The Fiscal Implications of Public–Private Partnerships in Honduras

Current Developments and the Road Ahead

Gerardo Reyes-Tagle
Mikel Tejada

Institutions for Development Sector

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http://www.iadb.org

Contact: Gerardo Reyes-Tagle, gerardor@iadb.org.

Abstract*

Honduras has expanded its public–private partnership portfolio considerably since passing the PPP law in 2010, but concerns remain about their institutional and regulatory capabilities even in the wake of their new 2014 PPP law reform. Though this reform created the Fiscal Contingency Unit (FCU), a new independent unit within the Ministry of Finance with the explicit purpose of approving PPP projects and conducting oversight, the core responsibilities related to promoting, managing and monitoring PPP development still remain with the Commission for the Promotion of PPPs (Coalianza). The FCU is currently unable to function in its oversight approval and oversight capacity and has no clear mandate under which to function. Meanwhile, the government's current quantifiable firm and contingent commitments in PPP contracts account for 6.6 percent of GDP. We therefore propose a number of additional reforms to the existing frameworks to remove conflicting incentives from Coalianza and improve FCU's oversight capabilities.

JEL Codes: E62, H54, H57, H83
Keywords: fiscal policy, infrastructure, public administration, public investment, public–private partnerships

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Introduction

To meet the development goals established in the National Plan (2010–22), Honduras needs new and upgraded infrastructure throughout its territory. Private investment in capital projects will be vital in closing the existing infrastructure gap, currently estimated at US$900 million — nearly 5 percent of GDP.[1] The rate of public capital formation remains insufficient to cover this gap and, while some services (e.g. water and sanitation) have improved over time, the overall quality of infrastructure remains low relative to the regional average.[2] Some factors have prevented the infrastructure gap from closing. First, the rate of growth of potentially necessary infrastructure increased when Honduras entered a low growth phase. Second, the domestic market is underdeveloped, so the country has to rely on external sources for financing needs — bilateral and multilateral donors mainly. Third, the impact of the financial crisis, and the slow recovery of the main global economies, has slowed down or postponed important public investment decisions.

In the last decade, an alternative instrument has been widely used in an attempt to close the infrastructure gap. Public–private partnerships (PPPs) have been gaining significant importance as an alternative for financing much-needed public infrastructure and creating a fiscal space for the government to allocate resources to other—albeit less commercially-viable—projects by allowing the public sector to leverage more financial resources, using the private sector as an intermediary to advance project investments. Under the leadership of the last two governments, the authorities have embarked on a series of reforms aimed at improving the investment climate and creating a better institutional framework for private sector participation in concessions and PPPs. The country passed a new PPP Law in 2010, with amendments in 2014 that strengthened the legal framework and created a more suitable environment for private participation in public sector infrastructure.

At face value, all signs indicate that Honduras is about to re-engage in a flurry of infrastructure activity. The country is making important commitments and catalyzing extensive changes to channel more resources into its infrastructure market. There are crucial challenges on the road ahead as the huge investment plans for the economy, the supportive legislation and the fiscal situation are currently not sustainable to catalyze the kind of transformative change that Honduras needs. The authorities will need to enhance PPP oversight and further

[1] For more information, see World Bank (2003).

[2] The Gross Public Capital Formation has remained at an average of 24 percent of GDP over the period 2010–13. For more information, see World Bank (2013).

strengthen the institutional arrangements surrounding the PPP framework, even considering the results of the previous amendments of the 2010 law that reinforced the role of the Ministry of Finance (SEFIN), including the establishment of a Fiscal Contingency Unit (FCU). The PPP program would also benefit from preparing detailed guidelines and methodologies on private partner selection, a public sector comparator, risk allocation, contract preparation, and other important elements that will help achieve value for money (VfM) from PPP projects as well as improving the accounting and reporting framework for PPPs. These are important and necessary steps that will eventually foster the Honduran PPP pipeline for national and international actors in a sustainable way.

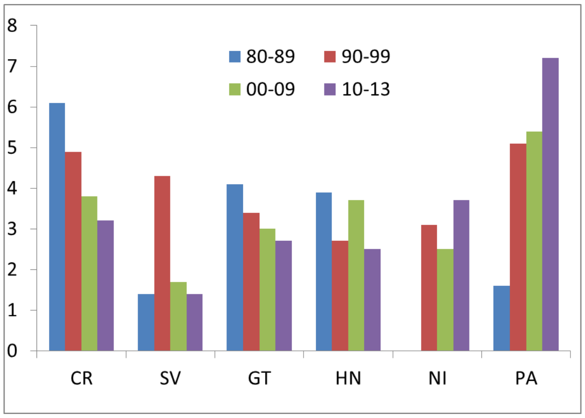
Macroeconomic Developments

Following the signing of the Central American Free Trade Agreement (DR-CAFTA) in 2004, Honduras focused its economy on competing strongly with its Central American neighbor countries to attract foreign direct investment. It did so primarily based on offering low productivity offshore assembly for export, mainly textiles and other light industries. With the trade and investment regimes now largely standardized among the DR-CAFTA countries, competition is focused on who offers the lowest wages and the most conducive security environment. Honduras has found it challenging to emerge as a clear-cut winner in either category, as labor costs are often higher than in neighboring countries.

Growth performance during the 1990s slowed down, in line with some other countries in Central America (see Figure 1). While in the 1980s the average growth rate was 4 percent, in the 1990s it was around 2.5 percent. During the last decade, real GDP annual average growth jumped to a rate of 3.7 percent, supported by the dynamism of exports to the US as well as by remittances. Following the 2008 global crisis, though, growth rates have hovered around 2 percent. This deceleration path has been accentuated since the late-2000s, driven by lower private and public investment and consumption, lower levels of exports (see Figure 2), weaker than expected trade-partner growth, and political issues. Under current government policies, economic growth is expected to rise to 3 percent in the next two years (2014–15), supported by faster U.S. growth and improved terms of trade.[3] Yet this growth could be hindered by the high fiscal deficits and the slow recovery of its main trade partners.

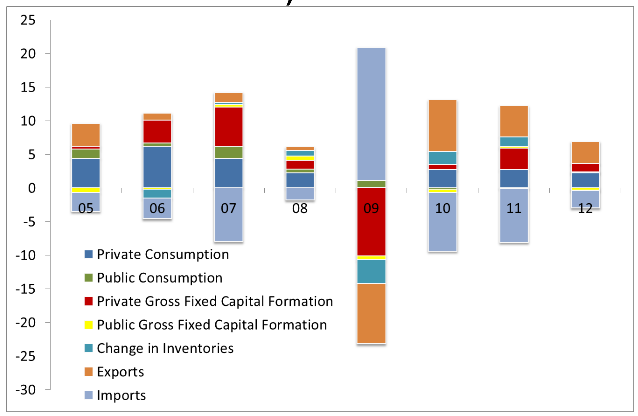
[3] The country is strongly dependent on the US business cycle. The degree of dependency on North American trade further impedes diversification into more dynamic markets, at least in the short run. Honduran exports to North America account for a predominant share of trade (95 percent of maquila exports and 40 percent of non-maquila exports). Remittances from migrant workers also contribute extensively to domestic consumption and foreign

Figure 1. Real GDP Average Annual Growth Rate (1980–2013)



Source: IMF (2014).
Notes: CR: Costa Rica; SV: El Salvador
GT: Guatemala; HN: Honduras;
NI: Nicaragua; PA: Panama

Figure 2. Contributions to GDP Growth by Expense Category (2005–12)



Source: Johnston and Lefebvre (2013).

The fiscal deficit of the budgetary central government has been worsening, rising from 2.4 percent of GDP in 2008 to 7.9 percent in 2013. Fiscal consolidation has remained as the central challenge faced by Honduras, mainly due to increasing current expenditures over the last five years as well as lower than expected tax revenues. For instance, between 2008 and 2012, interest payments increased from 0.6 percent of GDP to 1.5 percent, while wages and salaries rose from 9.3 to 11.9 percent of GDP. Meanwhile, infrastructure expenditures, which comprised 25 percent of the overall budget in 2011 (8.5 percent of GDP), were cut in 2012 to 21.2 percent of total government expenditure (7.5 percent of GDP). The increase in public debt—up from 22.9 percent of GDP in 2008 to 43.4 percent in 2013—has raised some issues about Honduras' public finance sustainability path.[4] The importance of budget rigidities associated with public sector operations—essentially related to public wages—should be highlighted. In Honduras, this line item accounts for 43.6 percent of total spending, mostly directed at the education sector, which limits the capacity of the government to allocate resources to capital expenditure, namely infrastructure projects.

revenue. Trade with the US has rebounded in the last year and the recovery in remittance flows has reached a record high above US$3 billion.

[4] Given these highlights, the authorities and the IMF have negotiated a Stand-By Arrangement (SBA), approved in December 2014, including reforms to the PPP framework.

Setting the Scene: Infrastructure Challenges and Opportunities

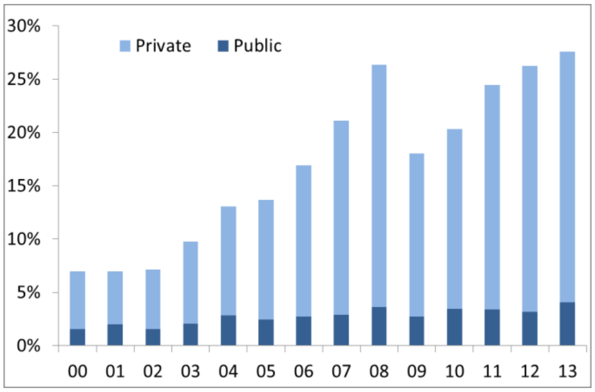
As in many other countries around the world, infrastructure in Honduras plays a decisive role in economic growth, competitiveness, and poverty reduction. The extensive economic literature on the relationship between economic growth and infrastructure argues that, under the right conditions, infrastructure can play a key role in promoting growth and equity and, consequently, can help reduce poverty.[5] The conclusions of the studies indicate that countries can gain a great deal by improving investment and performance in infrastructure sectors. It is also true that achieving better outcomes requires institutional and organizational reforms that are more fundamental than simply designing infrastructure projects and spending money on them (Esfahani and Ramirez, 2003).

Inadequate infrastructure has long been identified as an obstacle to higher economic growth in Honduras.[6] In the period 2000–13, total investment averaged 17 percent of GDP, which was noticeably below the average observed during the 1990s (20 percent of GDP). The adverse events that prevailed at the end of the last decade (domestic and international) slowed down the investment dynamism observed during the first part of the 2000s. Figure 3 displays total investment as a percentage of GDP, which shows continuous growth over the period 2000-08 followed by a sharp fall in 2009 as the result of the global financial crisis. After 2008, the effect of the global crisis on investment growth rates is evident throughout the Central America region, particularly in the construction sector (see Figure 4), which reported negative rates of growth in 2009–10 and has not fully recovered since.

[5] Most of the economic literature recognizes a positive relationship between infrastructure, economic growth, and human development. While it is argued that infrastructure cannot drive growth indefinitely and may be subject to large fluctuations, it seems that there is a growing perception that poor infrastructure has become one of the key barriers to growth and development in the LAC region. For more information, see Calderón and Servén (2010).

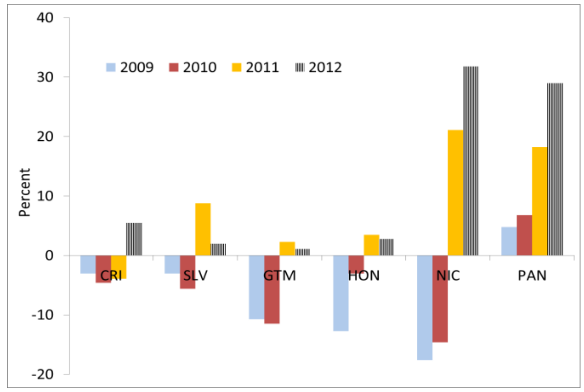
[6] For more information, see World Bank (2003).

