

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

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

(HO-L1206)

LOAN PROPOSAL

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ABBREVIATIONS

AAH	Administración Aduanera de Honduras [Honduran Customs Authority]
BCH	Central Bank of Honduras
CNL	Consejo Nacional de Logística [National Logistics Council]
COMIECO	Central American Council of Ministers of Economic Integration
COPRISAO	Presidential Commission for Comprehensive Reform of the Customs System and Trade Operators
DARA	Dirección Adjunta de Rentas Aduaneras [Customs Revenue Office]
ECFCC	Estrategia Centroamericana de Facilitación del Comercio y Competitividad [Central American Strategy for Trade Facilitation and Competitiveness]
ECLAC	Economic Commission for Latin America and the Caribbean
ENTT	Escuela Nacional de Transporte Terrestre [National Academy of Overland Transportation]
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]
INE	Instituto Nacional de Estadística [National Statistics Institute]
INSEP	Secretaría de Infraestructura y Servicios Públicos [Department of Infrastructure and Public Services]
LAC	Latin America and the Caribbean
LIBOR	London Interbank Offered Rate
LPI	Logistics Performance Index
PAI	Plan de Acción Inmediata [Immediate Action Plan]
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
SCGG	Secretaría de Coordinación General de Gobierno [Department of General Government Coordination]
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]
TKM	Ton-kilometer
UTEL	Unidad Técnica de Ejecución Logística [Technical Unit for Logistics Execution]
VUM	Ventanilla Única Marítima [Maritime Single Window]

PROGRAM SUMMARY

HONDURAS HONDURAS TRANSPORTATION AND FREIGHT LOGISTICS SECTOR REFORM PROGRAM II (HO-L1206)

Financial Terms and Conditions						
Borrower:	Source	Amount (US\$)	%			
Republic of Honduras	IDB (Regular Ordinary Capital):	39,077,500	35			
Executing agency:	IDB (Concessional Ordinary Capital:	72,572,500	65			
Department of Finance (SEFIN)	Total:	111,650,000	100			
	Regular Ordinary Capital (Flexible Financing Facility) ^(a)	Concessional Ordinary Capital				
Amortization period:	20 years	40 years				
Disbursement period:	1 year					
Grace period:	5.5 years ^(b)	40 years				
Interest rate:	LIBOR-based	0.25%				
Credit fee:	^(c)	N/A				
Inspection and supervision fee:	^(c)	N/A				
Weighted average life:	12.75 years	N/A				
Approval currency:	United States dollar					
Program at a Glance						
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.						
This loan is the second in a series of three operations that are technically linked but financed separately as programmatic policy-based loan (PBP) operations (document CS-3633-2).						
Special contractual conditions precedent to the single loan disbursement: The sole disbursement of the loan proceeds 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 (paragraph 3.2).						
Exceptions to Bank policy: None						
Strategic Alignment						
Challenges: ^(d)	SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI	<input checked="" type="checkbox"/>
Crosscutting themes: ^(e)	GD	<input checked="" type="checkbox"/>	CC	<input checked="" type="checkbox"/>	IC	<input checked="" type="checkbox"/>

^(a) 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, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) 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.

^(c) 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 applicable policies.

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

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1. General context

- 1.1 **Macroeconomic considerations.** The Honduran economy is one of the most dynamic in the Latin America and Caribbean (LAC) region. Between 2010 and 2018, the country's annual growth averaged 3.7%, which is similar to the rest of Central America but higher than the LAC region as a whole (2%). Honduras ranked 10th out of the 32 fastest-growing LAC countries over the same period,¹ the main drivers of this expansion being investment, exports, and consumption.
- 1.2 The country has made progress in terms of macroeconomic stability. Fiscal consolidation efforts have helped reduce the nonfinancial public sector deficit, from 7.5% of gross domestic product (GDP) in 2013 to 0.9% in 2018. In 2018, central government debt stood at 48.5% of GDP, and the fiscal efforts have enabled Honduras to improve its credit profile, encouraging foreign investment.² In the monetary and financial sphere, prudent monetary policy and low commodity prices have slowed inflation, which has remained within the target range of 3% to 5% set by the Central Bank of Honduras. In 2017 and 2018, cumulative inflation stood at 4.7% and 4.2%, respectively.
- 1.3 Honduras's economic structure is dominated by the tertiary (services) sector (60% of GDP in 2018), with the logistics subsector standing out for its direct influence on the country's competitiveness. The secondary and primary sectors contribute 25% and 15% of GDP, respectively;³ Industrial production linked to the agriculture sector, which is of importance for the country's international trade, accounted for 60% of total exports by value in 2018. This structure remained unchanged between 2007 and 2018.
- 1.4 The country has an opportunity for economic growth through efforts to implement an international trade facilitation agreement (paragraph 1.24) and improve national logistics performance indicators (paragraph 1.17). The long-term challenge centers on building the government's institutional capacity, particularly with respect to the transportation and freight logistics sector. These improvements will help maintain macroeconomic stability and create suitable conditions for reducing poverty, increasing employment, and expanding national output.
- 1.5 Despite positive economic indicators, the country faces high levels of [poverty and inequality](#). While the poverty rate (US\$5.50 per person per day for middle-income countries) dropped from 60.8% to 52.6% between 2005 and 2017, the extreme poverty rate (US\$1.90 per person per day) is 17.2%, the highest in Latin America and the Caribbean after Haiti. Inequality (the Gini coefficient was 50.5 in 2017, among the highest in the region and the world) has also resulted in the country's having one of the smallest middle classes in the region (11% in 2015, compared with a regional average of 35%).⁴ Honduras also has high levels of violence, and

¹ International Monetary Fund, [World Economic Outlook](#), April 2019.

² Honduras currently has one of the best credit ratings in the Central America and Dominican Republic region, second only to Panama. In 2019, Moody's maintained the country's risk rating at B1 with a stable outlook.

³ Central Bank of Honduras.

⁴ World Bank, 2019. [Honduras Overview](#).

although it has managed to gradually reduce the rate of violent deaths, from 85.5 per 100,000 population in 2012 to 41.6 in 2017, it is still among the highest in the world (average 6.9%), and almost three times the rate of the Americas as a whole (average 15.4%).⁵

- 1.6 **Transportation and freight logistics sector.** Given its tie-in with agriculture and manufacturing, the sector's development and performance are key for Honduras's competitiveness.⁶ Manufacturing is primarily associated with the maquila industry in San Pedro Sula, which accounts for 31% of manufacturing value-added and 5.2% of GDP.⁷ The country's overland freight transportation services are generally seen as fragmented activity associated with the informal sector, especially with respect to the flow of goods bound for domestic and regional markets. Large export firms prefer to adopt the International Rules for the Interpretation of Freight Terms (INCOTERMS), which include the transportation segment. Consequently, they allow shipping companies to choose freight carriers, which means the costs continue to rise despite being regulated.⁸ In terms of composition, 55% of the sector is comprised of private-sector enterprises grouped into 1,357 concessionaires, whereas the remaining 45% are the so-called cargo transport units or small entrepreneurs with one to 10 freight vehicles. In recent years (2016-2019), this latter category has grown to a total of 28,171 transport vehicle owners or operators.⁹ Also present is the Honduran Chamber of Cargo Handlers (CATRACHO), whose members are primarily international cargo transportation carriers.
- 1.7 **National Freight Logistics Plan ([optional link 6](#)).** To improve its regional position in the logistics sector (paragraph 1.17), Honduras has drawn up its National Freight Logistics Plan that classes groups of logistics operations as logistics clusters and characterizes their relationship with regional trading patterns in the National Logistics System (Figure 1). The most important of these clusters is the Northern logistic cluster, which encompasses San Pedro Sula, Puerto Cortés, the Corinto-Entre Ríos border with Guatemala, the San Pedro Sula airport, and the road network linking them. The Northern logistics cluster connects the country's main production centers (maquila and agricultural) to key external trade infrastructure.

⁵ Asociación para una Sociedad más Justa. [Capítulo Honduras](#).

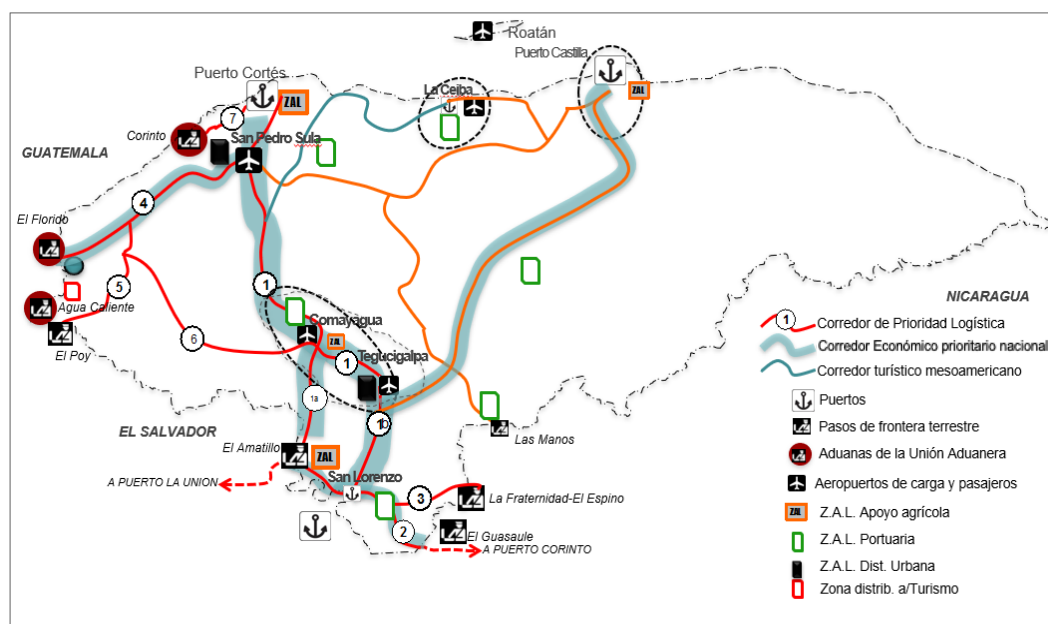
⁶ Honduras was ranked 101st on the [Global Competitiveness Index](#) in 2018 and 2019. World Economic Forum.

