary funds in the national budget to provide for the self-sustainability of the procurement regulatory office after completion of the proposed program. *The establishment of a procurement regulatory office where the responsibilities include those described in paragraph 2.18, will be a condition precedent to the first disbursement of funds for the training system component.*

**C. Procurement of goods and services**

5.22 The procurement of goods and services and the selection and hiring of consulting services will be carried out in accordance with the current Bank procedures. International competitive bidding will be required for goods and related services for more than US\$350,000 and consulting services for more than US\$200,000. Goods and services in amounts below these thresholds will be subject to current local legislation. The tentative procurement schedule for the various components of the program is presented in Annex I.

5.23 The executing unit will be responsible for the procurement of all goods and services and the hiring of all consulting services required for the implementation of the program. To this end, under the support for management component the executing unit will enter into cooperation agreements with each of the participating agencies. *The interagency cooperation agreements between the executing unit and the respective government agencies must be signed as a condition precedent to the first disbursement for the support for management component.*

**D. Implementation period and disbursement schedule**

5.24 The program will be implemented over a period of four years. The loan funds will be disbursed over a period of approximately 4.5 years, reckoned from the effective date of the loan contract. This should be a sufficient period of time to carry out the planned activities under each of the components, to complete the procurement of the necessary goods and services, and to carry out the consulting services. A summary of the disbursement schedule of the program is presented in Table 2 below:

**Table 2**  
**Investment schedule**  
**(in millions of US\$)**

Component	Year 1	Year 2	Year 3	Year 4	Total
1. Inspection	1.75	3.25	3.25	3.25	11.50
2. Support for management	2.00	3.60	-	-	5.60
3. Training program	0.30	0.36	0.37	0.37	1.40
4. Nat. procurement system	0.25	0.65	0.65	0.45	2.00
5. Executing unit	0.25	0.55	0.55	0.65	2.00
<b>Total:</b>	<b>4.55</b>	<b>8.41</b>	<b>4.82</b>	<b>4.72</b>	<b>22.5</b>

**E. Special disbursements for program startup**

- 5.25 Notwithstanding the special conditions precedent to the first disbursement, once the conditions set forth in Article 4.01 (a), (b), and (e) of the General Conditions of the loan contract have been met, the Bank may make special disbursements up to US\$250,000 for the purpose of carrying out essential additional tasks for issuing the call for proposals for the consulting services under the procurement inspection component and the support for procurement management component.

**F. Recognition of previous expenditures**

- 5.26 Up to US\$200,000 in expenses incurred after April 1, 2000 for the hiring of UPET staff may be recognized as part of the local counterpart funding, provided the applicable Bank policies and procedures were followed.

**G. Supervision by the Bank**

- 5.27 The Country Office of the Bank in Honduras (COF/CHO) will be responsible for supervising implementation of the proposed program. The Country Office will be supported by annual administrative missions carried out by the project team in coordination with COF/CHO in order to monitor proper implementation of the timetables and achievement of the performance indicators listed in this document and make any necessary adjustments.
- 5.28 **Reports.** At the beginning of each year of implementation, the executing unit of the program, with the approval of the CPME, will prepare an annual operating plan for each component and a general operating plan summarizing the plans for all the components. This document will present the activities, timetable, terms of reference, and indicative goals that are expected to be achieved during the fiscal year. The document will also contain an evaluation of the results obtained during the previous period and, if necessary, an explanation for any targets that were not met during the period in question and recommendations. The executing unit, through the CPME, will submit a progress report on each of the operating plans to the Bank every six months.

- 5.29 ***Partial evaluations.*** In addition to the final evaluation described in paragraph 5.33 below, a mid-term evaluation will be performed at the end of the second year of implementation or once at least 50 percent of the program funds have been disbursed (whichever comes first). The funds for this evaluation have been included in the program budget. The evaluation must be performed by independent consulting services acceptable to the Bank. The mid-term evaluation will review the progress achieved and the results obtained in the implementation of the program, and it will provide the Bank with information on the basis of which to make decisions and any necessary adjustments. The mid-term evaluation, like the final evaluation, must be closely tied to the program indicators included in Annex II of this document. In order to achieve this objective, the UPET, at the end of the first year of implementation and in coordination with the Bank, will determine the specific aspects on the basis of which achievement of program targets and indicators will be measured. With regard to the inspection component, for example, the significant and sufficiently representative sample will have been determined and inspections will have performed for a period of one year. On the basis of this experience, concrete, specific indicators will be identified, and the achievement of these indicators will be measured during the mid-term and final evaluations.