Figure 3. Public and Private Investment as Percent of GDP (2000-13)



Source: Central Bank of Honduras (2014).

Figure 4. Construction Sector Growth Rate (2009-12)



Source: Institution of Civil Engineers (2014).

The quality of the infrastructure matters as much as the quantity. The Global Competitiveness Report (2013) ranks Honduras 111th out of 148 countries with the most pressing need for improvement in the areas of: institutional capacity; citizen security; access to financing; and adequate quality and quantity of infrastructure. According to Calderón and Servén (2004), improving the stock and quality of infrastructure in Honduras could potentially increase per capita GDP growth by 4.2 percent (3.1 percent from increasing the quantity and 1.1 from improving the quality) and could reduce income inequality.

The History of PPPs in Honduras

For quite some time, PPPs have existed in Honduras under the infrastructure concession scheme. While PPPs may not have been the term used to describe these arrangements, many of them were, in form and substance, close to the PPP framework that emerged later on. But as no regulatory framework was in place until 1999, there is no concrete evaluation of the PPP projects undertaken up to then and their efficiency was not always obvious. Even so, the number and size of PPPs was not very high (except for in 1995), and it was not until the second round of reforms to the legal framework that the number of PPPs increased (Figures 5 and 6).

Figure 5. PPPs as Percent of Total Investment (1994-2013)

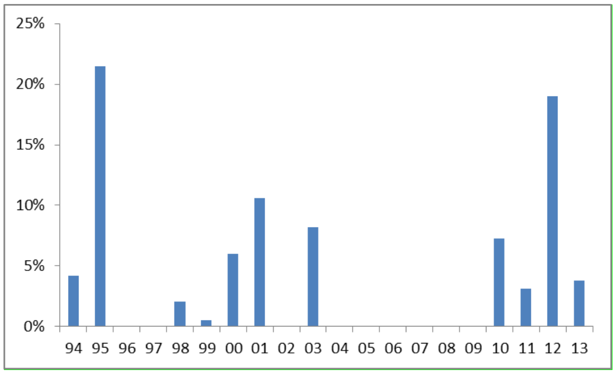
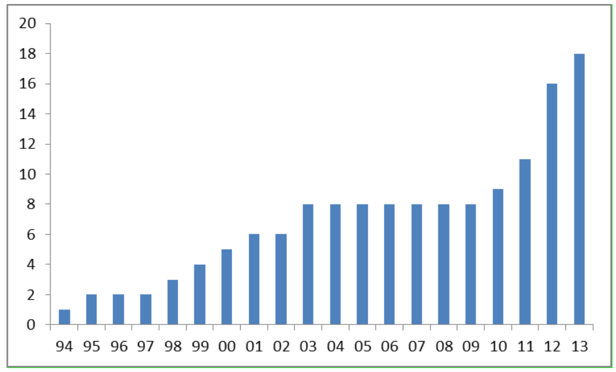


Figure 6. Cumulative Number of PPPs Approved (1994-2013)



Source: Staff estimates using the Coalianza database, PPI Project Database (World Bank) and WEO (2014).
Note: The charts depict the total number of PPPs registered since 1994 regardless of the instrument type.

The country's absence of strong public institutions or well-defined policy-making decision entities and processes, and the set of sectorial laws that prevailed[7], resulted in a lack of clear, strategic vision for the infrastructure sector, complicating the environment that governed concessions in the country.[8] In January 1999, the government approved the Promotion and Development of Public Works and National Infrastructure Law, giving formal birth to the first PPP law. The law recognized the country's lack of capacity on the programming and execution of mega-investment projects, justifying the need to establish a legal framework to allow for private investment participation. It established a concessionary regime for the provision of infrastructure and the management of public works, with no budgetary cap on the utilization of PPPs. Yet, at the same time, the law excluded municipalities and decentralized public bodies, leaving key mega-projects out of its scope, such as the ones carried out by the National Electric Energy Company.[9] As a result, only one project was approved under the PPP law during the period that the law was in effect (1999–2009).[10]

[7] The sectorial legal framework prevailed over the more specific PPP or concession framework.
[8] Among the prevailing sectorial laws establishing their own legal framework are: (a) the electricity law (1994); (b) telecommunications (1995); and (c) the transportation sector (1998).
[9] The electricity sector in Honduras represents around 3 percent of GDP.
[10] Figure 5 and 6 are based on the PPP portfolio in execution (1994–2013) contained in Table 2 below. The PPP portfolio includes Build Own Operate (BOO), the Build Rent Operate and Transfer (BROT), and the Build Operate and Transfer (BOT) type contracts. Under BOO agreements there is no obligation to transfer ownership to the government at the end of the contract. BOOs are also normally used in sectors that have undergone a process of privatization or deregulation. Depending on each particular case, a BOO may or may not be considered a PPP. However, since governments sometimes provide revenue guarantees through long-term take-and-pay contracts for this kind of project, we include them in this analysis. Among all these projects, only the Airport Network used the legal framework established by the Promotion and Development of Public Works and National Infrastructure Law (Aguas de San Pedro de Sula also mentioned it, but being a local project was out of the actual scope of the law).

The Current Legal Framework for PPPs

Norms and Regulations Governing the PPP Framework

To face the global economic downturn and the fiscal stress of its public finance accounts, in 2010 the government implemented a fiscal program aimed at reducing fiscal imbalances and improving the composition of public spending to give space for high priority investment.[11] In line with the need to prioritize and increase public investment, the government revamped its PPP program in 2010 by abolishing the first PPP law and substituting it with the Law to Promote Public–private Partnerships (2010). The law—inspired by the Peruvian version—aims to strengthen the legal framework while correcting the flaws and loopholes of the first law by replacing the concession law and introducing a more expeditious process for managing, developing, and executing public works and services through PPP projects. The law is governed by general principles that include: public investment security; efficiency in public investment processes; fiscal accountability; optimality in the use of resources; competition; and economic and financial sustainability (see Box 1 for the most relevant articles included in the law). However, the referenced law gives preponderant power to an organism created for the promotion of PPPs and makes it judge and jury in the contracts adjudication decision. Amendments to the 2010 law to mitigate this agglomeration of power took place in 2014, but there are still some issues in the implementation process that need to be defined.

The current law defines—in a very broad manner—the term "PPP project" with the aim of standardizing procedures and establishing the scope under which the PPP program would operate.[12] It establishes the need to specify: the objectives of the project; the general conditions of the contract; the implementation period; the allocation of risks between parties; the required guarantees; and the criteria for establishing fees, prices, etc. It also establishes the form in which a PPP project can be implemented (allowing different legal settings), and that it may be structured through participation contracts, joint ventures, trusts, among others. The procurement process may be carried out via a local or international bid. In addition, it extends its scope of coverage by including municipalities, yet there is no direct mention of the role of public enterprises as agents that can pursue PPP agreements.

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[11] To achieve these objectives, the government signed an SBA with the IMF and committed to: improve tax administration and collection; control current spending; improve the targeting of social spending on the poor; improve the financial position of public enterprises and pension funds; improve banking supervision; and strengthen buffers in the financial system.

[12] The law defines a PPP project as "any collaboration, scheme or common effort between the public and private sector (domestic or international) that adopts multiple models and establishes legal rights and obligations, determining and distributing risks among the parties involved".

BOX 1. HIGHLIGTHED ARTICLES OF THE HONDURAN PPP LAW

The law includes provisions to widen the scope of private sector participation in the supply of goods. It shows the endorsement of PPPs by the federal government and highlights efforts currently being made at that level:

Article 3 establishes the principles of PPPs in Honduras, including legal certainty, efficiency, fiscal responsibility, resource optimization, fostering competition, accountability, fiscal and economic sustainability, balanced allocation of risks and benefits, local participation, fostering user rights and interests, and social responsibility.

Articles 4 and 5 define the object and modalities of PPPs in Honduras that may include construction, the rehabilitation and operation of public works, the provision of public services, the construction and lease of a public work, and trust management. The parties can be organized in any legal way suitable to the development of a PPP, including joint ventures, Trust Funds, contracts, etc.

Article 11 details the creation and powers of Coalianza as the key entity for the implementation of PPPs (further developed in Articles 13 to 20), authorizing Coalianza to execute PPP contracts under the authorization of the President of the Republic within the Council of Ministers and with the ratification of the Congress when necessary.

Article 17 delineates the entities entitled to act as originators of PPP projects which include line ministries and agencies (*Secretarías de Estado* and *Entes Autonomos*), local entities (*Municiplidades*, *Mancomunidades*), Regional Councils (*Consejos Regionales*) and Coalianza itself. Article 17 also establishes the concept of unsolicited proposals which is further developed in the PPP Law Regulation.

Articles 18 and 19 (amended) assigns Coalianza the responsibility of conducting the cost-benefit analysis for public initiatives required to add the project to the National Investment System. The amendments also leaves the decision on whether a project should be conducted as a PPP to the Fiscal Contingency Unit**.**

Articles 23, 24 and 26 require the participation of the Secretary of Finance in the PPP process to ensure the fiscal sustainability of the PPP projects undertaken. The Articles also establish a limit on the use of PPPs under which the cumulative Present Value (PV) of all quantifiable commitments (fixed and contingent) approved under the PPP program cannot exceed 5 percent of GDP, unless an exceptional increase in the limit were requested by the President at the Council of Ministers.

Article 25a (added) creates the Fiscal Contingency Unit as a part of SEFIN and is in charge of the decision as to whether a project is viable to start or continue as a PPP. Also has the duty of monitoring, measuring and elaborating on plans of action in the case of a fiscal contingency being triggered.

Article 29 (amended) Coalianza and the SAPP are allowed to charge 2 percent and 1 percent over the value of the contract to the contractors, respectively, as advisory fees. Those resources must be deposited in the Government's Treasury account and the budget of each entity will be made according the dispositions of the Congress.

Article 35 subjects conflict resolution for PPPs to arbitration under the particular terms and conditions of each contract.

Article 36 expressly excludes PPPs from the general procurement law.

Article 39 rescinds the previous PPP law, the Promotion and Development of Public Works and National Infrastructure Law.

In 2011, the Honduran Congress approved the Investment Promotion and Protection Law (Ley de Protección y Promoción de Inversiones) that establishes a special regime for PPPs implementing "mega-projects and investment projects of national priority", and a detailed

regulation of the Trust Funds framework. As explained below, through the Trust Fund model, the decree lessened the impact of the PPP law.

In practice, therefore, the new PPP law provides a formally complete legal framework covering all kinds of PPP projects. However, its implementation fell short of establishing adequate institutional arrangements and fiscal oversight mechanisms as explained in detail below. Some of these issues are addressed as part of the PPP law reforms that have just been approved by Congress (see Box 2 for a more detailed discussion on this proposal).

Limits on the Use of PPPs

Within the new law, Honduras adopted limits on the use of PPPs. The law stipulates that all quantifiable firm and contingent commitments undertaken by the non-financial public sector in PPP contracts, calculated at present value, may not exceed a limit equivalent to five percent of GDP. This percentage can be modified every three years by the President in the Council of Ministers, and in consultation with SEFIN, in order to be congruent with the country's capacities.[13] Such a limit can be modified with no need for Congressional approval. Restrictions on modifying the limit are not predefined, giving a discretionary power to the executive branch on setting future caps.

Using a simple approach we conduct a Present Value (NPV) analysis to calculate the gap between the current PPP portfolio and the 5 percent cap established by law to approximate for the potential total exposure of the Government under the current PPP program.[14] Based on the law, the PV includes all quantifiable commitments approved under the current PPP law, regardless of the instrument type (concessions, guaranteed revenue provisions, etc.). The results obtained using the PV analysis reveal that the combined current stock (see Figure 7) and flow of the current PPP portfolio accounts for 6.6 percent of GDP, of which 4.1 percent corresponds to the stock[15] and 2.5 percent is due to the flow of disbursements under the Minimum Revenue Guarantee (MRG) provision. Risk exposure reaches a peak by 2028, when the cumulative disbursements under the MRG account for 0.1 percent of GDP (see Figure 8).