⁷ National Freight Logistics Plan, 2017.

⁸ Executive Agreement IHTT-002-2019, of the Honduran Overland Transportation Institute (IHTT), regulates the minimum freight transport rates to ensure that they cover operating costs.

⁹ IHTT, 2019.

Figure 1. National Logistics System of Honduras



Source: National Freight Logistics Plan, 2017.

- 1.8 This planning tool, together with the respective Immediate Action Plan,¹⁰ are long-term instruments used to integrate and order plans and initiatives of the sectors involved in transportation and freight logistics.¹¹ The plan identifies a series of needs (paragraphs 1.19 through 1.22) comprising the establishment of an efficient mechanism of ongoing coordination between the various public and private institutions involved. Its sustainability and proper implementation of priority actions and projects depend on both the existence of a legislative and regulatory framework that meets the sector's needs and the development of modern, internationally recognized planning and trade facilitation instruments. Additionally, Strategy 7 of the National Freight Logistics Plan identifies a strategic line for "adopting good practices in information and communication technologies in order to support the operation of logistics chains," incorporating efficient digitalized processes into operations (paragraph 1.14).
- 1.9 **Modal distribution and integration.** From an international trade perspective, maritime transportation predominates in terms of both value and volume,¹² with Puerto Cortés serving as a logistics hub for trade in Central America's Atlantic region. Meanwhile, ground transportation connects multimodal centers with the ports

¹⁰ Under regional technical-cooperation operations ATN/OC-14002-RG and ATN/MR-14003-RG, the IDB provided support for the preparation of National Freight Logistics Plans and Immediate Action Plans in several Mesoamerican countries, including Honduras.

¹¹ Including [Visión de País 2010-2038 y Plan de Nación 2010-2022](#) [Country Vision 2010-2038 and Plan for the Nation 2010-2022]; [Plan Estratégico de Gobierno 2018-2022](#) [Government Strategic Plan 2018-2022], and the National Competitiveness Strategy; and regional strategic documents such as the Regional Framework Policy for Mobility and Logistics (PMRML).

¹² Accounting for 79% of exports by volume and 29% by value, and 74% of imports by volume and 58% by value.

and is the main means of trade with Central America.¹³ The National Logistics System is important at both the subregional level and for the rest of Central America, underscoring the importance of Honduras to economic integration processes in the region, such as the Central American Integration System (SICA), and the Mesoamerica Project ([optional link 3](#)).

2. Gaps in the sector

- 1.10 **Productivity.** Honduras's logistics and transportation sector has experienced positive growth,¹⁴ accounting for a 6.9% share of GDP in 2017; however, this is a smaller share than in neighboring countries such as Guatemala (7.8%) and El Salvador (8.5%).¹⁵ According to the IDB's Regional Transportation and Logistics Observatory (2013), 7.9 million tons of freight are transported by road each year in Honduras;¹⁶ and transportation productivity averages 1.218 billion ton-kilometers (TKM) with rates around US\$0.07 TKM, which are among the highest in the region.¹⁷
- 1.11 **Services.** Despite Honduras's efforts to improve road and port infrastructure,¹⁸ inefficiencies persist in the level of service necessary to effectively coordinate the National Logistics System with international trade. The average age of Honduras's ground transportation fleet is 15 years.¹⁹ There are neither specific regulations governing freight transportation safety, nor computerized registration and management systems. In addition, to help reduce logistics costs, investments in road infrastructure need to be planned taking into account the concept of strategic road corridors.²⁰ These shortcomings worsen traffic congestion in urban areas, where local and long-distance traffic share the same roads, compounded by aging vehicles²¹ that rely on less efficient technologies, with higher fuel consumption and pollutant, and greenhouse gas emissions (paragraph 1.16). Adding to this are delays clearing border crossings stemming from a lack of efficient processes for screening goods and people, and of non-intrusive inspection equipment (paragraph 1.18).

¹³ [Transporte automotor de carga en Belice, Centroamérica y República Dominicana: Análisis de desempeño y recomendaciones de política](#). IDB, 2013.

¹⁴ Average annual growth over the last 10 years was 9%. Central Bank of Honduras, 2018.

¹⁵ CEPALSTAT database of the Economic Commission for Latin America and the Caribbean (ECLAC). [Economic statistics and indicators](#).

¹⁶ Guatemala, 24.0 million tons; and El Salvador, 10.1 million tons.

¹⁷ Guatemala, US\$0.05 TKM; El Salvador and Nicaragua, US\$0.06 TKM; and Costa Rica, US\$0.12 TKM.

¹⁸ Cumulative public investment (2010-2017): US\$1.8189 billion. IDB financing (2010-2019): US\$336 million. As of December 2019, the IDB's active portfolio in the transportation sector comprised three operations with an approved total of US\$229 million. [IDB/INFRALATAM](#).

¹⁹ [IDB, Regional Observatory](#).

²⁰ Of the national road network, 23% is in good repair, 52% in fair condition, and 25% in poor condition. Department of Infrastructure and Public Services (INSEP, 2017).

²¹ Between January 2016 and October 2019, 49% of imported freight vehicles were used (6,235 units), which has an impact on the average age of the vehicle fleet. Customs Revenue Office (DARA).

- 1.12 **Gender considerations in the sector.** Women's participation in the sector varies by type of activity. The Survey on Gender Participation in the Sector²² reports that women account for less than 15% of jobs involving physical labor, operating equipment and machinery (including driving light and heavy vehicles),²³ and of jobs in maintenance, post-manufacturing, packaging, labeling, and the use of measuring tools.²⁴ 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%.
- 1.13 Women face barriers to employment in the sector associated with working conditions and access to training opportunities. In occupations such as driving transportation vehicles (both light- and heavy-duty), the absence of mandatory, standardized training perpetuates informal learning, which is provided in a predominately male environment; this barrier to equal opportunities is also an obstacle to boosting productivity in the sector. Gender diversity in a company has been shown to improve client focus, foster greater employee satisfaction, reduce group conflicts, and promote creativity and innovation,²⁵ resulting in an inclusive labor force that is more innovative and productive.²⁶
- 1.14 **Technology and innovation.** New trends in freight logistics technologies point to greater interconnectivity between sectors and users, allowing physical flows to be tracked in a safe, automated manner. Accordingly, the Honduran government has developed a technology and innovation agenda²⁷ to reduce the digital divide at the level of a State policy. This agenda includes the modernization of technology infrastructure and processes.²⁸ According to an IDB diagnostic assessment,²⁹ growth in Honduras's total factor productivity as a result of technological change in the economy was -0.3% in the 2003-2012 period. This resulted in a contraction in transportation, storage, and communications activities of -2%. In addition to innovation and the adoption of technologies, factors such as the quality of infrastructure and/or the regulatory framework, also limit the sector's growth potential ([optional link 4](#)).
- 1.15 **People with disabilities.** According to the National Statistics Institute (INE), there were 205,423 people with disabilities in the country in 2013³⁰ or 2.37% of the population. The most frequent causes of disability were disease (36%), congenital conditions (27%), accidents (20%), and aging (14%). In terms of educational attainment, 53% of people with disabilities had no schooling, 40% had completed

²² Conducted by the IDB in coordination with the National Logistics Council in June 2018.

²³ Approximately 77% of companies reported 15% female employment. In machinery operation, 84% of companies reported less than 15% female employment.

²⁴ 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).

²⁵ Hunt, Vivian et al. (2014). Diversity Matters.

²⁶ [Innovation, Science, and Technology Sector Framework Document \(document GN-2791-8\)](#).

²⁷ It includes the 2014-2018 Digital Agenda, the Digital Government Master Plan, and at institutional level, the creation of a presidential advisory committees on administrative simplification.

²⁸ In all, 30 of every 100 Hondurans have Internet access (LAC average: 56). Also, 26 of every 100 Hondurans have broadband access (LAC average: 35). National Household Survey, INE - 2016.

²⁹ [Total Factor Productivity in Honduras: Diagnostic Assessment and Possible Determinants](#) (2014).

³⁰ Person with a physical or mental health problem lasting more than six months that makes it difficult for them to perform their tasks. 2013 census, INE.

primary schooling, 6% secondary education, and just 1% higher education; whereas in terms of workforce integration, the participation rate was 32%, with the majority working on a self-employed basis. A survey³¹ found that 77% of public-sector enterprises and 96% of private-sector enterprises employ at least 4% of people with disabilities in their workforce.³² As regards the extra difficulty people with disabilities face finding work, 59.5% of firms reported a lack of knowledge of the issue and not being used to hiring people with disabilities, while 27.5% said logistic and transportation infrastructure is not accessible. Meanwhile, 13% of private companies reported that their vacancies were not suitable for people with disabilities and 15% of public agencies reported that jobs in the sector required higher standards of training and education.