#### **H. Performance indicators**

- 5.30 In order to ensure close supervision of each program component, and in view of the significant number of participating agencies and consulting services, a series of annual and semiannual targets and performance indicators have been established which the CPME, through the executing unit, must achieve in order to access the program resources. At the end of each year of implementation and prior to preparation of the annual operating plan, a review of the operating plans will be conducted on the basis of the performance indicators (Annex III) and established program goals. The first review will be conducted 12 months after the effective date of the loan contract.
- 5.31 The indicators for the inspection component will be included in the operating plan for the second year and will be used to evaluate it for the rest of the implementation period, since solid information for the development of quantitative targets for these indicators will not be available until this time, given that the portfolio of projects to be implemented by the Government of Honduras will be determined once the respective consulting contract is signed and the significant and sufficiently representative sample will serve as a basis for evaluating the consulting firms. However, the following indicators are expected to be included: (i) the increase in the absolute number of inspections during the implementation period; (ii) the yearly reduction in the number of procurement procedures in which errors have been detected; (iii) the reduction in overcharging or excessive costs in the procurement of goods and services; (iv) the reduction in the average time required for government procurement.

**I. External auditing**

- 5.32 The consolidated financial statements of the program will be prepared in accordance with the requirements of the Bank and submitted by the CPME each year during program implementation. The financial statements will be prepared by a private firm of independent auditors acceptable to the Bank. The audited financial statements of the program will be submitted within 120 calendar days after the end of each fiscal year. The cost of the above-referenced consulting services will be financed with program funds.

**J. Final evaluation of the program**

- 5.33 In view of the fact that this is an innovative program for the Government of Honduras and the Bank, a final evaluation of the program impact will be carried out once 90% of the Bank financing has been disbursed. The terms of reference for the consulting firm that will perform the final evaluation will be prepared by the CPME. However, the necessary resources for the final evaluation have been included in the program budget. The benefits discussed in chapter VI of this proposal will be taken into account to define the indicators for the evaluation.

**K. Revolving fund**

- 5.34 The funds disbursed through a revolving fund must be managed by the UPET in a special and separate bank account in the name of the program, and semiannual reports on the status of the funds it controls must be submitted within 60 days after the end of each six-month period.



## **VI. BENEFITS AND RISKS**

### **A. Benefits**

6.1 The general objective of the program and the particular objectives of each of its components reflect the implicit benefits of achieving greater efficiency and transparency in government procurement. In addition, positive externalities for each component are:

6.2 ***Procurement inspection:***

- Stimulating the flow of contributions from the international community as the Government of Honduras implements an internal oversight system to monitor the end use of resources.
- Detecting inefficiencies in procurement procedures and recommending ways to eliminate them, with the consequent savings in time and resources.
- Curbing opportunities for deviations and irregularities in procurement procedures due to the dissuasive and coercive effect of the presence and actions of inspection, with the eventual savings it represents.

6.3 ***Support for management:***

- Accelerating procurement procedures so that they can be completed as schedule.
- Reducing program and project implementation costs as a result of accelerated procurement procedures, with the consequent savings in resources.
- Establishing a hierarchy of officials involved in procurement procedures based on their increasing professionalization.

6.4 ***National procurement training system:***

- Extending the standards of efficiency and effectiveness instituted under the program to all government agencies involved in procurement procedures, including local governments.
- Specialization of officials with responsibilities in procurement, supporting current efforts to establish a merit-based career stream in the Honduran civil service.

- Increasing efficiency and effectiveness in procurement procedures as a result of the training provided to procurement officials.

6.5 ***New national procurement system:***

- Stimulating transactions between the private sector (domestic and foreign) and the public sector.
- Verifiable savings due to shorter procurement periods, better guarantees, reference prices, and publicity or procurement.
- Strengthening Honduran institutions in the area of procurement, which will be reflected in the country risk.