[13] According to the law, cumulative quantifiable commitments should be reported in the multi-annual budget. Annual limits should be based on the debt sustainability analysis carried out by SEFIN for each fiscal year. In addition, the General Provisions of the Budget must contain the necessary budget provisions or reserves to cover the fixed commitment amounts or possible guarantee claims. In practice, the multiannual budget has not been updated on a yearly basis and SEFIN is not yet adequately evaluating the fiscal implications of PPPs and therefore they cannot be included in the debt sustainability analysis.

[14] As a reference on the use of NPV analysis, we follow Jenkins, Kuo, and Harberger (2011).

[15] This percentage refers to the stock of projects already awarded by Coalianza under the new PPP law that do not establish any Minimum Revenue Guarantee (MRG) provisions. The investment for these projects implies a contingent implicit commitment because the public sector retains the ownership of the assets.

Figure 7. Stock of PPPs under the 2010 PPP Law

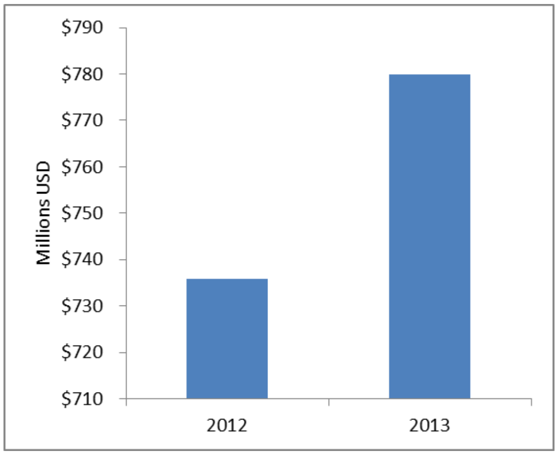
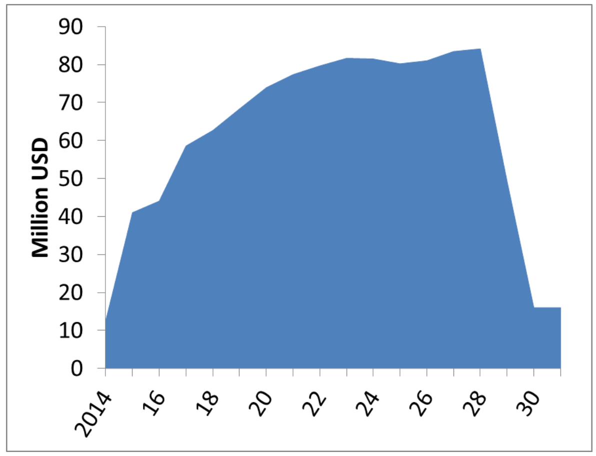


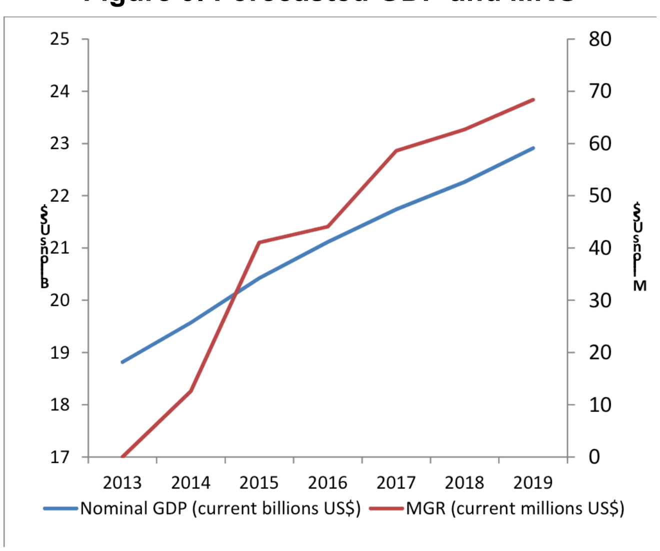
Figure 8. MRG. Period (2014–30)



Source: Staff estimates based on Coalianza's contract database.
Note: These estimates only include projects awarded by Coalianza under the new PPP law.

For active PPP projects with an MRG clause, in early January of each fiscal year, the concessionaire submits an estimate of the revenues from tolls or tariffs based on demand flows. By the next fiscal year, the revenue estimates are compared against actual revenues; if there is a difference between the actual figures and the original estimates in favor of the concessionaire, the government is obliged to include the amount to be paid in the following fiscal year budget. In other words, revenue estimates for 2014 are revised in 2015 and reimbursed by the government, if that is the case, as part of the 2016 budget.

Figure 9. Forecasted GDP and MRG



Source: Staff estimates based on Coalianza's contract database and WEO (2014).

Figure 9 shows the relationship between the forecasted GDP and the contractually agreed total MRG for the current pipeline. Over the period 2013–19, it is expected that the exposure of the MRG will grow at a higher rate than GDP growth, which implies higher volume of contingent liabilities for the government. In the case of Honduras, the PPP contracts establish the MRG for each year in US dollars which poses a higher risk to medium-term fiscal sustainability. In

addition, this trend could eventually lead to higher budgetary rigidities, since materialized payments for MRGs would have to be included in the following fiscal year budget. Figure 9 shows the total value theoretically at risk, rather than a probability-based estimate of the exposure, and is therefore not based in any assumptions for a probability calculation.

One potential risk that the authorities need to consider in the medium term is how the rapid growth of projects and the pipeline puts pressure on this limit. Given the long-term public sector commitments in the PPP program, the excessive use of PPPs can lead to a decrease in budgetary flexibility to adapt to the economic cycle through changes in public investment. In addition, not all commitments are quantifiable,[16] opening a range of possibilities for potential fiscal risks. A defining characteristic of the guarantees and other contingent liabilities is their intrinsic uncertainty in terms of the timetable and the amount of spending. This can pose a source of risk to fiscal sustainability, as the current law does not cover a wider scope of potential government obligations (e.g., obligations with estimated timings and amounts, obligations under mutually unexecuted contracts, and explicit and implicit contingent obligations, amongst others).

Relationship with Other Legal Frameworks

A key characteristic of budget preparation in many countries is that all relevant macroeconomic information and fiscal development can be prepared, analyzed, and presented in a medium-term context (normally in a three year span). A consistent presentation of key fiscal indicators (e.g. revenue, expenditure, debt, etc.) founded on a credible macroeconomic framework, for a period beyond the annual fiscal year, allows the government to take into account events that fall outside of the annual cycle and to be better prepared for them. In Honduras, the spirit of the 2004 Organic Budget Law (LOP) is directed towards that purpose. The LOP established the formulation of medium-term policy instruments (see Table 1) so as to reach preconditions for well-informed and rational decisions on government policies that could strengthen the fiscal policy framework and fiscal sustainability.

[16] An example of unquantifiable liability is the one derived from the political risk of undertaking a PPP. Infrastructure and services procured as PPPs were traditionally considered public services. Consequently, the public expects to receive a level of service from the government even if the government has transferred its operation to the private sector through a PPP.

Table 1. Policy Instruments under the Public Financial Management System

	Medium-term financial framework (3 years)	Multi-annual budget (3 years)	National Public Investment System	Debt Strategy (4 years)	Transparency Law	PPP Law
Mandate according to the LOP	√	√	√	√	√	√
Policy instruments approved/ updated	X	2011-14 2012-15	1975; 1986; 1990; 1997	2011-14; 2012-15; 2013-16.	2006	1999; 2010

Source: SEFIN and Reyes-Tagle and Tejada (2014).

In practice, the policy instruments are weakly linked to each other, giving rise to different interpretations about mandates and responsibilities under the policy framework. The PPP law repeatedly cites or cross references policy instruments that have not been elaborated, are outdated, or might contradict what has been established. For example, on the PPP budget limits, the law that makes reference to the multi-annual budget has not been updated.[17] Also, the law stipulates budget provisions for fixed commitments or possible guarantee claims, which the debt strategy policy acknowledges, but provisions have not yet been established for those guarantees that have been issued.

Institutional Arrangements of PPPs

The PPP Unit

To strengthen the promotion, management, and implementation of PPP projects, the current PPP law created the Commission for the Promotion of PPPs (Coalianza), an independent entity that is responsible for the contracting, execution, development, and management of PPPs in Honduras. According to the law, all PPP proposals submitted to Colianza need to be accompanied by studies detailing either a cost benefit analysis (CBA) or an economic model analysis. The entity then proposes adding the project to the National Investment System (SNI). After the project is listed in the SNI, the Fiscal Contingency Unit (FCU) determines the feasibility of the project as a PPP. Coalianza then coordinates the bidding process by tender or contest. Coalianza has the legal power to execute PPP contracts and has entered into every contract

[17] In the years 2011 and 2012, along with the Annual Budget, a multi-annual budget was elaborated. According to the Organic Budget Law (LOP), the multi-annual budget should be updated every year. However, the multi-annual budget was not elaborated in years 2013 and 2014.

approved under the new PPP law, displacing other public institutions in charge of infrastructure projects.

According to Noe and Salgado (2013), the institutional framework is designed for Coalianza to displace other public institutions in charge of infrastructure, as the President can then approve PPP projects without the need for scrutiny by the Central Bank or the Planning and External Cooperation Ministry (SEPLAN).[18] Coalianza is also able to manage external resources directly, taking on the responsibilities of the Public Debt Management Unit.[19] In 2012, the Institute for Public Information Access granted Coalianza discretional powers over whether to release information to the public regarding feasibility studies, tendering processes, contracts, among others.[20] Additionally, before the reform Coalianza was the exclusive manager and processor for the contracts for PPP projects, as well as the specifications under the bidding process. Coalianza also collected fees for awarding projects (up to 2 percent of the contract value, which went into a trust fund), providing them with a financial incentive to approve and award PPPs, a severe conflict of interest given its role as an evaluation-and-monitoring entity of the government. After the reform the decision as to which projects can be carried out under a PPP scheme is the responsibility of the FCU. The FCU not only has the power to decide which projects starts as a PPP but also which ones are more suitable to continue as one.

Additionally, all fees collected by Coalianza and the FCU are deposited in the government's treasury, with agency funding determined independently of their revenue collection by congress. However the entire process after the FCU's decision still falls under the purview of Coalianza with little to no outside oversight, leaving some potential avenues for conflicts of interest. Coalianza is, therefore, a rather comprehensive PPP unit that, besides providing policy guidance and technical support, is also responsible for the promotion, and execution of the PPP program. As shown in Annex 1, PPP units around the world take different roles but almost all of them provide policy guidance and technical support. Promoting PPPs is however a less common role, attributed to only 16 out of 27 PPP units.

[18] The responsibilities and resources of SEPLAN have been transferred to the newly created General Government Coordination Secretariat (SCGG).
[19] Since PPPs are not directly considered to be public debt, the Public Debt Management Unit does not oversee PPPs, allowing Coalianza to accept public commitments (direct and contingent) without the control of that unit.
[20] For more information, see: Noe and Salgado (2013).

Main Issues Regarding the Implementation of the PPP Framework

Some stakeholders point towards a number of issues with the functionality, clarity, and enforcement of the current PPP framework. First, there is little appetite for using PPPs for social infrastructure where tolling is not relevant. Second, the current legal framework is considered unclear and sometimes presents contradictions with existing federal laws, such as with those relating to debt and transparency, which makes ministries hesitant to engage in PPPs. Third, the law might give too much institutional power to Coalianza by undermining the responsibilities that would, in principle, have to be carried out by SCGG (formerly SEPLAN) and SEFIN. Balance and clear responsibilities are necessary to contain possible fiscal risks that could jeopardize fiscal sustainability.