- 1.16 **Energy efficiency and climate change.** Honduras's CO₂ emissions stood at 8,447 kilotons in 2015 or 0.02% of global emissions that year; 37.5% of which were produced by the transportation sector.³³ These emissions have increased significantly and this trend is expected to continue due in line with the growing vehicle fleet, which increased by 28.4%³⁴ between 2011 and 2015, an average annual rate of 5.6%. In 2014, the sector consumed 63% of diesel produced and imported and 87% of gasoline, illustrating its high impact in terms of energy consumption. In this context, the main challenges for promoting clean and sustainable mobility include:³⁵ (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.
- 1.17 **Logistic performance (productivity).** In 2018, Honduras ranked 93rd on the Logistics Performance Index (LPI),³⁶ having climbed 19 positions in the ranking since 2016, when it was 112th. This progress was underpinned by the improvement in the quality of transportation and trade infrastructure observed, increased competition and logistics services quality, and advances in the ability to track and locate dispatched goods; however, significant areas for improvement include the speed and predictability of customs processes by the agencies concerned.³⁷ In terms of logistics, Honduras has improved its position in Mesoamerica, as in 2018 it ranked above El Salvador (101st) and Guatemala (125th). Despite this solid progress, more needs to be done to address high logistics and export costs. For example, whereas it costs around US\$665 to export a shipping container from Panama, it costs US\$2,308 from Puerto Castilla in Honduras. Overland transportation accounts for 46% of these costs in the case of imports, and 50.5% in that of exports.³⁸

³¹ By the National Logistics Council in September 2019, covering 11 public agencies and 22 private companies in the logistics and transportation sector.

³² The requirement for the workforce to comprise 4% people with disabilities was established in [Decree 160 of 2005 \(Law on equity and comprehensive development of people with disabilities in Honduras\)](#).

³³ [La demanda de energía del sector transporte y el cambio climático en Honduras](#). ECLAC, 2017.

³⁴ Between 2011-2015 the number of vehicles increased by 313,487 units, of which 3,733 were freight vehicles. National Statistics Institute (INE), 2016.

³⁵ Instituto Hondureño del Transporte Terrestre (IHTT). [Visión del IHTT hacia una movilidad limpia y sostenible](#).

³⁶ [LPI Report](#), 2018. World Bank.

³⁷ Referring, for example, to transportation operators and customs agents.

³⁸ [World Development Indicators](#), 2018. World Bank.

- 1.18 **Customs and trade facilitation processes (economic integration).** According to the Trading across Borders indicator of the World Bank's Doing Business Report,³⁹ an indicator measuring the time and costs involved in exporting and importing a product, border compliance for exports takes 88 hours in Honduras, compared to 24 hours in Panama, 24 hours in El Salvador, 36 hours in Guatemala, and an average of 61.9 hours for LAC as a whole. Border compliance for imports in Honduras takes 96 hours, compared to 24 hours in Panama, 36 hours in El Salvador, and 72 hours in Guatemala. Honduras's overall position on the Ease of Doing Business Index deteriorated from 115th in 2018 to 123rd in 2019. The components of the index for which the worst scores were given were freight transportation security and the efficiency and transparency shortcomings widely perceived to exist in customs processes.

3. Problem areas

- 1.19 The quality of transportation and logistics services is one of the fundamental determinants of national logistics performance. It is influenced by the quality of infrastructure, legislation, regulation, and the institutional climate. The latter are intangible features associated with a government's ability to formulate sound policies and regulations and implement them sustainably. Improving logistics performance thus requires regulatory and institutional coordination interventions. These are issues that this program addresses.
- 1.20 **Regulatory framework for freight logistics and trade facilitation.** The absence of planning tools has made it difficult to implement a national logistics policy addressing sector issues in a comprehensive, long-term manner. There is currently no specific law governing logistics. The main sector legislation is the Overland Transportation Law, which was revised in 2016; this provides for the future drafting of specific regulations that are key to improving the safety and efficiency of overland transportation, including freight insurance and weight and dimension checks. It should be noted that these regulations are part of the commitments under the Central American Road Transit Agreement.⁴⁰ Regulations and standards for checks are needed, as are measures to promote vehicle fleet modernization and tracking (such as mandatory registration systems), so as to help improve fleet planning and management.
- 1.21 **Institutional framework for transportation and freight logistics.** The crosscutting nature of the freight logistics sector means that it comprises multiple public and private stakeholders. This segmented institutional context creates a coordination challenge for strategic management of the logistics sector ([optional link 2](#)), requiring a specialized oversight agency that aligns needs and assigns responsibilities of all stakeholders across different government levels and sectors, both public and private.
- 1.22 **Establishment and modernization of comprehensive planning, transportation and freight logistics, and trade facilitation processes.** In terms of strategic planning, there is a need to strengthen the development of specialized logistics infrastructure as part of a comprehensive vision (e.g. activity zones and logistics parks, dry ports, and urban distribution zones). Infrastructure is currently distributed across disconnected logistics facilities (e.g. warehouses, parking facilities, and

³⁹ [Doing Business 2019](#).

⁴⁰ As mandated by the Central American Council of Transportation Sector Ministers (SIECA, 2014).

small-scale distribution centers), affecting mainly small and medium-sized producers. Given a lack of training for specific qualified positions,⁴¹ a standardized national driver certification system needs to be implemented and women's participation encouraged (paragraph 1.12). The El Salvador-Guatemala-Honduras Customs Union is a milestone in the country's regional integration; it requires a strengthening of the regulatory framework, adopting integrated processes and nonintrusive, interoperable technology. Moreover, steps to implement the main international trade agreements⁴² underscore the need to include actions that reduce logistics costs attributable to undue discretion, redundant processes, information technology system downtime, and the absence of a multiagency risk system and joint inspection processes.

4. Intervention

- 1.23 To help reverse the negative impact on logistics performance and regional integration (problem areas), and thereby enable Honduras to leverage its potential as a regional transportation and freight logistics hub (paragraph 1.7), the determinants identified in the diagnostic assessment need to be addressed (paragraphs 1.19 through 1.22).
- 1.24 **Proposed solution.** During the first operation in the programmatic policy-based PBP series, the Honduran government made progress in setting sector reform priorities, in line with the guidelines established by the National Freight Logistics Plan and Immediate Action Plan, including a prioritization at the public policy level in the Government Strategic Plan 2018-2022. Specifically, in terms of regulation, the institutional framework of the National Road Safety Council (CNSV) was updated, regulations to strengthen freight transport safety were drafted, and the agreements between Guatemala and Honduras were implemented. On the institutional front, progress was made to approve the organizational structure for managing freight logistics, with the National Logistics Council as the high-level decision-making agency, and the Technical Unit for Logistics Execution, as the technical agency responsible for project management and interagency coordination. In relation to sector planning, approval was obtained for an interagency agreement with key guidelines for the preparation of a Master Plan for the Northern Logistics Cluster (PMCLN), implementation of a smartcard-based vehicle registration system, and creation of a national driver-training system. And lastly, key developments regarding trade facilitation include the creation of the Comprehensive Foreign Trade Management Portal (PGICE), the implementation of the pilot phase of the authorized economic operator program, the adoption of technical requirements for the implementation of radiofrequency identification (RFID) tracking devices,⁴³ and the use of the Central American Unified Invoice and Declaration (FYDUCA)⁴⁴ for trade in goods that move freely within the Honduras-Guatemala customs union.

⁴¹ The universities offer undergraduate and postgraduate courses in logistics and supply chains, but technical training is nonexistent. National Freight Logistics Plan, 2017.

⁴² Central American Strategy for Trade Facilitation and Competitiveness and the World Trade Organization's Trade Facilitation Agreement.

⁴³ Implementation is mandatory under Resolution 02-2019 of the Central American Council of Ministers of Economic Integration (COMIECO).

⁴⁴ 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).

- 1.25 This second operation centers on drafting legal instruments to support sector reforms⁴⁵ (paragraph 1.47), including: (i) the draft Freight Logistics Law to update the sector's regulatory framework taking energy efficiency issues into account; (ii) preparation and approval of regulations under the existing Transportation Law, necessary for modernization the legal framework for safety issues; and (iii) regulations for the modernization of the vehicle fleet to allow for improved service efficiency. To strengthen the institutional framework (paragraph 1.50) and comprehensive planning (paragraph 1.54), the program envisages strengthening and implementing 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 people with disabilities. The operation of the National Logistics Council will support better comprehensive planning through its involvement in the preparation and approval of subnational master plans focused on priority logistics clusters, including a strategic vision of harmonious integration with urban environments, such as the PMCLN.⁴⁶ As regards trade facilitation (paragraph 1.57), the program will support the implementation of the measures under the Central American Strategy for Trade Facilitation and Competitiveness, specifically those concerning technological systems⁴⁷ and equipment for trade processes.
- 1.26 **Program rationale.** The program will strengthen institutional and regulatory capacity, favoring the implementation of a government policy aimed at the sector's needs by: (i) consolidating the National Logistics Council; (ii) drafting a logistics bill; (iii) adopting multisector, multiyear planning mechanisms (National Freight Logistics Plan, Intermediate Action Plan, PMCLN); and (iv) implementing up-to-date, internationally recognized trade facilitation processes that are integrated and interoperable. Implementation of the reform program will help to improve transportation and logistics services in the area of transportation safety based on an inclusive social vision, through the adoption of specific regulations, standardized training, and the implementation of management tools incorporating new technologies. The expected program outcomes (paragraph 1.59) will help to reduce these gaps in the areas of competitiveness, services, gender, innovation, and climate change (paragraphs 1.10-1.16), and will have a positive impact on the country's logistics performance.
- 1.27 The actions planned in this programmatic series have guided the Bank's dialogue with the Honduran government to contribute to continuity of the process of development, approval, and implementation of the rules, regulations, and tools necessary to implement strategies to improve the sector's planning, efficiency, safety, and sustainability. A PBP is an appropriate instrument in the light of the structural scope, phased approach, and number of stakeholders involved in formulation, public consultation, and implementation of the program's reforms.