**B. Risks**

- 6.6 **Firm political will is required** to ensure program implementation. Indeed, decisive, sustained political support is necessary because the implementation of the program components will affect nearly all government agencies. The current administration in Honduras has expressed its willingness to support program implementation on numerous occasions, and this support has taken the form of concrete measures. In addition, political will is a factor in the slow pace of reforms in connection with government plans to modernize the State. However, the recent award to a private company of the concession for administering the country's four main airports is considered a positive sign of the government's efforts. The project team views this step as a major change in attitude.
- 6.7 **The change of administration that will occur in January 2001** will mean that the above-mentioned political support to have to be reaffirmed since the implementation period of the program will concern the next administration. However, the early electoral campaigns, which are currently being pursued with significant intensity, seem to indicate that program continuity will not be openly opposed, given that the need for transparency in the administration of public resources is an issue being raised by all of the candidates currently in the race.
- 6.8 **The financial support of the international community** is essential for program implementation. The international community, through the commitments made during the meeting of the Consultative Group in Stockholm, has demonstrated that it assigns considerable importance to the issue of transparency in the processing of reconstructing and transforming Honduras, as well as its intention of supporting these efforts. Letters of Intent and Letters of Agreement for the contributions of the international community are in the process of being prepared. These documents are a condition precedent to the submission of this operation to the Bank's Board of Executive Directors and a condition precedent to the first disbursement, respectively.

- 6.9 **Passage of new legislation.** In large measure, successful program implementation depends on passage of the new Procurement Act by the National Congress. The Government of Honduras has expressed its intention to negotiate passage of this law within the time frame and in the terms described in this document.

**PROGRAM FOR EFFICIENCY AND TRANSPARENCY  
IN GOVERNMENT PROCUREMENT  
(HO-0176)**

**PROCUREMENT SCHEDULE**

MAIN GOODS AND SERVICES	FINANCING	TYPE	PRE-QUALIFICATION	NOTICE
COMPONENT A – PROCUREMENT INSPECTION Consulting firms	GOH/IDB/ID	ICB	YES	3rd Quarter 2000
COMPONENT B – SUPPORT FOR PROCUREMENT MANAGEMENT Consulting firms Individual consultants/average contract US\$240,000	IDB	ICB CSP	YES NO	3rd Quarter 2000
COMPONENT C – NATIONAL PROCUREMENT TRAINING SYSTEM Consulting firms Consulting firms Individual consultants/average contract US\$29,000	IDB	ICB LCB CSP	YES NO NO	3rd Quarter 2000
COMPONENT D – NATIONAL PROCUREMENT SYSTEM Consulting firms Individual consultants/average contracts US\$70,000 Equipment	MIF	ICB CSP ICB	YES NO NO	3rd Quarter 2000
COMPONENT E - EXECUTING UNIT Individual consultants/average contracts US\$140,000 Equipment	IDB	CSP LCB	NO NO	3rd Quarter 2000

Acronyms:

CSP: Competitive selection procedure  
DC: Directing contracting  
GOH: Government of Honduras  
ICB: International competitive bidding  
ID: International donors  
IDB: Inter-American Development Bank  
LCB: Local competitive bidding

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**LIST OF PROGRAM INDICATORS**

COMPONENT	INDICATOR	ACHIEVEMENT DATE (Year)			
		1	2	3	4
<b>1. Procurement inspection</b>	The indicators for this component will be defined in the technical proposal of the successful bidder. Consequently, these indicators will be included in the operating plan to be submitted to the executing unit at the beginning of the second year of implementation (see 5.30).				
<b>2. Support for procurement management</b>	Using the periods noted in year 1, acceleration of the period required for the procurement process.	√	√		
	Adoption of standard procedures by all units of the agencies receiving support.	√			
	Increasing implementation rate of annually allocated budgetary items.		√		
<b>3. National procurement training system</b>	Design of the national training system approved.	√			
	Number of employees trained.	25	75	125	125
	Cost of the system included in the general budget.				√
<b>4. National procurement system</b>	Procurement Act approved and regulations issued.	√			
	Regulatory office operating	√	√		
	Cost of the regulatory office included in the general budget.			√	√
	Electronic information system operating.		√	√	√
	Rules, regulations, and documents revised, standardized, and in use by all government agencies.		√	√	√

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**PROPOSED RESOLUTION**

**HONDURAS. TECHNICAL COOPERATION LOAN \_\_\_\_/SF-HO TO THE  
REPUBLICA DE HONDURAS  
Program for Efficiency and Transparency in Public Sector Procurement and Contracting**

**The Board of Executive Directors**

**RESOLVES:**

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Program for Efficiency and Transparency in Public Sector Procurement and Contracting. Such financing will be for the amount of up to US\$14,584,000, or its equivalent in other currencies, except that of Honduras, which are part of the resources of the Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.