In addition, it is difficult to obtain long-term financing due to the nature of project ownership rules as well as the limited availability of local financing. Securing long-term financing for PPP projects is a general concern of stakeholders in Honduras, mainly because only a small number of national banks can provide such large financing. Also, local debt financing is currently available for a maximum of 10 to 15 years. With PPP projects having a typically longer life, loans need to be refinanced at later stages of the project cycle. These lending limitations could discourage private investors as they pose additional risks to PPP projects. An added difficulty is the inability of securing fixed interest rates for longer-term financing, in part due to the limited financial instruments available. This also affects availability payments that the government would need to make for certain capital projects.

Highlights of the PPP Portfolio

A look into the PPP portfolio over the last 20 years (see Table 2) shows that: a) there is a concentration of projects in the electricity and transport sectors; b) with the approval of the new law (2010), the portfolio expanded significantly, both in the number of PPPs and the project amount; and c) the PPP contract arrangements used so far have been the Build Own Operate (BOO), the Build Rent Operate and Transfer (BROT), and the Build Operate and Transfer (BOT) modalities. The former has the characteristic that the private sector designs, builds, owns, operates, and manages an asset with no obligation to transfer ownership to the government. The two latter modalities have similar characteristics except that the private sector transfers the asset to the government when the operating contract expires, although it may subsequently rent or lease the asset back from the government.

Table 2. PPP Portfolio in Execution (1994–2014)

Project	Investment (mill USD)	Sector	Type of PPP	Startup date [a]
Electricidad de Cortes S. de R.L. de C.V.	$70.0	Electricity	BOO	1994
Luz y Fuerza de San Lorenzo SA	$263.6	Electricity	BOO	1995
Choloma Planta Térmica	$38.5	Electricity	BROT	1998
Puerto Cortes-Texaco	$10.5	Transportation	BOT	1999
Honduras Airport Network	$120.0	Transportation	BROT	2000
Aguas de San Pedro	$207.9	Water & sewerage	BROT	2001
Choloma III	$165.0	Electricity	BOO	2003
Utila Power Company	$3.8	Electricity	ROT	2003
Cerro de Hula Wind Farm	$250.0	Electricity	BOO	2010
CHER Humuya HPP	$126.0	Electricity	BROT	2011
Sociedad Eléctrica Mesoamericana Mezapa	$18.5	Electricity	BOO	2011
Corredor Logístico de Honduras	$90.5	Transportation	BROT	2012
Corredor Turístico de Honduras	$150.0	Transportation	BOT	2012
Carretera de Gracias, Lempira	$43.9	Transportation	BROT	2012
Ventanilla única de comercio exterior[1]	$1.0	Services	BOT	2012
Terminal Carga de Puerto Cortés	$624.0	Transportation	BOT	2012
Vientos de Electrotecnia - San Marcos Wind Farm	$130.0	Electricity	BOO	2013
Terminal de Graneles de Puerto Cortés	$44.2	Transportation	BOT	2013
Aeropuerto de Palmerola	$107.0	Transportation	BOT	2014
Siglo XXI. Red Vial de San Pedro de Sula[1]	$88.0	Transportation	BROT	2014
TOTAL	**$2,552.4**			

Source: Staff calculations using the PPI database.
[a] As of October 24 2014.
[1] Unsolicited proposal.

Coalianza has approved a total of 8 of the projects listed above since its inception and one additional project is in the tender stage for the present year. In addition, 20 Trust Funds have been created to structure PPP projects over the next years.[21] The number of projects approved so far, as well as the volume in the current pipeline (see Table 3), casts doubt on the quality of the cost benefit assessments as well as the institutional capacity that Coalianza has to evaluate and oversee such a demanding portfolio.

[21] As detailed below, the Trust Funds´ main responsibility is to structure the PPP projects themselves.

Table 3. PPP Pipeline (million USD)

Project	Amount
Trust funds awarded	
Recuperación de Pérdidas en los Servicios de ENEE. Servicios de Iluminación Publica	N/A
Recuperación de Pérdidas en los Servicios de ENEE. Distribución y Flujo Financiero	N/A
Recuperación de Pérdidas en los Servicios de ENEE. Transmisión, despacho, financiero	N/A
Estructuración del Proyecto de la Carretera de Occidente (CA-4,10 y 11)*	170
Generación de Energía en el departamento de Cortés	180
Mejoramiento de la Infraestructura Vial de los departamentos de Colón y Atlántida	N/A
Mejoramiento de la Infraestructura y Servicios en el Departamento de las Islas de la Bahía	15
Desarrollo del Centro Cívico Gubernamental	150
Aeródromo Municipio de Tela	N/A
Programa Agroindustrial	N/A
Infraestructura y Servicios	N/A
SANAA	N/A
Sistema de Administración de la Propiedad	N/A
Sistema de Control Migratorio y Control de Pasaporte	N/A
Carretera CA5- Sur	89.3
Registro Vehicular	N/A
Libramiento de la Zona Metropolitana del Valle de Sula	N/A
Total	**604.3**
Trust funds (pending approval)	
Recaudo e Inversión en Infraestructura Vial del Distrito Central	2.6
Feria Agropecuaria y Artesanal	N/A
Total	**2.6**
In the pipeline	
Carretera Santa Rosa de Aguán	12.4
Represa de Uso Múltiple El Tablón	161.1
Sistema de Agua Potable y Alcantarillado de Tela	30
Carretera Bonito Oriental- Limón	22.6
Carretera Desvío de Braulio	8.4
Carretera El Triángulo- El Puente	6.3
Carretera Trujillo- Santa Fé	12.6
Carretera Planes Sonaguera-Desvío de Braulio	18.9
Dragado del Río Tocoa	4.7
Carretera Coroza Alta-Buena Vista-Cuyamel	2.6
Carretera Desvío de Limón-Iriona-San José de la Punta-El Castillo-Río Sico	20.5
Carretera Santa Fé- Balfate	3.9
Carretera Sonaguera- Balfate	2.0
Carretera Limones-Salamá-Mame-Desvío de Yocón-Desvío de Esquipulas del Norte	94.6
Carretera Sonaguera- Isleta Central	8.7
Carretera La Ceiba- Trujillo- Puerto Castilla	176.3
Carretera Guasaule- Jícaro Galán	110.0
Puerto Castilla	N/A
Proyecto Hidroeléctrico Tomalá	40.0
Desarrollo Agrícola y Control de Inundaciones de la Cuenca del Río Choluteca	N/A
Cámaras de Seguridad Ciudadana	95.2
Hospital de Traumatología en Tegucigalpa	48.2
Hospital de Traumatología en San Pedro Sula	35.9
Total	**914.9**

Source: Staff estimates based on Coalianza’s database.
Notes: * Refers only to the first stage.
N/A: not available.
The totals account only for the available amounts.

Other Key Institutions

As mentioned above, Coalianza plays a dominant role in the design and implementation of PPPs at the expense of SEFIN and SCGG, who should arguably play a more active role in the decision-making process as established by the PPP law, especially in terms of the connection with public investment priorities and process, public debt, and fiscal sustainability. Due to the 2014 reforms SEFIN, through FCU, is in charge of scrutinizing and monitoring PPP projects with the aim of reducing the latent danger that the PPP portfolio may become a fiscal risk in the medium-term. Table 4 below shows the main responsibilities and tasks of the entities involved in the PPP project cycle.

Table 4. Main Entities Involved in the PPP Process

Entity/body	Responsibilities/tasks	Composition/details	Law regulating PPP responsibilities
Coalianza	*Sets strategy, policy and procedures for implementing PPPs *Promotes PPPs with Contracting Agencies and external investors *Assists contracting agencies in PPP project evaluation, tendering, and contract awarding for PPP projects *Submits reports and recommendations to the Council of Ministers requiring authorization for contract awarding *Approves contract awarding after authorization by the Council of Ministers. *Manages PPP contracts *Monitors contract implementation and the quality of services provided *Disseminates information on PPPs to the public in general	It is a decentralized agency of the Executive. It comprises three members selected by Congress from a list of 9 candidates proposed by the Executive. It is financed through the government's budget.	PPP Law
Contracting agency	*Proposes projects to SGCC and Coalianza. *Coordinates project selection, the tendering process, and the monitoring of the quality of the services provided alongside Coalianza *Signs the contract with the private sector	The agency can be any public entity: budgetary, centralized, decentralized, or autonomous, including local governments. State-owned enterprises are excluded.	PPP Law Organic Budget Law

SEFIN and the FCU	*Controls the fiscal implications of PPPs and advises the Executive on PPP Limits *Identify and measure the fiscal risks in the APPs * Make plans of action in cases when the fiscal contingencies are triggered. *Keep a record of futures payments including the guarantees and contingencies that represent a future contingency' payments.	In practice, SEFIN has only a secondary role in the approval flow of PPPs and does not carry out a thorough analysis of the possible contingent liabilities embedded in PPP projects.	PPP Law Organic Budget Law
SGCC	*Checks the consistency of proposed projects with long-term planning objectives	The main documents are the National Plan and the Strategic Vision	PPP Law Organic Budget Law
SAPP	*Conducts independent ex-post evaluations of PPP contracts signed by all levels of government. *Sets general and technical norms and guidance for external audits on the use of public resources. *Sets sanctions in the event of contract failure	Ancillary to the Audit Bureau. It comprises three members selected by Congress from a list of 9 candidates proposed by the Executive. It is financed by government transfers and a regulatory fee of 1 percent of the private partner's income due to the provision of services.	PPP Law
Executive	*Authorizes PPP contracts awarded by Coalianza *Sets legal PPP Limits *In special cases, submits the contract to Congress for final approval	Council of Ministers chaired by the President of the Republic	PPP Law
Congress	*In special cases, approves PPP contracts and amendments (Constitution Art. 205, literal 19)	Amendments to the contract that do not commit immediate budget resources do not require Congress approval	PPP Law Constitution
Private partner	*Creates a Special Purpose Vehicle (SPV) to facilitate project financing *Executes the PPP contract and assumes the risks stipulated in the contract *Procures financing for the project		PPP Law

Source: IMF and IDB Staff.

The PPP Cycle and Approval System

Ideally, the process of implementing a PPP should be fully integrated with the national investment system (NIS) and the programming and execution of the public budget. Initially, government agencies should submit projects to be prioritized together with the government's infrastructure needs and planning. Subsequently, some of those projects would be designated to be implemented as PPPs because that option provides more VfM than the traditional procurement option.

The Honduran National Plan (2010–2022) and the federal government plan encompass the main policy areas and capital infrastructure needs at the federal, regional, and local level. These plans do not contain key information on performance indicators, monitoring and evaluation, project funding (whether public, PPP, or private), etc. As mentioned, a three-year federal budget exists under the mandate of the LOP; however, it has not yet been elaborated. In addition, Honduras lacks clear criteria for allocating limited public resources between projects and demonstrates difficulties determining which projects are more important than others.

The line ministries and SEFIN are responsible for capital investment (PPPs and traditional) and oversight of the development plan. With no exceptions, traditional infrastructure procurements (TIPs) and PPPs are registered in the NIS. The former are registered directly either by the government agency or the General Office of Public Investment (DGIP) while the latter go to Coalianza for a pre-check list of reports and documents prior to registration. Once the PPP proposal is registered in the NIS, Coalianza performs a CBA (see Figure 10) and, before the reform, established whether a project is feasible to be implemented as a PPP.[22] This duty now resides with the FCU. There is currently no particular methodology for determining VfM when choosing between TIPs or PPPs.[23] The approach used by Honduras is that projects that can be funded via user tolls are brought forward as PPPs, thereby augmenting the national budget. It is important that the authorities strengthen the evaluation and methodology used during this step to assess whether or not a project represents VfM. The starting point for a PPP

[22] For those projects awarded to date, neither the cost benefit analysis nor the public sector comparator is publicly available, limiting an assessment of the quality of the reports.
[23] Within the PPP development process, the concept of VfM can be understood in general as an absolute benefit to the country implementing the PPP. In relative terms, VfM refers to the net benefit of implementing a project through a PPP relative to the public procurement option. To asses this relative VfM, the PPP and the public procurement option are compared using an analysis known as a public sector comparator or PSC.