⁴⁵ The legal reforms that the government has recognized as necessary respond to the needs identified during the dissemination process for the National Freight Logistics Plan.

⁴⁶ The PMCLN will be integrated with the San Pedro Sula Municipal Development Master Plan, which envisages the implementation of a "smart city" approach in the municipio. The link between the two tools modernizes the management of short-haul journeys, impacting priority logistics subsystems, reducing congestion in urban areas, and improving transportation safety.

⁴⁷ Incorporating multiagency algorithm-driven risk management processes to detect fiscal risk, as well as single windows, and a registration system for carriers.

- 1.28 In terms of the sequence defined, the first operation laid the foundations for reform by establishing key elements of the strategic multisector institutional framework for implementation. Approval of sector regulations and strategic management and planning tools will be initiated under the second phase, and these will be implemented and evaluated in a third phase, together with trade facilitation commitments, the logistics bill and PMCLN, for which consolidation of the multisector institutional framework will be key. The Bank's contribution, as technical advisor and facilitator of multisectoral dialogue, drawing on successful experiences with similar reform processes (paragraph 1.30), has helped build the necessary consensus for program sustainability as government policy.
- 1.29 **Correlation between logistics sector reforms and economic growth.** The economic literature confirms that institutions are a determinant of long-term growth.⁴⁸ Empirical evidence demonstrates that the legal framework is important for logistics performance and, consequently, for economic growth. Different empirical analyses indicate that institutional reforms in the logistics and international trade sector are positively correlated with economic growth and increased foreign direct investment.⁴⁹ Specifically, it has been shown that each positive reform to cross-border trade regulations is associated with an average increase of 0.88% in economic growth.⁵⁰ In addition, a World Bank study (2014) compares the regulatory frameworks and logistics performances of 14 countries, concluding that to boost logistics performance and positively influence the LPI,⁵¹ countries need to establish regulatory frameworks that take the special features of the freight transportation industry into account, while also creating interagency agreements that allocate responsibilities for managing and coordinating strategic actions. Likewise, the IDB (2010) has stated that the organization and institutional strengthening of the freight logistics sector in Latin America is essential for generating a positive impact over the medium and long term.⁵² Specifically, an analysis carried out by the IDB using Doing Business indicators for Panama found that each regulatory reform focused on improving the business climate is associated with an average increase of 0.03% in economic growth. The aforementioned evidence suggests that when designing growth policies, countries should give priority to updating their trade, transportation, and logistics regulations.

⁴⁸ [Reversal of Fortune: Geography and Institutions in the Making of Moderns World Income Distribution](#), The Quarterly Journal of Economics. November 2002.

⁴⁹ [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 Foreign Direct Investment Analysis](#), Wang and Wang.

⁵⁰ This result derives from a sample of 172 countries over the period 2006-2010. [The Impact of Business Regulatory Reforms on Economic Growth](#). Haidar, J. I. (2012). This evidence is aligned with the specific program objectives to: (i) develop a regulatory framework with specific rules aimed at improving freight logistics services as part of a long-term vision; and (ii) modernize and simplify trade facilitation processes and technological systems.

⁵¹ [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.

⁵² [La logística de cargas en América Latina y el Caribe: una agenda para mejorar su desempeño](#). Technical Note IDB-TN-103 (2010).

- 1.30 **Sector experience and lessons learned.** The Bank has worked on ten policy reform processes in the transportation sector in the region,⁵³ including the first phase of this program, resulting in the following lessons learned that were applied to this operation: (i) ensure up-to-date, sector-specific regulatory instruments are in place; (ii) design integrated planning tools that draw information from state-of-the-art databases; (iii) provide Bank support for aligning the different sectors through technical inputs and diagnostic assessments; (iv) strengthen dialogue with the private sector as a factor in reform sustainability; (v) create an interagency coordination body at the highest level of government; (vi) include a technical unit with multisector capability that can implement crosscutting agendas such as innovation, people with disabilities, and gender; and (vii) develop streamlined management based on digitalization and innovation in the sector.
- 1.31 **Coordination with other donors.** The Bank has worked in coordination with the Honduran Overland Transportation Institute (IHTT) on plans to renew the vehicle fleet, supported by complementary work by the Central American Bank for Economic Integration (CABEI). In trade facilitation, the associated initiatives in the policy matrix are connected to a regional environment that relies on the support of donors, as in the case of the RFID system, which was begun with the support of the United States Agency for International Development and the Bank, complemented by the European Union in the framework of the Central American Digital Trade Platform Model and Spanish Agency for International Development.
- 1.32 **The Honduran government's strategy.** The country has announced its intention of becoming the leader in logistics, transportation, infrastructure, and services in Central America. 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 national guidelines and sets important objectives for logistics sector operations in the areas of infrastructure, economic development, and market efficiency. This PBP supports the implementation and consolidation of the recommendations and reforms obtained during the process of formulating the National Freight Logistics Plan (paragraphs 1.19 through 1.21). This means that there is multisector ownership of and government commitment to the reforms, which contributes in a meaningful way to the program's sustainability.
- 1.33 **Strategic alignment.** The program is consistent with the Bank's Country Strategy with Honduras ([document GN-2944](#)), which includes among its objectives improving logistics performance, through better infrastructure connectivity, coverage, and quality, measured in terms of increased national and regional integration, and its LPI.

⁵³ 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); Program to Support Mobility, Overland Transportation, and Road Safety in the Dominican Republic (4914/OC-DR).

- 1.34 The operation is also consistent with the Update to the Institutional Strategy 2020-2023 (document AB-3190-2) and is strategically aligned with the development challenges of: (i) economic integration, in that it supports improvements in integrated planning, including logistics and international trade processes, as well as harmonization of the regional regulatory framework; and (ii) productivity and innovation, as actions aimed at bridging the digital divide will help to improve logistics efficiency.
- 1.35 The program is also aligned with the crosscutting areas of: (i) institutional capacity and the rule of law, by supporting actions to improve interagency coordination; (ii) gender equality and diversity, as it will help to reduce the gender gap in the sector and develop strategies to foster greater participation of people with disabilities in the sector's labor force; and (iii) climate change and environmental sustainability, through the incorporation of energy efficiency measures and training in efficient driving, consisting of guidelines on how to save fuel and so reduce the associated emissions. On this latter point, according to the [joint methodology of the multilateral development banks for tracking climate change adaptation finance](#), 29.41% of the proceeds of the operation will be invested in climate change mitigation activities. These resources will contribute to the IDB Group's target of increasing climate finance lending to 30% of its approvals by year-end 2020.
- 1.36 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.
- 1.37 It is aligned with the IDB's Sustainable Infrastructure Strategy for Competitiveness and Inclusive Growth (document GN-2710-5) and is consistent with the [Sustainable Infrastructure Framework](#) as it promotes ongoing improvements in transportation and logistics sector governance to make service delivery more efficient. It is consistent with the following dimensions of the Transportation Sector Framework (document GN-2740-7): efficient logistics networks; and institutions able to formulate and implement transportation sector policies. The operation is also included in the Update of the Annex III of the 2020 Operational Program Report (document GN-2991-1).
- 1.38 In alignment with the strategies mentioned, and to help bridge the gaps identified, in the gender area (paragraphs 1.12 and 1.13) this operation will continue supporting the design of incentives to reduce the barriers women face to accessing nontraditional activities, by including specific programs in the curriculum of the National Driving School and private training academies to train women for careers in freight transport, in coordination with the [Ciudad Mujer](#)⁵⁴ program.
- 1.39 As regards innovation and technology (paragraph 1.14), the program will foster the incorporation of digital technologies to enhance services by exploring the possibilities of digital communications networks and data to create collaborative logistics arrangements.⁵⁵ Specifically, the program will pursue implementation of

⁵⁴ To provide "services that support the integral development of Honduran women."

⁵⁵ Logistics arrangements that promote collaboration along the logistics chain; whether at the point of origin, through agricultural centers, or in international trade hubs, facilitating business for small and medium-sized producers.

processes and tools, such as the Integrated Risk Management Module and the maritime single window (VUM); the use of RFID tracking; and the updating of technology and digital tools to consolidate FYDUCA information through business intelligence tools.

- 1.40 Regarding inclusion and diversity in the logistics sector (paragraph 1.15), the program will support actions to bring more people with disabilities into the work force, in jobs where they can provide the specific abilities and skills required, fostering training and education programs, in coordination with the National Logistics Council and the Honduran Department of Labor.
- 1.41 In relation to climate change gaps (paragraph 1.16), the inclusion of energy efficiency criteria in the logistics bill, plans and strategies developed by the National Logistics Council, the Technical Unit for Logistics Execution, and the Honduran Overland Transportation Institute will be fostered, complemented by the inclusion of efficient driving parameters in driver training programs.
- 1.42 The challenges in the logistics and trade facilitation area remaining after implementation of the programmatic series include: comprehensive implementation of the transformative projects deriving from the National Freight Logistics Plan and the PMCLN; and development of infrastructure and coordinated border management processes that optimize structured trade efficiency technology processes. The Bank will continue to support the Honduran government in consolidating sector reforms through additional financial and technical assistance instruments.⁵⁶

B. Objective, components, and cost

- 1.43 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. These specific objectives address the issues identified above.
- 1.44 **Components.** The policy matrix sets out the sequence of commitments under the program, which are divided into the components listed below. The reforms identified in the third phase and their triggers are indicative. The adjustments to the policy matrix (paragraphs 1.47, 1.50, and 1.54) do not affect the achievement of the objectives of the series, such that, with the exception of outcome 4 (paragraph 1.54), the impact and outcome targets have not been changed.
- 1.45 **Component I. Macroeconomic stability.** The objective of this component 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](#). No changes were made to the policy matrix for this component.

