

**PROGRAM FOR EFFICIENCY AND TRANSPARENCY IN
GOVERNMENT PROCUREMENT**

(HO-0176)

EXECUTIVE SUMMARY

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

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

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

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

Support for procurement management (US\$5.6 million)

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

National procurement training system (US\$1.4 million)

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

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

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

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

Executing Unit (US\$2 million)

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

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

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

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

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

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

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

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

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

The Bank's country and sector strategy:

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

Poverty-targeting and social sector classification:

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

Exceptions to Bank policy:

None.

Procurement:

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

Special contractual clauses:

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

I. Conditions precedent to the first disbursement

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

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

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

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

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

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

IV. Other previously fulfilled conditions

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

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

Special disbursements:

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

Recognition of previous expenditures:

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