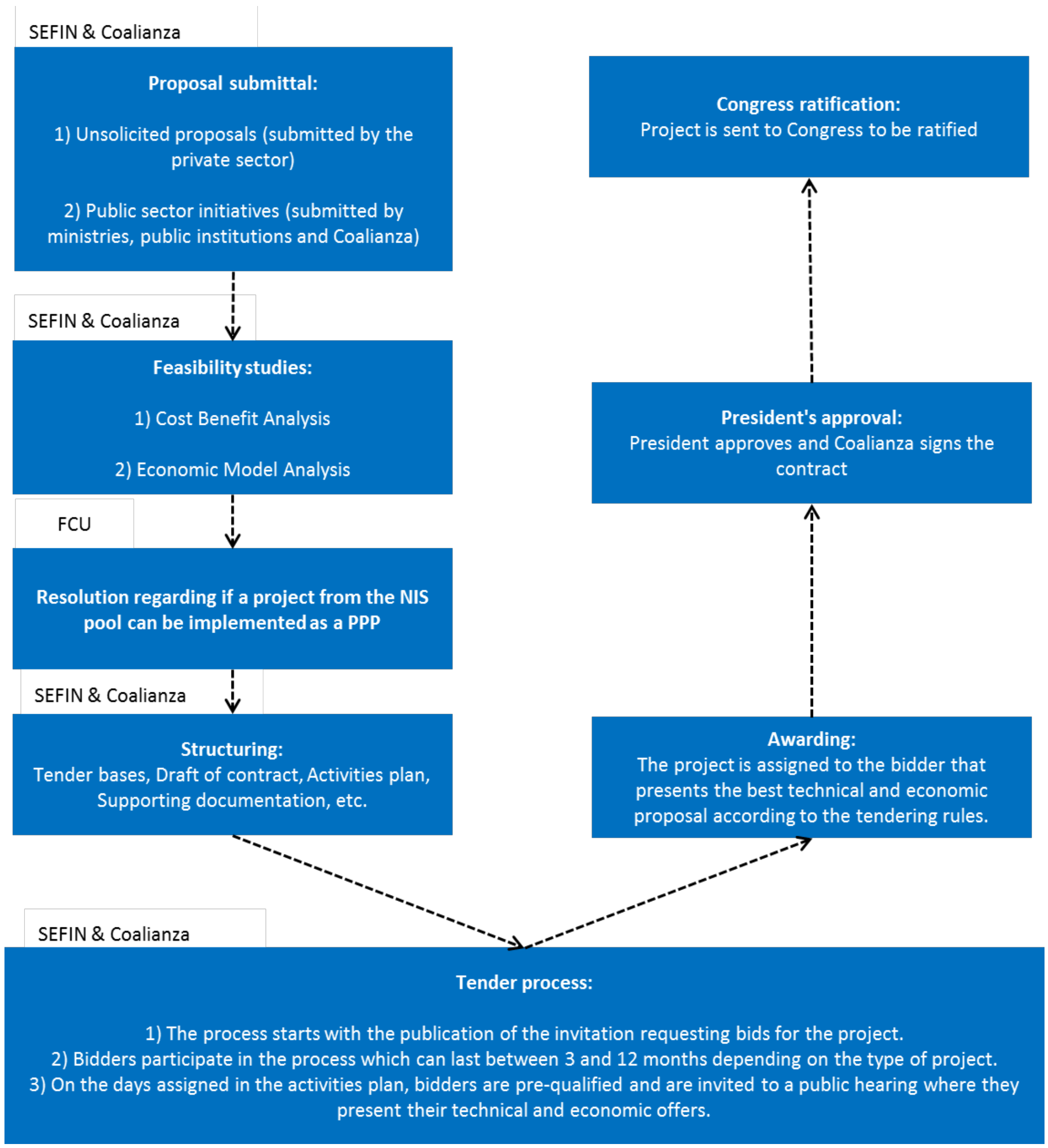
VfM calculation is to compare the procurement solution to the TIP via the "public sector comparator" or a relative test.[24]

Once the FCU decides that the project can be implemented as a PPP, Coalianza's next step is to call for a public tender. It is worthwhile noting that, under PPP law, the general procurement law of the country does not govern the public tender. The PPP law establishes a specific process governed by Coalianza that actively participates and monitors the entire procurement process. Coalianza has the legal authority to execute PPP contracts, remaining a key player throughout the process. In addition, under the Investment Promotion and Protection Law (the President can use discretionary powers to restrict potential candidates from the bidding process as well as to reduce the terms for the selection of the private partner for any investment project. Since real competition among private bidders is a key element driving VfM when implementing PPPs, discretionally restricting competition is clearly counter to best practice and also reduces the transparency of the process.

Once the project has been awarded to the private partner, the President of Honduras approves the contract and authorizes Coalianza to sign it. Once signed, the PPP project is sent to Congress to be ratified (due to its long-term nature, PPPs are approved by Congress through a legislative decree). However, given that the contract has already been signed, Congressional decision-making powers on the worth of the project are limited as hardly any changes on the agreed terms can be introduced at this point. Funding for projects is allocated in the ordinary budgetary process. As will be seen in the next section, the PPP approval process is not clearly linked to the budgetary process. As we will show below, the new approval cycle for PPP projects adds two new features that improve, in part, the monitoring of PPP projects. First, SEFIN will be present at every stage of the PPP's cycle—that is, from when the proposal is submitted until Congress ratifies the proposal. Though this suggests more controls in the PPP cycle—a beneficial development—the reform does not define how SEFIN's monitoring will function in practice. Second, the FCU will take the decisive role regarding what kind of projects can be implemented as PPPs unlike before the reform, diminishing some of Coalianza's power in the decision.

[24] A public sector comparator compares the net present cost of bids for the PPP project against the most efficient form of delivery according to a traditionally procured public-sector reference project. The comparator is designed to take into account both the risks that would be transferable to a probable private party and those that would be retained by government. The public sector comparator then serves as a hypothetical risk-adjusted cost of public delivery for the project. For more information, see: OECD (2008).

Figure 10. PPP Approval Process



Box 2. Reform to the PPP Law (2014)

The reform to the PPP Law took place in December 2014 and can be resumed in 2 main changes:

1) As we noted before, the decision concerning if a project could be implemented as a PPP is now a duty of the recently created Fiscal Contingency Unit (a new entity created due to the reform as a part of SEFIN). The cited Unit, has under his charges the measuring and monitoring of fiscal contingencies, and has the responsibility of elaborate plans of action in case of one contingency takes place.

2) The capacity of Coalianza and the SAPP for collecting a tax over the total cost of the project (2 percent and 1percent, respectively), still remain, but unlike of what happens before (deposit those resources into a trust fund that was administered by themselves), now the resources goes directly to the Government's Treasury account. So, Coalianza and the SAPP will have as a budget only the resources that the Congress approves.

PPPs at the Subnational Level

In Honduras, PPP legislation applies at any level of government. According to the PPP law, municipalities and other subnational entities can act as originators of projects. Presently, no PPP project has been originated at the subnational level under the current PPP law and, in fact, only the municipality of San Pedro de Sula has used a PPP scheme. In 1999, the municipality of San Pedro de Sula conducted an international public tender and awarded the Water and Sanitation Concession Agreement to a consortium integrated among others by ACEA (*Azienda Comunale Energia e Ambiente*, the water enterprise owned by the city of Rome). The contract was executed in 2000 for a period of 30 years with Aguas San Pedro de Sula[25] under a PPP scheme, even though the law excluded municipalities and public-owned enterprises from its scope, as stated above.[26]

The Regulatory and Fiscal Framework of PPPs

Fiscal Risks and PPPs

According to the PPP Law, the Fiscal Contingency Unit of SEFIN has the mandate to conduct risk analyses as well as evaluate the main fiscal implications of every PPP project. However, as far as we are aware the FCU does not yet have any guidelines for how either component of this mandate is to be conducted. In addition, even when FCU has the legal power to effectively

[25] Aguas de San Pedro de Sula was incorporated by the winners of the public tender as the Concessionaire and acts as the Special Purpose Vehicle, the legal entity responsible of undertaking the project.
[26] Aguas de San Pedro de Sula. http://www.asp.com.hn/?page_id=220

monitor or reduce the fiscal risks of PPP projects managed by either Coalianza or any of the Trust Funds, they do not release reports on compliance or methods for more effective implementation. Although the 2013–16 public debt strategy includes PPPs as a key financial instrument of public investment, there is no record that a fiscal risk evaluation or recommendation has been issued under the PPP portfolio.

Currently, guarantees—such as loan guarantees, minimum income, exchange rate differentials, among others—are provided by the government but are not adequately included in the fiscal accounts. SEFIN does not have complete information on the projects (e.g., costs, disbursement timetables, etc.) to estimate fiscal risks in the medium- and long-terms. In addition, Congress recently approved legislation that allows the government to provide guarantees for debt contracted by private companies, further increasing the risk stemming from PPPs.[27]

The 2013 and 2014 national budget documents state that a dedicated FCU will control the fiscal implications of PPPs, as established in the recent PPP law. According to SEFIN, fiscal monitoring and evaluation currently falls under the responsibility of the Macro Fiscal Division within the Management Planning and Evaluation Unit. However, this unit is only at an initial phase, adopting an appropriate methodology and collecting information from already awarded projects.

Systemic Risk, Project Risk and Risk Allocation

More work is needed on procurement methods in Honduras to define, identify and measure systemic and project risks as well as risk allocation. Best practice emphasizes the importance of transferring project risks to whichever relevant partner is more efficient at managing such risks. Appropriate risk allocation is often considered to be the key aspect of successful PPPs. The level of expertise in risk identification and mitigation in Honduras is very shallow. The lack of technical standards, specifically input specifications, is an area in need of great improvement for the government. To address these concerns, the government, through SEFIN and FCU, should work towards establishing standard contracts and VfM toolkits, including guidelines for developing a PPP risk matrix and undertaking quantitative risk analysis. Stronger and more efficient risk allocation is needed as one of the main principles of the PPP program in Honduras, together with the setting of evaluation criteria for SEFIN and Coalianza as the bodies responsible for PPP monitoring and evaluation. Also, establishing stronger safeguards

[27] Legislative Decree 406-2013. However, it is proposed that this provision will be eliminated under the reform to the PPP law that has just been submitted to Congress (see Box 2).

throughout the full procurement cycle, including forecasting and planning, is another important step that needs to be considered by the authorities.

By developing a law that allows for different PPP models, the perceived regulatory risks that led some ministries to refrain from using PPPs should be minimized given the greater clarity of the legal framework. The law has opened the door to more complex PPP models that would be difficult to manage for a public sector that lacks the institutional capacity to analyze and process PPP proposals. Increased discretion provided under the law could also lead to greater opportunities for corruption; this would therefore need to be carefully managed, including through the use of appropriate integrity and transparency safeguards. For the law to be effective, it would need to be aligned with various sectorial laws, which currently are not linked. It is unclear how different laws (e.g., the budget and land codes, the public procurement law, and the law on competition, amongst others) are integrated with the PPP law to create an investment climate propitious to private sector participation. The above increases the likelihood of opportunistic behavior from both the government and the private sector, decreasing the incentives of the firms to invest in public infrastructure. One fundamental issue with regards to the current Honduran legal framework is the multiplicity of input specifications (for example, specifying construction materials to be used for a project). The evidence illustrates that using this kind of approach significantly increases the cost of the project (Bajari et al., 2014). PPPs can be more efficient than traditional public procurement specifically because the contract focuses on what is to be delivered, not how it is delivered. This is a more efficient way to allocate the risks between public and private sectors, and allows the private sector to use new and cost-saving technical and managerial techniques to reach specified results. However, stakeholders have emphasized that the authorities have a tendency to specify both inputs and processes, which can make the projects more difficult to manage and more expensive. Creating a framework that will unlock the efficiencies that the private sector can bring to capital projects will require more than legislative changes. There is a need to build capacity at the institutional level in order to move from specifying inputs to developing output-oriented specifications.