⁵⁶ Support to Transport and Logistics Reform Program (operation ATN/OC-17685-HO).

- 1.46 **Component II. Reform of the regulatory framework for freight logistics and trade facilitation.** This component will support the development of a regulatory framework that provides for the adoption of a long-term vision and establishes strategic guidelines for the sector, as well as update the legal framework for overland freight transportation to encompass the areas of transportation safety and freight transportation services. This component will also 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.
- 1.47 Consistent with the reforms implemented in the first operation (paragraph 1.24), this second phase will support: (2.1) approval of the Government Strategic Plan 2018-2022 reflecting the prioritization of the logistics sector within national government policy; (2.2.1) approval, by the National Logistics Council, of the five-year Immediate Action Plan; (2.2.2) drafting of a logistics bill, to including energy efficiency criteria, aimed at modernizing the sector's regulatory framework in consultation with the National Logistics Council's Technical Unit for Logistics Execution; (3.1) updating the strategic plan of the National Road Safety Council, incorporating overland freight transportation safety issues; (3.2) approval of regulations governing weight and dimensions, including weight and dimension limits and the corresponding penalties; and (4.1) updating of the operating regulations for the Guatemala-Honduras Customs Union. In preparing this tranche, one condition (2.2.2) in the policy matrix was supplemented to strengthen the program's support for the inclusion of energy efficiency measures in the draft Freight Logistics Law.
- 1.48 The third operation includes: (2.1) an evaluation of the progress made on implementing the Government Strategic Plan 2018-2022, including recommendations aimed at strengthening its implementation; (2.2.1) the evaluation and updating of the five-year Intermediate Action Plan by the National Logistics Council; (2.2.2) approval, by the executive branch, of the draft Freight Logistics Law; (3.1) preparation of an action plan that includes the implementation of measures relating to overland freight transportation safety; (3.2) approval of overland freight transportation insurance; and (4.1) preparation of the operating regulations for the El Salvador-Guatemala-Honduras Customs Union.
- 1.49 **Component III. Consolidation of the institutional framework for freight logistics and transportation.** This component will support the strengthening of the institutional framework for the freight logistics sector through the creation of: a high-level decision-making body made up of key institutions linked to the freight logistics sector; a coordination and executing agency; and mechanisms for monitoring the impact of policies and projects on the performance of the freight logistics sector.
- 1.50 To advance this institutional strengthening effort (paragraph 1.21), the second operation specifically includes: (5.1.1) strengthening and implementation of the National Logistics Council, comprising the main agencies with authority over the freight logistics sector, with responsibility for reaching agreement on strategic guidelines and multiyear plans; and (5.1.2) strengthening and implementation of the Technical Unit for Logistics Execution, including, *inter alia*, coordination of: (i) activities with public and private institutions to formulate and implement the plans and projects of the sector, which will include energy efficiency measures and foster the inclusion of people with disabilities; and (ii) activities aligned with the National Freight Logistics Plan that are tasked by the Sector Cabinets. During preparation,

- three conditions in the policy matrix [5.1.1, 5.1.2(i) and 5.1.2(ii)] were adjusted to require evidence that the National Logistics Council and the Technical Unit for Logistics Execution were effectively operating in this phase.
- 1.51 The third operation encompasses: (5.1.1) approval of the institutional management report of the National Logistics Council, to include progress made on the actions set out in the Intermediate Action Plan; and (5.1.2) approval of the management report of the Technical Unit for Logistics Execution, to include records documenting the coordination activities carried out.
- 1.52 **Component IV. Establishment and modernization of comprehensive planning, transportation and freight logistics, and trade facilitation processes.** This component will help to strengthen comprehensive planning in the sector and promote measures to improve 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:
- 1.53 **Subcomponent IV.1. Establishing comprehensive planning processes and improving transportation and freight 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 overland freight transportation.
- 1.54 The second operation complements the actions advanced in the first (paragraph 1.24) by: (6.1) creating an interagency supervision mechanism for the Master Plan for the Northern Logistics Cluster (PMCLN), which will take into account demand analysis, the infrastructure investment plan and models of operation, technological tools, and models of cooperation with supply chains; (7.1) drafting a plan to modernize the transportation and freight logistics fleet; (7.2.1) bringing pilot private driving schools online; and (7.2.2) along with the National Academy of Overland Transportation (ENTT), to include in these pilots and at the ENTT a program of incentives to institute training programs targeting women, consistent with the Freight Transportation Law mandate administered by the Honduran Overland Transportation Institute. Four conditions (6.1, 7.1, 7.2.1 and 7.2.2) of the policy matrix were revised during preparation to preserve the logic between the conditions of PBP I and PBP II; and to consider energy efficiency measures aimed at modernizing the fleet, as well as to include training modules in efficient driving techniques in driver training programs. Similarly, 7.2.2 was specifically included as a policy trigger for the third operation, given the effective implementation of the ENTT; the final target of outcome 4 in the results matrix was also adjusted, as the sole focus of this academy is to issue certificates for freight and passenger fleet drivers.
- 1.55 The third operation stipulates: (6.1) approval, by the National Logistics Council, of the PMCLN; (7.1) approval of the plan to modernize the freight logistics and transportation fleet, to consider financial incentives pursuant to the Overland Transportation Law; and (7.2) approval of the ENTT technical and financial sustainability plan, to include an annual budget allocation for private driver-training schools and ensure that they are up and running.

- 1.56 **Subcomponent IV.2. Modernizing trade facilitation processes.** The objective of this subcomponent is to make headway on improving the operating framework and technological systems at the national level to support implementation of Honduras's commitments under international 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 enabling Honduras to meet its priority commitments under the trade facilitation agreements established by the Central American Council of Ministers of Economic Integration (COMIECO) and the commitments made under the Guatemala-Honduras Customs Union.
- 1.57 Building on the results of the first phase (paragraph 1.24), the second operation will: (8.1) start implementing the processes and tools required under the Comprehensive Foreign Trade Management Portal (PGICE), including the Integrated Risk Management Module and maritime single window; (8.2) support the approval of a ministerial agreement establishing the authorized economic operator program, and a procedural manual to launch the program; (9.1) implement the first phase of the fourth and fifth measures of the Central American Strategy for Trade Facilitation and Competitiveness: RFID tracking and cameras,⁵⁷ respectively; and (10.1) upgrade the technological and digital tools for consolidating FYDUCA information in the tax authority's institutional data warehouse, to facilitate monitoring and management using business intelligence tools. No changes to the policy matrix were made for this component.
- 1.58 The third operation stipulates: (8.1) approval of the regulatory framework to enable the PGICE to operate; (8.2) signature of the agreement for the mutual recognition of authorized economic operator programs in Central America to enable their recognition; (9.1) implementation, by at least two countries, of the regional agreement governing the dataset for the issuance of plant and animal health certificates; and (10.1) the creation of a tool to cross-reference FYDUCAs by beneficiary company origin, to measure functionality in terms of attributes, metrics, and datasets.

C. Key results indicators

- 1.59 This operation is expected to produce the following outcomes: (i) more efficient multisector and multiyear prioritization of the sector's strategic actions; (ii) improved safety in freight logistics services through the enforcement of specific regulations; (iii) a strengthened institutional framework in the sector, with the implementation of leading-edge vehicle fleet management systems; (iv) improved quality of freight services delivery with an inclusive social vision; and (v) reduced border crossing times at the El Amatillo customs post, through the upgrading and simplification of technological systems and processes. These outcomes will help to improve the country's logistics performance as reflected in the LPI, while also increasing the relevance of the logistics sector within the national economy.

⁵⁷ A video transmission system is due to come on stream by 2020.

- 1.60 **Beneficiaries.** The improvements in sector planning and institutional management processes will have an impact on the country's productivity, enhancing the cost effectiveness of transportation and logistics services. In this regard, the program's direct beneficiaries will be Honduran producers and marketers,⁵⁸ who will be able to carry on their activities under better conditions, achieving greater access to domestic and international markets. It will also directly benefit transportation services users,⁵⁹ who will have processes and infrastructure that are more orderly and efficient, as well as tailored to mobility needs in terms of goods and people. And lastly, the Honduran economy will be an indirect beneficiary, bearing in mind that improvements in the transportation and logistics sector will have a crosscutting impact on multiple production and trade sectors, with positive spillovers at the national and regional levels.
- 1.61 **Economic evaluation.** Based on the recommendations of the Office of Evaluation and Oversight in its 2011⁶⁰ Evaluability Review of Bank Projects and the results of the Review of Good Practice 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,^{61,62} as described in paragraph 1.3 of the Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations (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, it was decided not to perform an economic analysis for loans of this type. Therefore, this operation does not include an economic analysis and, consequently, is not considered for the purposes of measuring the evaluability score on the development effectiveness matrix for this program.

II. FINANCE STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This loan is the second in a series of three operations that are technically linked but financed separately as policy-based loan operations in accordance with Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2). This modality is suitable for fostering ongoing policy dialogue and is also appropriate considering the complexity and time frames involved in developing, disseminating, and implementing the reforms included in the program.

⁵⁸ Including almost 340 companies operating in free trade zones and 273 companies in the 17 business parks in the country. National Freight Logistics Plan, 2017.

⁵⁹ Including the 20,000 owners of freight vehicles who intend to register their vehicles by smartcard and the 4,500 drivers who will receive training at driving schools.

⁶⁰ 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 PBPs."

⁶¹ Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 revised edition. February 2012.

⁶² The Evaluation Cooperation Group calls for policy-based loans to be evaluated for relevance, effectiveness, and sustainability. Efficiency was not included as a criterion because policy-based loans are sized according to the country's financing gap, independent of project benefits.

- 2.2 **Dimensioning.** This operation will be for US\$111.65 million with a single disbursement. The size of the operation is based on paragraph 3.27(b) of document CS-3633-2, which refers to the country's fiscal resource needs in the broadest sense. In this regard, SEFIN projects that the central government deficit will come to 2.8% of GDP in 2020, and external financing needs will be US\$590 million (2.3% of GDP). According to Central Bank of Honduras estimates, the country's economic growth is projected in the range of 1.5% to 2.5% in 2020, compared with the 2.5% growth observed in 2019, and is at a significant risk of lower growth due to the COVID-19 health emergency.

B. Environmental and social safeguards risks

- 2.3 In accordance with Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation does not require an environmental classification or an environmental and social management report. The program does not entail any socioenvironmental risks. The envisaged reforms seek to include necessary regulations in the areas of freight logistics and trade facilitation, and to foster the sustainable development of the transportation sector. The comprehensive planning processes supported by the program incorporate measures to mitigate climate change and include people with disabilities in the sector's labor force, measures which will yield positive social and environmental impacts.

C. Fiduciary risks

- 2.4 This is a low-risk operation, since 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's portfolio. SEFIN's executing unit has considerable experience in managing projects financed by international organizations.

D. Other key issues and risks

- 2.5 During program design, a program risk management workshop following the Bank's methodology was held with beneficiary institutions. The operation is considered to be generally low-risk since it has broad political support, and the Honduran government has made a clear commitment to the sustainability of the policies agreed upon under this operation. No risk of reform discontinuity has been identified for the medium and long term, as the creation of the institutional and legal framework will underpin the continuity of progress. A medium level of risk has been identified in the area of public management and governance, relating to budgetary allocations for the operation and sustainability of the National Logistics Council. SEFIN's commitment to the program, together with identification of the budgetary allocation and financing mechanism for the National Logistics Council, mitigates the sustainability risk associated with the new institutional framework.

- 2.6 In the trade facilitation component, the transition between the Customs Revenue Office (DARA) and the Honduran Customs Authority, which came online in January 2020, is considered to be medium risk.⁶³ To mitigate this risk, the new authorities⁶⁴ have been involved in the preparatory missions and specific working sessions will be held under the leadership of the Department for Economic Development (SDE), the National Logistics Council, and its constituent institutions. As trade facilitation issues involve other institutions, the alignment envisaged in the policy matrix will be maintained.

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 be responsible for strategic coordination of the entities involved⁶⁵ in the policy reforms ([optional link 2](#)), with a view to ensuring the complete and timely fulfillment of program actions under the second operation by all parties involved, as well as any adjustments to the indicative triggers in response to the ongoing dialogue when processing the second and third operations in the programmatic series. SEFIN will be responsible for the following tasks: (i) coordinating with the other entities involved in the operation that are responsible for defining, approving, and adopting measures; (ii) submitting reports and evidence of fulfillment of the operation's conditions, and any other reports the Bank may require; (iii) promoting actions relating to attainment of the policy objectives defined in the program; (iv) compiling, documenting, and providing the Bank with all information, indicators, and parameters that help the borrower and the Bank monitor, measure, and evaluate the program's outcomes.
- 3.2 **Special contractual conditions precedent to the single loan disbursement: The sole disbursement of the loan proceeds is contingent on compliance with the policy reform actions laid out in the policy matrix, the [policy letter](#), and the conditions established in the loan contract.**

B. Summary of arrangements for monitoring results

- 3.3 SEFIN will coordinate the monitoring and timely fulfillment of the commitments associated with this first operation, as reflected in Annex II and the results matrix, and it will submit to the Bank the evidence envisaged in the means of verification matrix. The borrower and the Bank have agreed to monitor program execution with annual monitoring meetings. The indicators in Annex III (paragraph 1.59) will guide the monitoring of implementation progress. The project completion report will be prepared within 12 months after disbursement of the last operation.

⁶³ Executive Decree PCM-059-2019. Gazette 35,062, 30 September 2019.

⁶⁴ The secretary and directors of the new institution are part of the current team of the Presidential Commission for Comprehensive Reform of the Customs System and Trade Operators (COPRISAO).

⁶⁵ Department of General Government Coordination (SCGG), INSEP, National Logistics Council, the Technical Unit for Logistics Execution, COPRISAO, DARA, IHTT, and the Honduran Customs Authority.

- 3.4 The objective of the program evaluation is to verify whether the planned outcomes and impacts were achieved, and whether program actions had an impact on the LPI. A reflexive evaluation will be prepared in 2022, once the period for achieving results has ended.

IV. POLICY LETTER

- 4.1 **Policy letter.** Annex II of the operation is aligned with the [policy letter](#) issued by the Honduran government and reflects the agreement between the Bank and the government on the macroeconomic and sector policies to be supported under this program. The letter confirms the government's commitment to implement the activities agreed upon in Annex II.

Development Effectiveness Matrix		
Summary		HO-L1206
I. Corporate and Country Priorities		
1. IDB Development Objectives		
Development Challenges & Cross-cutting Themes	<div>-Productivity and Innovation</div> <div>-Economic Integration</div> <div>-Gender Equality and Diversity</div> <div>-Climate Change and Environmental Sustainability</div> <div>-Institutional Capacity and the Rule of Law</div>	
Country Development Results Indicators	<div>-Public agencies' processing times of international trade of goods and services *</div> <div>-Women beneficiaries of economic empowerment initiatives (#)*</div> <div>-Regional, sub-regional and extra-regional integration agreements and cooperation initiatives supported (#)*</div> <div>-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*</div>	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2944	Improve logistics performance
Country Program Results Matrix	GN-2991-1	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		9.1
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		3.6
3.3 Results Matrix Quality		2.5
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		7.0
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		4.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
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.</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 technical cooperation HO-T1333 the project, HO-L1206, will be supported via the financing of activities which are essential to the design of the actions necessary for the achievement of the PBL's objectives.

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

To improve Honduras' regional positioning and become a logistical Central American hub, the Honduran government has developed a National Logistics Plan. Its correct implementation depends on the existence of a regulatory framework and norms that meet the logistics sector's needs and establish instruments for planning and modernization. Currently, the cargo fleet has an average age of 15 years and there exist no regulations to safeguard transport security nor are there registry systems. Furthermore, the deployment of cargo does not have systems that allow for its traceability. As of yet, there exists no specific logistics law with its corresponding regulation on security, efficiency, and norms for the renewal of the fleet as well as energy efficiency or compulsory registration. To promote such transversal reforms there is a need to coordinate multiple institutions and there is no institution that serves as an overseeing entity. Furthermore, there is a need to reduce logistics costs and avoid duplicity in processes to reduce the time and cost to import and export. For example, in Panama the cost to export a container oscillates around US\$665, but in Honduras this is estimated at US\$2,308 – with terrestrial transport cost accounting for about half the cost. Average export time in Honduras is 88 hours for border compliance while in Guatemala it stands at 36 hours and in Panama is 24 hours. In this context the PBP was designed. This is the second of three operations in the series. The general objective of the program is to contribute to improve logistics in Honduras through sectorial reforms on regulations, institutions, and commercial planification that will allow for competitiveness gains and regional integration. The specific objectives are: (i) to consolidate a regulatory framework with specific norms to improve logistics cargo services; (ii) the institutional strengthening of the logistics sector through the consolidation of the National Logistics Advisory Board (CNL for its acronym in Spanish); (iii) the improvement in the capacity for integral sectorial planning and associated services; (iv) the modernization and simplification of the technological processes and systems for commerce. The reforms have supported the consolidation of the CNL as the overseeing entity for the logistics sector. Furthermore, they include a Logistics Law Project, including energy efficiency criteria. Also, the reforms promote operational norms on security aspects for the transport of terrestrial cargo, and the regulation of dimensions and weights. Moreover, the interoperability of foreign commerce systems will be supported as well as the modernization of the terrestrial fleet – beginning with the registry of the vehicles in the fleet. The project's results include among others the increase in the percent of cargo vehicles registered and insured to cover damages to third parties; that the annual budget exercise take into account priorities set forth by CNL for the logistics sector (as verified by sector projects with budget allocation); and a reduction in the time to cross the red channel in the border control agency the El Amatillo Customs (HO-ES). In the long-run, an improvement in the country's score in the Logistics Performance Index is expected. At closure, a before-and-after evaluation of results will be employed.

POLICY MATRIX

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.