The effectiveness of the PPP governance framework will also depend on the broader administrative environment and investment climate. The government acknowledges that strengthening legislation is only the first step in setting up a robust PPP framework. Other elements must be aligned in order to create an attractive environment for private sector investments, and to engage in projects that improve citizens' welfare. International comparisons suggest that Honduras scores low with regard to the rule of law in several dimensions, including

perceived undue influence of government on courts, corruption, uneven regulatory enforcement, and open government. Moreover, regional and municipal administrations seem to exercise very broad discretionary powers in the interpretation of regulatory requirements. So, while Honduras has a good legal framework that is comparable to international best practice, in actual fact its implementation falls below expectations given the systematic institutional weakness across the central government ministries, specifically in SEFIN. All this increases the systemic risk for the country in the sense that it generates a loss of confidence in the government that in some cases can create outflows of money from the country and difficulties in stress periods of crisis for the financial system.

The Ministry of Finance Gatekeeping Role

According to the law, financial and non-financial risks, guarantees, future commitments, and fiscal contingencies are evaluated by SEFIN, based on the criteria and recommendations made by the National Public Credit Commission. SEFIN is authorized to issue the corresponding provisions in order to appropriately register the quantifiable firm and contingent commitments and guarantees executed under the PPP modality, according to the normative framework of the LOP and the Public Credit Technical Standards. All the guarantees and commitments accepted under the PPP framework are recorded in the Debt Management System.

In practice SEFIN has not yet built up the capacity to examine and authorize PPP proposals based on CBAs or VfM considerations, even now that it has the main role in the approval flow of the PPP pipeline and the analysis of the possible contingent liabilities embedded in the PPP projects. It has also not yet developed a methodology to analyze the possible associated fiscal risks or provide coordination and procedural support at various stages for the procuring authorities. The FCU—newly established as a part of SEFIN by the 2014 PPP law reforms—has a difficult road ahead in the selection of a specialized team to be the counterpart of Coalianza and create a clear process to ensure efficiency and budget affordability in investment projects. Budget considerations are the main factors limiting the development of a sustainable PPP program; without a strong methodology to ensure affordability, and a strong framework to ensure compliance, increases the fiscal risks of the government will inevitably increase as a result of using PPPs.

The Budgetary Process and PPPs

It is unclear how PPPs are incorporated into the annual budget; it is even less obvious how the pipeline responds to the national priorities established within the National Plan (2010–2022). While the national budget has theoretically established a number of steps, procedures, and a timetable from preparation to approval (key processes and timetables are presented in Table 5), the PPP active portfolio and pipeline has a structured process (see Figure 10 above) but lacks a timetable linked to the budgetary process.[28] In fact, the short-term nature of the budgetary process, as well as the existence of many off-the-budget activities, may be a factor in favor of approving PPPs rather than a de facto comparative advantage over TIPs (PricewaterhouseCoopers, 2005: 26*)*. In addition, the lack of appropriate affordability controls may result in unrealistic forecasts regarding the actual cost of PPPs and the underestimation of the public commitments for which the government is responsible.

Table 5. National Budget Timetable

National Budget	Unit responsible	Start date	End date
Elaborate strategic guidelines and planning results	SCGG	Beginning of March	Mid-April
Present policy proposals and overall budget caps	SEFIN	Mid-April	End of April
Approval of policy proposals and overall budget caps	President	End of April	End of April
Caps assigned to ministries (proposal)	SCGG and SEFIN	Beginning of May	End-May
Budget caps discussed with the ministries	Sectorial Cabinets	Beginning of June	Third week of June
Elaborate Annual Operating Plans (AOP)	Ministries	End-June	Mid-August
Submittal of AOPs to SCGG	Sectorial Cabinets	Beginning August	Mid-August
Revision of AOPs	SCGG	Mid-August	End of August
Draft of the national budget	SEFIN	Mid-August	End of August
Approval of the national budget to be sent to Parliament	President	First week of September	First week of September
Submittal of national budget to Parliament	SEFIN	Mid- September	Mid-September

Source: Cronograma Planificación 2015 (SCGG).

[28] According to the authorities, PPP projects (unsolicited and government proposals) can be submitted for approval at any time and they are not subject to the same timetable as the public budget.

Accountability and Transparency

Honduras is still struggling to define the processes and mechanisms of accountability for Coalianza. As pointed out above, financial and legal accountability is what is most demanded from the PPP unit. The constitutional responsibility for performing this task falls within the Comptroller and Auditor General in Honduras yet the institutional capacity to oversee the PPP portfolio is shallow. For example, no guidelines for auditing infrastructure projects under the PPP model have been issued by the Auditor General. The overall PPP framework could therefore benefit from the issuance of guidelines that stress the basic objective of auditing PPP projects. Best practice recommends the audit as a tool that provides unbiased, objective assessment of whether public resources are responsibly and effectively managed to achieve the intended results under the PPP arrangements, namely, to verify the VfM aspects. The focus of an audit would thus be to verify the PPP arrangements to determine whether the government and Coalianza have efficiently put in place a sound system to oversee the efficiency and competence of the project implementation, including construction, quality management, compliance with contractual conditions, the integrity of the targeted public service being kept strictly within the terms of established norms and contract conditions, etc. The main thrust of the audits should be on the end results achieved, rather than on how the private partner has gone about achieving the contracted outputs.

Very few evaluations of large investments in mega-infrastructure projects have been carried out in Honduras. Multilateral donors have conducted the existing ones as part of their engagement in the country. No record of evaluations of PPPs is available, hindering any assessment of the cost efficiency accountability of PPPs. The importance of the evaluation of current PPP projects should not be overlooked, as it is advisable to avoid additional costs due to overruns and operational adjustments that might be directly absorbed by users in the form of development taxes or fees. While it is true that the quest to establish thorough accountability of PPPs is complex, given the involvement of many organizations involved in creating the entity or partnership, it would be possible to establish the entity's accountability through extensive consultations, transparent decision-making processes, and measurable outcomes that would reflect a compromise acceptable to all (Mathur, 2013).

Several entities share responsibility over monitoring the implementation of PPPs. The PPP law created the PPP Superintendent (SAPP) to control the implementation of PPPs in

Honduras (unless there is a specific sector regulator).[29] SAPP enforces the penalty system and reports annually to Congress on its activities regarding PPPs.[30] According to the PPP law, however, Coalianza retains the authority to oversee the implementation of PPPs alongside SAPP, but lost the authority to determine if a project can be implemented as a PPP, a duty that is now under the FCU. Coalianza fulfills its duties under the Transparency Law[31] and publishes relevant information on its website regarding PPP projects, including the signed contracts. However, of those documents made available to the public, it is not possible to find the CBAs undertaken to demonstrate the economic feasibility and VfM of the projects. Moreover, no specific information regarding the fiscal implications of the PPPs is available in public documents, such as debt or budget reports, since SEFIN does not appear to be making their estimations of PPP-related commitments public, if they are conducting them.

Debt Management of PPPs

According to the LOP, SEFIN and the Central Bank share the responsibility for public debt management. The commission for public credit, formed by the two institutions and chaired by SEFIN, formulates the general policy for public debt. The latter is in charge of negotiating external public sector loans, although final approval requires the signature of the Central Bank and Congress. According to the LOP, all guarantees, deposits, and goods and services that are contracted by the public sector with third parties for a period longer than a fiscal year constitute public debt.

In the case of PPPs, SEFIN is authorized to issue the corresponding provisions in order to register the quantifiable firm and contingent commitments and guarantees that may be executed. All the guarantees and commitments of the PPPs need to be recorded in the Debt Management System. In practice, there is no clear link between debt strategy, debt management, and the liabilities (firm and contingent) acquired under the PPP program. Presently, there is no public record of the guarantees and callable options under the PPP portfolio. In addition, it is unclear whether SEFIN is monitoring and assessing the progress of the guarantees and the probability of materialization. The PPPs could create a problem for the government since their fiscal costs are deferred over time. Instead of paying for a project during

[29] Some sectors in Honduras have particular sector regulators as CONATEL for telecommunications.
[30] SAPP submitted its yearly report to Congress both in 2012 and 2013. Most of the contents of the reports refer to the implementation of the Airports Concession granted under the previous law. They also inform on the current tendering processes but with limited information. Both reports ask for the strengthening of the capacity of SAPP.
[31] Article 13 of the PPP Law (adopted by Legislative Decree No 170-2006) includes the contracts among the range of information to be made publicly available (if possible, by electronic means).

its implementation, the government starts paying only when construction is completed; this normally occurs after a longer period than the current fiscal year. This means that budget scrutiny is hindered, as no actual payments will be reflected in the budget until payments kick in. As a result, it is not obvious that public financial management can ensure whether PPPs are affordable and therefore whether they are the best alternative method to finance projects.

Operational Procedures: Pre-contractual Development and Contract Management

Financial Support Platform and Contractual Structure

Honduras does not have an institutional financial support platform for PPPs. Despite the evolution of the legal and institutional framework, Honduras has not created any agency to provide financial support for the development of PPPs. This contrasts with the situation in many other countries in the region with state-promoted institutions serving that goal (e.g. the Development National Finance Company, FND, in Colombia, the Brazilian National Development Bank, BNDES, in Brazil, or the National Infrastructure Fund, FONADIN, in Mexico). The lack of a government-backed financial platform, along with the mentioned challenges in the internal financial market, make it necessary to grant financial support for PPP projects individually through the contractual structure. In order to 'un-clog' the PPP pipeline, some countries have established project development funds to help the authorities fund the heavy costs associated with developing PPP projects (especially mega-projects). In Honduras, a possibility would be to create a fund dedicated to roads in particular, in response to regional needs for resources to undertake large capital investments.

The previous PPP framework did not provide the appropriate incentives and financial support to develop projects, other than those based on the collection of user fees. Before the adoption of the new PPP law, only the BROT-type concessions were used in Honduras. Under the BROT scheme, the private partner is responsible for the improvement of the existing infrastructure and has the right to operate it for the duration of the contract, recovering the investment by collecting user fees.

The new PPP law did not address the lack of financial support platform but introduced new contractual features. For example, the first projects under the new PPP law were awarded under the BROT model but with an MRG clause that made them more appealing to private sector partners. The MRG clause is callable in the event that the user fees do not annually

reach the yearly amount agreed between the private partner and the Government. Under this scheme, the Government compensates for the difference between the actual and the estimated user fee revenues in the following fiscal year. As a consequence, demand risk is only partially transferred to the private partner and the government assumes a contingent liability on these projects. This model has been consistently used by Coalianza and could be a source of fiscal risks via the explicit contingent liability included in these contracts.

The Trust Fund (Fideicomisos) Model

The new features of the PPP law were not enough to really foster the development of the PPP program and in 2009 the Investment Promotion and Protection Law included Trust Funds (*Fideicomisos*) as one of the legal ways of developing PPPs. Since then, the establishment of Trust Funds to structure PPP projects is becoming the predominant way of developing PPPs in Honduras. The trustee supports Coalianza in structuring and financing the PPP project, becoming the fiduciary administrator of the assigned assets whose first goal is precisely to find the private investors/operators. According to the mentioned law, the trustee can even issue bonds (guaranteed by the assets in the Trust Fund) to finance the project. For both terminals in *Puerto Cortes* (container and bulk cargo) and the *Gracias, Lempira* road, a Trust Fund was created and a trustee appointed to structure and finance the projects. These projects went through the PPP approval process for the establishment of the Trust Fund before the project itself was structured and therefore before any potential public commitments were known.

Table 6. Minimum Guarantee Revenue (MRG) and Trust Funds in Already Awarded Projects

Project	MRG	Trust fund
Corredor Logístico de Honduras	YES	NO
Corredor Turístico de Honduras	YES	NO
Carretera de Gracias, Lempira	NO*	YES
Ventanilla única de comercio exterior	NO	NO
Terminal Carga de Puerto Cortés	NO	YES
Terminal de Graneles de Puerto Cortés	NO	YES
Aeropuerto de Palmerola	YES	NO
Siglo XXI. Red Vial de San Pedro de Sula	YES	NO
Ratio	4/8	3/8

Source: Staff elaboration based on Coalianza's database.
* There is no MRG but the investment is to be financed with budgetary funding, as explained below.