OBJECTIVE AND SCOPE	POLICY CONDITIONS FOR PBP I	POLICY CONDITIONS FOR PBP II	STATUS OF COMPLIANCE WITH CONDITIONS FOR PBP II	TRIGGERS 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	Fulfilled	1.1 The borrower's macroeconomic environment is stable and consistent with the program objectives and sector policy letter
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 strategic 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 2018-2022, 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 within government policies	Fulfilled (Q4 2018)	2.1 Evaluation of the progress achieved in implementing the PEG 2018-2022, including recommendations to strengthen implementation
	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 (PAI)	Fulfilled (Q4 2019)	2.2.1 Evaluation and updating of the five-year PAI by the CNL
		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	Fulfilled (Q4 2019)	2.2.2 Approval of the logistics bill by the executive branch

OBJECTIVE AND SCOPE	POLICY CONDITIONS FOR PBP I	POLICY CONDITIONS FOR PBP II	STATUS OF COMPLIANCE WITH CONDITIONS FOR PBP II	TRIGGERS 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 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>Fulfilled (Q4 2019)</p>	<p>3.1 Preparation of an action plan that includes the implementation of measures relating to overland freight transportation safety</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>Fulfilled (Q4 2019)</p>	<p>3.2 Approval of 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>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 Republics of Guatemala and 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>Fulfilled (Q1 2020)</p>	<p>4.1 Preparation of the operating regulations for the El Salvador -Guatemala-Honduras Customs Union</p>

OBJECTIVE AND SCOPE	POLICY CONDITIONS FOR PBP I	POLICY CONDITIONS FOR PBP II	STATUS OF COMPLIANCE WITH CONDITIONS FOR PBP II	TRIGGERS 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> <p>(i) a high-level decision-making body made up of key institutions linked to the freight logistics sector;</p> <p>(ii) a body responsible for coordination and execution; and</p> <p>(iii) mechanisms for monitoring the impact of policies and projects on the performance of the freight logistics sector.</p>	<p>5.1 Approval of the organizational structure designs for freight logistics management, including:</p> <p>(i) A high-level decision-making body made up of key public and private institutions linked to the freight logistics sector;</p>	<p>5.1.1 Consolidation and functioning of the CNL, comprising the main agencies with authority over the freight logistics sector, with responsibility for agreeing strategic guidelines and multiannual plans.</p>	<p>Fulfilled (Q4 2019)</p>	<p>5.1.1 Approval of the CNL Institutional Management Report, including progress on PAI actions</p>
	<p>(ii) A technical body made up of the executing agencies, responsible for project management and coordination between the different agencies;</p> <p>(iii) Permanent arrangements for monitoring, analysis, and market intelligence, with the participation of the public and private institutions involved in freight logistics; and</p> <p>(iv) The annual budgetary allocation and financing mechanism to support the operations of the technical body and the CNL's objectives.</p>	<p>5.1.2 Consolidation and functioning of the Technical Unit for Logistics Execution (UTEL) including.</p> <p>(i) Coordination of activities with ministries and public and private institutions to develop and implement sector plans and projects, considering energy efficiency measures, and fostering inclusion of people with disabilities; and</p> <p>(ii) Activities aligned with the PNLOG that are assigned by the sector cabinets.</p>	<p>Condition 5.1.2.(i): Fulfilled (Q4 2019)</p> <p>Condition 5.1.2.(ii): Fulfilled (Q1 2020)</p>	<p>5.1.2 Approval of the UTEL Management Report, including records of the coordination activities that have been implemented</p>

OBJECTIVE AND SCOPE	POLICY CONDITIONS FOR PBP I	POLICY CONDITIONS FOR PBP II	STATUS OF COMPLIANCE WITH CONDITIONS FOR PBP II	TRIGGERS FOR PBP III
Component IV. Establishment and modernization of comprehensive planning, transportation and freight logistics, 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 key guidelines for preparing 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 cluster's integrated logistics; 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>Fulfilled (Q4 2019)</p>	<p>6.1 Approval by the CNL of the PMCLN</p>

OBJECTIVE AND SCOPE	POLICY CONDITIONS FOR PBP I	POLICY CONDITIONS FOR PBP II	STATUS OF COMPLIANCE WITH CONDITIONS FOR PBP II	TRIGGERS FOR PBP III
	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	7.1 Formulation of a plan to modernize the transportation fleet and freight logistics, considering financial incentives pursuant to the Overland Transportation Law	Fulfilled (Q4 2019)	7.1 Approval of the plan to modernize the transportation fleet and freight logistics, considering financial incentives pursuant to the Overland Transportation Law
<p>7. Improve transportation services - incorporating a gender and diversity perspective, in the area of automotive land freight transportation, including issues related to:</p> <ul style="list-style-type: none"> (i) modernization of the vehicle fleet; and (ii) driver training. 	<p>7.2 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 energy efficient driving 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 a program of incentives for training women, consistent with the Transportation Law mandate administered by the IHTT</p>	<p>Condition 7.2.1: Fulfilled (Q4 2019)</p> <p>Condition 7.2.2: Fulfilled (Q4 2019)</p>	<p>7.2 ENTT technical and financial sustainability plan including annual budget allocation; and functionality of private driver training schools</p>

OBJECTIVE AND SCOPE	POLICY CONDITIONS FOR PBP I	POLICY CONDITIONS FOR PBP II	STATUS OF COMPLIANCE WITH CONDITIONS FOR PBP II	TRIGGERS FOR PBP III
Subcomponent IV.2. Modernization of trade facilitation processes				
<p>8. Implement an operating framework and technological systems at the national level to support implementation of Honduras's commitments under international trade facilitation agreements, including:</p> <p>(i) the International Maritime Organization's Convention on Facilitation of International Maritime Traffic (FAL 65); and</p> <p>(ii) the World Trade Organization's Trade Facilitation Agreement —Bali Package.</p>	<p>8.1 Begin creating 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> <p>(i) Integrated Risk Management Module; and</p> <p>(ii) Maritime single window (VUM).</p>	<p>Fulfilled (Q1 2020)</p>	<p>8.1 Approval of the regulatory framework the operation of the PGICE</p>
	<p>8.2 Launch of the implementation of the pilot phase of the authorized economic operator (OEA) program</p>	<p>8.2 Approval of a ministerial agreement creating the OEA Program, and of its procedural manual launching the program</p>	<p>Fulfilled (Q3 2019)</p>	<p>8.2 Signature of the agreement for the mutual recognition of OEA programs with at least two Central American countries, thus enabling their recognition</p>
<p>9. Implement technological tools and processes that allow Honduras to comply with its priority commitments under the international trade facilitation agreements established by the Central American Council of Ministers of Economic Integration (COMIECO)</p>	<p>9.1 Adoption of the technological requirements necessary for implementation of the first phase of the coordinated border management strategy: RFID tracking devices</p>	<p>9.1 Implementation of the first phase of the coordinated border management strategy: RFID tracking and cameras</p>	<p>Fulfilled (Q4 2019)</p>	<p>9.1 implementation with at least two countries of the regional agreement governing the dataset for transmitting plant and animal health certificates</p>
<p>10. Implementation of Honduras's commitments under the Guatemala-Honduras Customs Union, thus helping to position the country as a regional hub</p>	<p>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</p>	<p>10.1 Upgrading of the technological and digital tools for consolidating FYDUCA information in the tax authority's institutional data warehouse, to allow monitoring and management using the business intelligence tool</p>	<p>Fulfilled (Q3 2019)</p>	<p>10.1 Creation of a tool to cross-reference FYDUCA's by beneficiary company origin, to measure functionality in terms of attributes, metrics, and datasets</p>

RESULTS 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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EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Baseline year	Final target (2022)	Means of verification	Comments
IMPACT 1: Improve the performance of the logistics sector in Honduras						
Logistics Performance Index (LPI) ¹	Index	2.46	2016 ²	2.82	Logistics Performance Index Report LPI – World Bank	The LPI reflects the performance of the logistics sector, ranging from 1 (low) to 5 (high).
IMPACT 2: Increase in the importance of logistics in the country's economic activity						
Honduras's logistics GDP/nominal GDP	%	6.9	2017	7.1	Statistics. Central Bank of Honduras (BCH) national accounts	Baseline: Logistics GDP = US\$1.6 billion Nominal GDP = US\$22.82 billion The weight of the logistics sector is projected using the 12-year moving average to extrapolate from Honduras's nominal GDP (World Economic Outlook, WEO-IMF).

¹ 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.

² Year prior to implementation of reform program (PBP-I), relative to which progress of the indicator will be measured.

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline	Baseline year	2019	2020	2021	Final target (2022)	Means of verification	Comments ²
<u>OUTCOME 1: Application of specific regulations to improve the safety of freight logistics services</u>									
Percentage of registered freight vehicles or trailers with third-party insurance ³	Number	0	2018	—	—	—	50%	Database of the Honduran Property Institute, drawing on vehicle inspection data	From the projected growth of the total number of freight vehicles, the Honduran Overland Transportation Institute (IHTT) estimates that as of 2020 the regulations would be put to public consultation and approved, consequently, as a target; 50% of all freight vehicles will be insured. Equivalent to 31,961 vehicles in 2022. The baseline is zero, as prior to adoption of the specific regulations third-party insurance was not mandatory for freight vehicles or trailers.
<u>OUTCOME 2: Strengthening the freight logistics and transportation sector's institutional framework by implementing modern vehicle fleet management systems</u>									
Number of freight vehicles registered by smartcard ⁴	Number	29	2018	2,595	—	—	20,000	IHTT annual report in the framework of the freight vehicle renewal plan	Baseline: The information provided by the IHTT on the number of vehicles using the smartcard in the baseline year (first year of implementation, the first group registered being 29). Estimated based on the number of vehicles registered on the pre-smartcard system, whose certificate will expire in 2022, bringing them into the new registration system.
<u>OUTCOME 3: Improvement in the effectiveness of multisector and multiyear prioritization of strategic actions for the freight logistics and transportation sector</u>									
Annual budgetary exercises taking into account the priorities identified for the sector by the National Logistics Council (CNL)	Document	0	2018	1	2	3	4	CNL report setting out the Department of Infrastructure and Public Services (INSEP) priorities for logistics projects	This is an annual report. The INSEP sends the CNL the list of prioritized logistics sector projects in execution with budget allocation, resulting from the CNL programming exercise in coordination with the various sector cabinets. Prior to the creation of the CNL, this exercise was conducted without specific prioritization (baseline: 0).

³ Vehicle registration is defined as registration of ownership of new and used vehicles, and documents concerning the registration, transmission, and transfer of ownership. Definition established by the Honduran Property Institute.

⁴ Estimates based on counting the number of vehicles registered under the old system at the time of the baseline and whose certificate would expire in 2022, bringing them into the new vehicle registration system.

Indicators	Unit of measure	Baseline	Baseline year	2019	2020	2021	Final target (2022)	Means of verification	Comments ²
OUTCOME 4: Improved quality of freight services delivery with an inclusive social vision									
Number of driver certifications issued by the National Academy of Overland Transportation (ENTT)	Number	0	2018	200	—	—	4,500	ENTT driver registration	Forecast based on quantification of license renewals expected as of 2022. In accordance with the implementation of the regulations concerning the operation of the ENTT, no new licenses can be issued for freight or public passenger transportation vehicles without a training certificate. The projection is based on licenses to be granted as of 2022, when the ENTT will issue 25% of accreditations, including specific efficient driving modules in its training curriculum. The ENTT had not been created as of the baseline year and, consequently, issued no certificates.
Number of driver certifications issued by the ENTT to women	Number	0	2018	20	—	—	450	ENTT driver registration	The impact of the incentive plan includes 10% of total certificates being issued to women. The ENTT had not been created as of the baseline year and, consequently, issued no certificates.
OUTCOME 5: Reduction in customs clearance times at the El Amatillo customs post as a result of trade facilitation agreements to modernize and simplify processes and technological systems									
Time taken to clear the red channel at the El Amatillo customs post (HO-ES) ⁵	Hours and minutes	74:35	2016	—	—	—	29:74	Customs Revenue Office (DARA) report	Processing time for exports from El Salvador to Honduras via the red channel. Coordinated border management with an integrated control center, avoiding the need for the driver to get out of the vehicle, is an improvement that it is estimated will reduce processing time by up to 60% for exports via the red channel.

⁵ 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 (PBP) operation, all outputs will be achieved when the disbursement is made.

Expected Outputs					
Output indicator	Unit	Baseline (2019)	Target (2020)	Means of verification	Comments
Component II. Reform of the regulatory framework for freight logistics and trade facilitation					
2.1 Approval of the PEG 2018-2022, reflecting the priority given to the logistics sector within government policies	Circular	0	1	2.1 Circular CGG-2567-2018 of 6 November 2018, from the Department of General Government Coordination (SCGG) to the highest executive branch authorities, sending the Government Strategic Plan (PEG)	
2.2.1 Approval by the CNL of the five-year Immediate Action Plan (PAI)	Certification	0	1	2.2.1. Certification 5 of CNL minute item 06 of October 2019, approving the PAI	The PAI reflects the prioritization of actions and projects in the freight logistics sector
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	Bill	0	1	2.2.2.1 Certification 6 of CNL minute item 06 of 8 October 2019, approving the Logistics Bill. 2.2.2.2 CNL Official letter CNL-120-2019 dated 8 November 2019, sending the Logistics Bill to the SCGG	
3.1 Updating of the National Road Safety Council's strategic plan, incorporating land freight transportation safety considerations	Certification	0	1	3.1. Certification dated 29 October 2019 sent by official letter 1290-2019 from the Executive Secretary of the CNSV validating the content of the technical annex on road safety in land freight transportation as part of the update to the National Road Safety Strategic Plan	
3.2 Approval of the regulations governing weights and dimensions. They include: (i) weight and dimension limits; and (ii) penalties	Certification	0	1	3.2 Certification CD-IHTT-10-2019 of the minutes of the IHTT Steering Committee dated 6 October 2019, approving the weights and dimensions regulations	

Expected Outputs					
Output indicator	Unit	Baseline (2019)	Target (2020)	Means of verification	Comments
4.1 Updating of the operating regulations for the Guatemala-Honduras Customs Union	Document	0	1	4.1 Official letter from the Economic Development Secretariat to the Ministerial Office sending the updated operating regulations governing the operation of the Guatemala-Honduras Customs Union. Attached: (i) Regulations; and (ii) aide-mémoire of the meeting of economic integration coordinators of Guatemala and Honduras approving the update matrix	
Component III. Consolidation of the institutional framework for freight logistics and transportation					
5.1.1 Consolidation and functioning of the CNL, comprising the main agencies with authority over the freight logistics sector, with responsibility for agreeing strategic guidelines and multiannual plans	Document	0	1	5.1.1.1 Resolution 210-2018 of the Secretariat of the Interior, Justice, and Decentralization (SGJD) designating the public sector members of the CNL, including the minutes of the council meetings held 5.1.1.2 SCGG official letter CGG 2321-2018 to the presidential appointee defining the private sector representatives to the CNL	
5.1.2 Consolidation and functioning of the Technical Unit for Logistics Execution (UTEL).	Certification	0	1	5.1.2.1 Certificate 4 of minute item 06 of CNL dated 8 October 2019, receiving UTEL's semiannual management and planning report, October 2019, in line with the PNLOG, sector cabinets, and incorporating activities to promote energy efficiency in land transportation 5.1.2.2 Memorandum of interagency cooperation signed 31 January 2020 by the CNL, the Departments of Labor, Development, and Social Inclusion, and Human Rights, promoting mechanisms to encourage the socioeconomic inclusion of people with disabilities in the transportation and logistics sector	

Expected Outputs					
Output indicator	Unit	Baseline (2019)	Target (2020)	Means of verification	Comments
Component IV. Establishment and modernization of comprehensive planning, transportation and freight logistics, and trade facilitation processes					
Subcomponent IV.1. Establishment of comprehensive planning processes and improvement of transportation and freight logistics services					
6.1 Creation of the interagency supervision mechanism for the Master Plan for the Northern Logistics Cluster (PMCLN) with: (i) demand analysis; (ii) infrastructure investment plan and models of operation; (iii) technological tools; and (iv) models of cooperation with supply chains	Certification	0	1	6.1 Certification 7 of CNL minutes item 06 of 8 October 2019, forming the programming committee for monitoring the PMCLN. These minutes included an annex with the appointment of a coordinator and aide-mémoires of the meetings held	
7.1 Formulation of a plan to modernize the transportation and freight logistics fleet, considering financial incentives in keeping with the Overland Transportation Law	Certification	0	1	7.1.1 Certification of item on minutes CD-IHTT-10-2019 of the IHTT Council dated 6 October 2019, presenting the freight transportation vehicle renewal plan, regarding: (i) actions to incorporate more efficient technologies; and (ii) progress of smartcard-based fleet registration 7.1.2 Legislative decree 59-2019 tax-exempting imports, local procurement, and services for the passenger and freight transportation fleet	
7.2.1 Launch of private driving school operations, including training in energy efficient driving and a program of incentives for training women, consistent with the Transportation Law mandate administered by the IHTT	Certification	0	1	7.2.1. Certification of the item on minutes CD-IHTT-10-2019 of the IHTT Steering Committee ratifying the permission to operate and the functioning of pilot private schools, attaching: (i) the efficient driving program; and (ii) the training program targeting women	
7.2.2 Launch of private driving school operations, including a program of incentives for training women, consistent with the Transportation Law mandate administered by the IHTT	Certification	0	1	7.2.2 Certification of the item on minutes CD-IHTT-10-2019 of the IHTT Steering Committee ratifying the permission to operate and the functioning of the ENTT, attaching: (i) special operating regulations; (ii) program to train women as professional drivers; and (iii) the efficient driving program	

Expected Outputs					
Output indicator	Unit	Baseline (2019)	Target (2020)	Means of verification	Comments
Subcomponent IV.2. Modernization of trade facilitation processes					
8.1 Start of implementation of the processes and tools required in the context of the Comprehensive Foreign Trade Management Portal (PGICE), including: (i) Integrated risk management module; (ii) Maritime single window (VUM)	Document	0	1	8.1.1 DARA official letter DARA-653-2019, dated 12 November 2019, to the CNL, remitting the scope and technical specifications of the risk management module and the budget required for its development 8.1.2 Official letter DARA-603-2019, dated 10 October 2019, remitting the interoperability criteria and requirements for information exchange with the maritime single window (VUM) 8.1.3 Comprehensive Foreign Management Portal (PGICE) interagency information-sharing and information system integration agreement	
8.2 Approval of a ministerial agreement creating the authorized economic operator (AEO) program, and of its procedural manual that launches the program	Certification	0	1	8.2.1 COPRISAO certification of item 1 of minutes 36-2019, dated 26 September 2019, approving the OEA agreement 8.2.2 COPRISAO certification of 10 September 2019 of single item on minutes 37-2019 regarding the approval of the procedure manual for the implementation of the AEO program	
9.1 Implementation of the first phase of the coordinated border management strategy: RFID tracking devices	Document	0	1	9.1.1 DARA official letter DARA-600-2019 dated 9 October 2019, sending the Secretariat for Central American Economic Integration (SIECA) report with details of percentage of media enrolled as of October 2019 9.1.2 DARA official letter DARA-602-2019, dated 10 October 2019, disclosing the status of SIECA's procurement of cameras	

Expected Outputs					
Output indicator	Unit	Baseline (2019)	Target (2020)	Means of verification	Comments
10.1 Upgrading of the technological and digital tools for consolidating FYDUCA information in the tax authority's institutional data warehouse, to allow monitoring and management using the business intelligence tool	Resolution	0	1	10.1 SAR official letter SAR-SDE-298-2019 of 5 September 2019, presenting evidence of FYDUCA's functioning, in the form of attributes, metrics, datasets, associated with the integration on the business intelligence platform	

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

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

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 II. Such financing will be chargeable to the Bank's Ordinary Capital (OC) resources in the following manner: (i) up to the amount of US\$72,572,500, subject to concessional financial terms and conditions ("Concessional OC"); and (ii) up to the amount of US\$39,077,500, 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 ____ 2020)