Box 3. The jurisdiction and responsibilities of the Trust Funds

- Undertake the necessary legal, technical, and financial studies for each project.
- Cash flow management: Collection of fees or other recurrent revenue payments for the operation of the project for the private operator, Coalianza, and SAPP.
- Selection of the private investor/operator.
- Financial structuring of the project.
- International and national promotion.
- Auditing of the project.
- Monitoring the management of the project once awarded.
- Creation of Trust Funds, SPVs, or other schemes for the adequate implementation of the project.
- Other specifics for each project.
- Manage the financing for the studies and the implementation of the project.
- Exercise the property rights of the Trust assets.
- Transfer the assets back to the government at the end the Trust period.
- Submit the required reports to the Technical Committee.
- Provide services with due diligence and compensate for any reclamation or legal action against the agent.
- Keep the accounts and submit the duly audited financial statements.

The establishment and functioning of the Trust Fund model is as follows: The Government (or the private sector, since a number of the projects come from private initiatives) identifies the projects that it deems important (yet without doing the CBA). The projects are passed to Coalianza for processing. The Trust Fund to administer the project is then awarded by Coalianza, via a public competitive auction, to local Honduran domestic banks. The banks bid on the minimum commission or fee on revenues that they are willing to accept for their administration of the Trust Funds. The winning bank then creates a Trust Fund to process and administer the project.

The role, objectives, and jurisdiction of the Trust Funds are described in Box 3 but, in summary, they carry out studies, coordinate the project, and establish the contract structure. The Trust Fund is reimbursed for the costs of the studies undertaken with resources from the government. The activities of the Trust Fund must be approved by a Technical Committee established for each project, the composition of which is described in Box 4. Once the project and contract structuring has been completed, and approval has been granted by the Technical Committee, the Trust Fund, through its fiduciary agent, the domestic bank, launches a public competitive bidding process whereby interested private firms will bid and compete for the project on the selected economic variables. Once awarded, the project and contract go to Congress for approval and subsequently to SEFIN. Once approved by them, it reverts back to the Trust Fund, which administers the project implementation (as described in the functions listed below), and also supervises the execution of the project.

The Trust Fund creates a separated group of assets managed by the trustee that allows the setting up of contractual structures that may not fully correspond with the idea of a PPP. In the case of the container terminal of *Puerto Cortes*, a private partner was selected to design, finance, build, operate and transfer (DBFOT) the container terminal, thus establishing a typical DBFOT contract with both Coalianza and the trustee as counterparts. However, in the case of the *Gracias, Lempira* road and the bulk cargo terminal of *Puerto Cortes*, the contracts selecting the private investors/operators do not correspond with what is traditionally considered a PPP. In the case of the *Gracias, Lempira* road, a construction contract has been awarded (including maintenance for four years). The cost of the construction will be repaid over a period of 8 years with funds to be assigned to the Trust Fund from the Public Budget of Honduras. Thus, the private contractor finances the project initially but does not operate it. A similar scheme has been set up for the bulk cargo terminal of *Puerto Cortes*, where two different contracts for construction and operation were awarded. The structure of these last two contracts resembles more the traditionally procured infrastructure where the construction and operational risk is borne by the government.

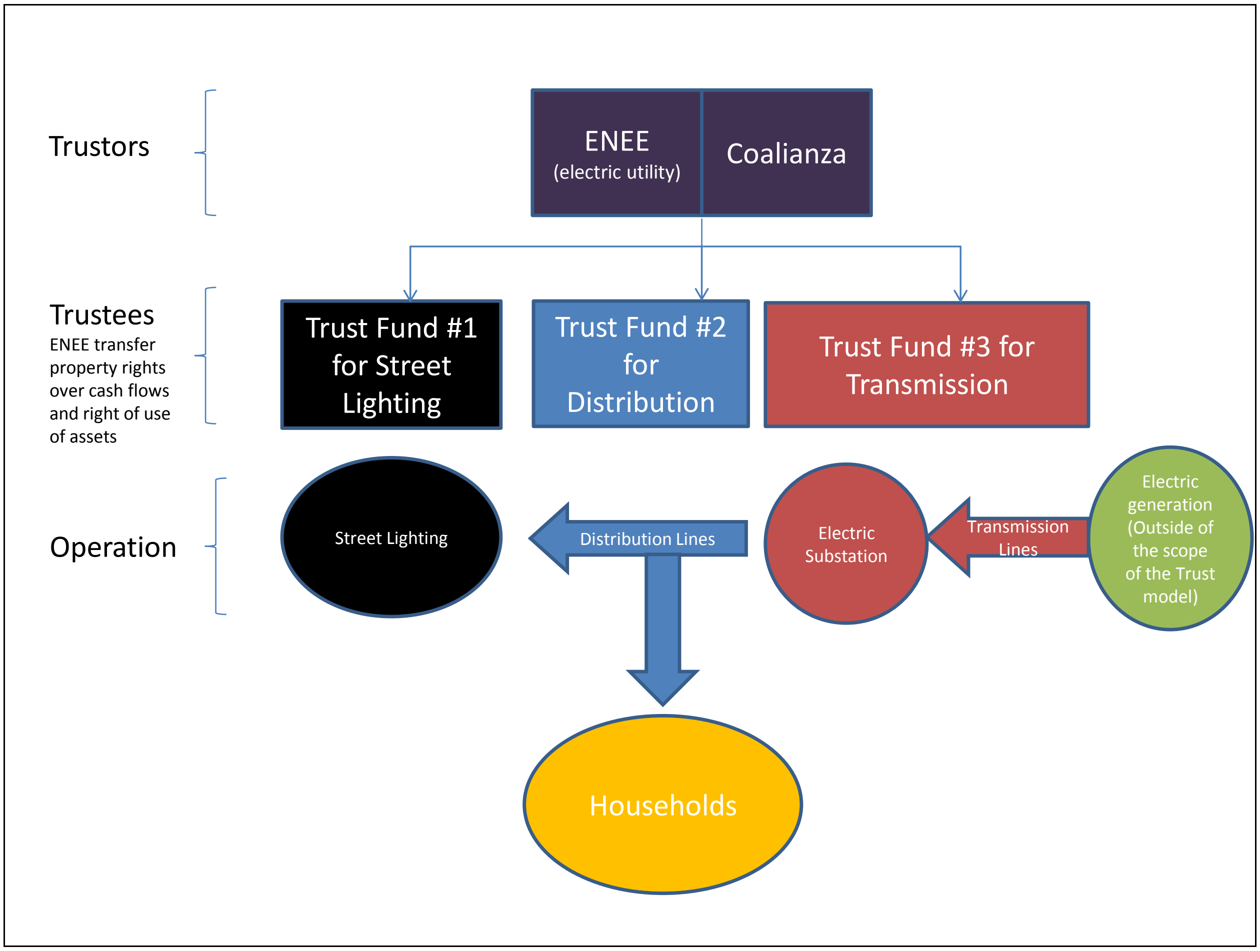
Box 4. Governance Structure of the Trust Fund

All decisions regarding the project are discussed and voted upon by the Trust Fund **Technical Committee**. For each Trust Fund, there is a different Technical Committee. Each Technical Committee has the following 5 members (with minor variations depending on each project):

1. Coalianza
2. Line Ministry or agency responsible for a particular service
3. SEFIN
4. Private Investor/Operator
5. Trustee (Agent Bank, with a voice but no vote)

Besides the above mentioned three projects already awarded, in the PPP pipeline there are another 17 Trust Funds approved as well as 2 more pending government approval or Congressional ratification (see Table 3 regarding the PPP pipeline). For these projects, various domestic banks have already been selected to act as trustees, and Trusts Funds for each of them have been created. To date (October 2014), however, besides the three mentioned, no other PPP project has as yet been awarded to a private operator. Most of the projects in the pipeline are expected to be awarded to private operators in 2015. Among the Trusts Funds already created, it is worth mentioning the three Trust Funds established to implement the reform of the electricity sector of Honduras, the structure of which is shown in the following figure.

Figure 11. Structure of the Trust Fund Model for the Electric Sector Reform



Overall, the use of the Trust Fund model increases the chance of PPPs being awarded and implemented, since the banks that have been awarded the Trust Funds have strong incentives to ensure the awarding of the projects to private operators. They can also additionally facilitate the financing of the PPP projects. Yet the model's main weakness is the lack of certainty that the projects will be well designed and structured and that they will generate the desired level of benefits. In addition, there are questionable incentives for the banks to ensure the quality and transparency of the projects and process. So, in summary, the use of the Trust Fund model encourages the implementation of PPPs but there are high concerns about the quality of the projects that result from it, and about the transparency of the process.

Other Contractual Clauses with Fiscal Implications

Apart from general principles, the legal framework does not establish clear parameters on other relevant issues for the implementation of PPPs, such as risk sharing, renegotiation, early termination, and conflict resolution. The law however enacts measures to ensure the financial operability of the PPPs by allowing for the transfer and securitization of PPPs, if authorized by SAPP. Also, counteracting the lack of any formal financial support platform, the PPP Law Regulations include other features to provide support for PPPs. PPP contracts can include currency convertibility rights. While there are no convertibility clauses in the awarded contracts, six out of the eight projects awarded by Coalianza are denominated in US dollars, effectively transferring the currency risk to the public sector. In addition, PPP contracts can also include tax stability clauses, as in the case of *Siglo XII. Red Vial de San Pedro de Sula*, giving the private partner the right to be compensated for changes in taxation. As a consequence, the final contractual structure that ultimately drives the fiscal implications of a PPP is established on a case by case basis, with substantial discretion held in the hands of Coalianza. This could lead to the unnoticed assumption of fiscal risks.

Table 7. Currency and Tax Regime in Coalianza Awarded Contracts

Project	Currency	Tax regime
Corredor Logístico de Honduras	US $	General tax regime. No exceptions established in the contract
Corredor Turístico de Honduras	US $	General tax regime. No exceptions established in the contract
Carretera de Gracias, Lempira	Lempiras	General tax regime. No exceptions established in the contract
Ventanilla única de comercio exterior	US $	General tax regime. No exceptions established in the contract
Terminal Carga de Puerto Cortés	US $	General Tax Regime. The contract expressly allows for a stability pact
Terminal de Graneles de Puerto Cortés	US $	General tax regime. No exceptions established in the contract
Aeropuerto de Palmerola	US $	General Tax Regime. The contract expressly allows for a stability pact
Siglo XXI. Red Vial de San Pedro de Sula	Lempiras	General Tax Regime. The contract establishes a stability pact
Number of contracts denominated in US $	6/8	
Number of "stability clauses" included	1/8*	

Source: Staff elaboration based on Coalianza's database.
Notes: * Only one of the contracts contains a stability pact. Two other expressly allow for it.

Renegotiation and Disputes

Best practice underlines the necessity of maintaining VfM when renegotiating a PPP contract. The norm suggests that a government should only compensate its private partner in the case of a change of conditions due to discretionary public policy actions. Renegotiation of PPP contracts is widespread in Honduras, despite not having an appropriate framework. For example, less than three years after signing the Airport Network Concession, the President had to create an *ad hoc* Commission to assess and review the contract, leading to Modification Number 1 and the Addendum to Modification Number 1, approved by Legislative Decree 209-2003. The new PPP law also does not regulate a specific procedure for contract renegotiation. However, since Coalianza awarded its first PPP (*Corredor Logistico*, in March, 2012), 3 out of the 8 projects awarded have been modified. It is unclear whether renegotiations in Honduras have occurred as a consequence of government decisions affecting the project, such as a change in tariffs or for any other reason not stated. The lack of a standardized approach being used for the VfM methodology, and for monitoring and evaluation studies, prevents there being an assessment of whether renegotiations have systematically undermined VfM.

Table 8. Modification to Projects Awarded by Coalianza

Project	Execution date	Modification date	Modification concept
Corredor Logístico de Honduras	07/24/2012	11/1/2013 and 02/26/2014	Construction work delay
Corredor Turístico de Honduras	12/14/2012	Not modified	
Carretera de Gracias, Lempira	1/25/2013	29/10/2013	Enlargement
Ventanilla única de comercio exterior	8/22/2012*	Not modified	
Terminal Carga de Puerto Cortés	5/15/2012	Not modified	
Terminal de Graneles de Puerto Cortés	5/15/2012	1/10/2013	Enlargement
Aeropuerto de Palmerola	1/7/2014*	Not modified	
Siglo XXI. Red Vial de San Pedro de Sula	1/17/2014	Not modified	

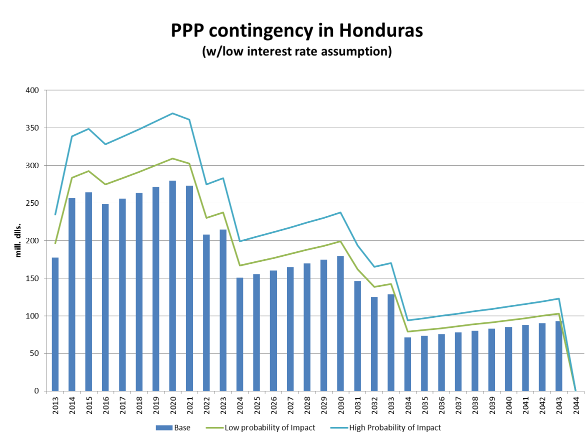
Source: Staff elaboration based on Coalianza's database.
Notes: *Date Awarded. The signed contract is not publically available.

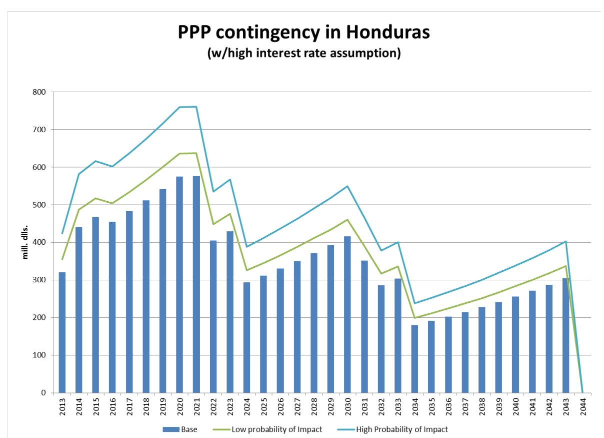
In the first set of renegotiations, Coalianza accepted delays and assumed operating responsibilities, contradicting the spirit of PPPs where construction and operational risk should be transferred to the private partner. The modifications to the *Corredor Logistico* (November 2013 and February 2014) twice delayed the date for the beginning of construction. With the second modification, Coalianza also accepted that it would start collecting fees on one of the toll roads and use that revenue to finance part of the construction.

The other modifications have enlarged the scope of the projects after they were awarded, demonstrating a lack of appropriate planning. Under the previous legal framework, additional investments were incorporated into the Airport Network at an estimated value of US$ 3.6 million. In October 2013, less than a year after the original construction contract was signed in January 2013, an additional section was added to the *Gracias, Lempira* road. The estimated investment of the new section was 576 million Lempiras to be paid over 10 years, increasing the original estimated amount of 344 million Lempiras by 167 percent, and extending the period of payment by 2 years. In a similar fashion, an additional terminal was added to the bulk cargo terminal of *Puerto Cortes* in October 2013, also less than a year and a half after the original contract was signed in May 2015.

An Estimation of the Fiscal Risk

An estimate of the PPPs contingency in Honduras is presented. As we can see, the current portfolio of PPP projects would generate fiscal commitments the government until 2043, accounting for the biggest commitments over the next eight years (2013–2021). As shown, the base scenario projections constitute about payments and two types of intervals were defined, considering joint probabilities of occurrence, low negative-impact and high (green and blue line, respectively). Also, we consider two scenarios for low interest rate (3 percent) and high interest rate (6 percent) and we use it to determine future payments. As we can see, the difference between the projected payments and the contingent scenario can be up to 100 million dollars using the low interest rate for a given year and up to an additional $ 150 million using the high interest rate. That is, if you were to turn the fiscal risk, Honduras could end up having to spend the payments of its portfolio of PPP for a given year up to 150 million dollars additional.





Source: Author's estimation with data from PPI Project Database, World Bank.

Conclusions and Recommendations

In order to develop a sustainable PPP program and to catalyze infrastructure opportunities in the country, the government should focus on strengthening key institutional aspects before its ambitious and much-needed infrastructure investment plan can truly be tackled. These aspects include to:

- Improve the capabilities to develop a PPP program. A clear, transparent and well-managed program could foster investment opportunities under the PPP program. The authorities should strengthen the capability and capacity of SEFIN through the FCU and Coalianza to manage the size and scope of the PPP program. This means improving planning, structuring, and the analysis of risks.

- Despite SEFIN having a stronger role in the PPP decision-making process through the FCU as a result of the PPP Law in 2014, the challenge of implementing a technical methodology to evaluate and make the decision regarding the viability of a project as a PPP remains. A skilled team in the FCU is a necessary condition to make this happen, but other aspects such as transparency in the Cost-Benefit evaluation and VFM must be part of the implementation of the reform.

- In accordance with their duties of identifying, analyzing, monitoring and reporting on fiscal risks, the FCU must monitor and conduct evaluations of the following fiscal considerations:

    - Central government contingent liabilities, including guarantees for PPPs and state-owned enterprise debt to accelerate a number of infrastructure projects and other prioritized projects, guarantees on liabilities and the equity levels of state-owned financial institutions such as export financing institutions, unfunded pension obligations, pending law suits and claims against the government, commitments to international organizations, liabilities with the Central Bank, and the fiscal risks of natural disasters.

    - Sensitivity analysis, including the sensitivity of the budget deficit to changes in macroeconomic assumptions, the sensitivity of a hypothetical budget deficit that includes the contingent liabilities from the mentioned above bullet point, and the sensitivity of the net contribution of taxes, subsidies, transfers, and debt payments to changes in macroeconomic variables.

- Coalianza should not be perceived as a single unified one-stop-shop for PPPs. It should rather be understood as an agency capable of creating available capacity in various forms for assisting the procuring authorities in the PPP approval and implementation process. This may take the form of advice on good processes, the creation of standard contracts, training, and tools for assessing procurement modalities, VfM, and affordability.

  - Improve the accounting and reporting framework by: (i) increasing the coverage of fiscal statistics and ensuring consistency in accounting of all capital spending, including PPPs, carried out by all levels of the public sector; and (ii) developing accounting and reporting guidelines for PPP operations to ensure comprehensive and transparent reporting.

  - Strengthening the accountability process. There is no registration, accounting, or evaluation of the fiscal implications, risks, or commitments of PPP projects, at least available to the public, even when the FCU have it as one of its main responsibilities. It is therefore important that the government reviews and improves the institutional framework by strengthening the specialized PPP team in SEFIN (FCU) to oversee fiscal risks and assess project efficiency and budget affordability through the main stages of the PPP project cycle and rationalizing the internal and external monitoring and oversight functions.

- Strengthen the supervision and regulatory process of the PPPs at all stages (from design to execution). While two institutions have been created to supervise the implementation of PPP contracts (SAPP and FCU), they are still not functional, have not been staffed, and it is unclear how they will evolve. While SAPP is currently focusing on supervising the Trust Funds and projects in the energy sector and FCU is monitoring and approves the implementation of projects as PPPs, the fiduciary agents of the Trust Funds still have some responsibility for overseeing, supervising and regulating their own projects and contracts. That is a notable concern and raises some issues about incentives and conflicts of interest. One way to deal with this is by creating an autonomous organism that can supervise and regulate the process in a transparent manner. Finally, in Honduras, an additional possibility would be to create a fund dedicated to roads in particular, in response to regional needs for resources to undertake large capital investments.

- Standardize the development of PPP projects both under the Trust Fund model and the PPP cycle (through the FCU), the jurisdictions for undertaking and evaluating studies, and

for structuring the projects. There are no norms or terms of reference for the Trust Funds that bind them to undertake analysis studies or project structuring in any particular way, so each Trust Fund does as it sees fit. In addition, studies are only approved ex-post by the Technical Committee.

- Allow access to relevant information. The lack of information availability, such as financial and economic models and other data essential for the authorities to evaluate projects, limits the assessment of the PPP program.

- Strengthen the Trust Fund rules and regulations. Under the Trust Fund model, even the role of Coalianza becomes mainly subsidiary, as it essentially only launches the public auction for the Trust Funds and participates as a member on the Trust Funds' Technical Committees.

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Annex: Location and Functions of Dedicated PPP Units

	Country	Location	Year created	Policy guidance	Technical support	Capacity building	Promotion	Comments
1	**Chile**	Line Ministry	1993	●	○	○	○	There is also a unit within the Ministry of Finance that controls fiscal risk of PPP.
2	**United Kingdom**	Finance Ministry	1997	●	●	●	●	
3	**Korea**	Independent	1999	●	●	●	●	
4	**Italy**	Finance Ministry	1999	○	●	●	●	
5	**Netherlands**	Finance Ministry	1999	●	●	○	○	
6	**South Africa**	Finance Ministry	2000	●	●	●	○	
7	**Japan**	Finance Ministry	2000	●	●	○	○	PFI Promotion Office, within the Cabinet Office.
8	**Poland**	Line Ministry	2001	●	●	○	○	
9	**Hungary**	Finance Ministry	2003	●	●	○	○	The unit was abolished in 2009.
10	**Ireland**	Finance Ministry	2003	●	●	●	●	
11	**Portugal**	Independent	2003	●	●	○	○	
24	**Mexico**	Ministry of Finance	2003	●	○	○	○	Investment Unit within the Ministry of Finance with responsibilities for PPS since 2003 and PPPs since 2012. Other projects are controlled by Line Ministries. FONADIN (BANOBRAS) provides technical support and promotion.
12	**Czech Republic**	Independent	2004	●	●	●	●	
13	**Brazil**	Finance Ministry	2004	●	○	○	○	
14	**France**	Finance Ministry	2005	●	●	○	●	
15	**Denmark**	Line Ministry	2006	●	●	○	●	
16	**Greece**	Finance Ministry	2006	●	●	○	●	
17	**Germany**	Independent	2009	●	●	○	○	Refers to the federal level.
18	**Canada**	Independent	2009	●	●	●	●	
19	**Malaysia**	Prime Minister Office	2009	●	●	○	●	
20	**Honduras**	Independent	2010	●	●	○	●	
21	**India**	Ministry of Finance	2010	●	●	●	●	
22	**Uruguay**	Finance Ministry	2011	●	●	○	○	Besides the PPP unit within the Ministry of Finance, CNC (National Development Corporation) performs PPP promotion activities.
23	**Jamaica**	Line Ministry	2012	●	○	○	●	The PPP Unit is located within the Development Bank of Jamaica. A PPP node was also to be established within the Ministry of Finance and Planning.
25	**Victoria (Australia)**	Finance Ministry	2000	●	●	●	●	
26	**New South Wales (Australia)**	Finance Ministry	2000	●	●	○	●	
27	**Flanders (Belgium)**	Finance Ministry	2002	●	●	●	●	Flemish Government Executive Staff
	Total			26	23	10	16	

Policy guidance including, advising on the content of national legislation; defining eligible sectors and public-private partnership methods/schemes; project procurement and implementation processes; as well as procedures for conflict resolution/termination.
Technical support to government organizations during the various stages of project identification, evaluation, procurement, contract management.
Capacity building including training for public sector officials interested or engaged in PPPs.
PPP promotion among the public and/or private sector, and possibly in international forums

Source: Bank Staff and OECD (2010).