

Honduras Threshold Program: Interim Evaluation Report

Millennium Challenge Corporation



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HONDURAS THRESHOLD PROJECT

Interim Evaluation Report

May 2019

DISCLAIMER

The authors' views expressed in this publication do not necessarily reflect the views of the Millennium Challenge Corporation.

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ACRONYMS

Acronym	English	Spanish (if in text)
AMDC	Central District Municipal Mayoralty	Alcaldía Municipal del Distrito Central
ASJ	Association for a Just Society	Asociación para una Sociedad más Justa
BCH	Central Bank of Honduras	Banco Central de Honduras
CABEI	Central American Bank for Economic Integration	Banco Centroamericano de Integración Económica
CAPTAC	Technical Assistance Regional Center for Central America, Panama and Dominican Republic	Centro de Asistencia Técnica de Centroamérica, Panamá y República Dominicana
CBC	Congressional Budget Commission	
CGR	General Accounting Department	Contaduría General de la República
COALIANZA	Commission for the Promotion of Public-Private Partnerships	Comisión para la Promoción de la Alianza Público-Privada
COCOIN	Internal Audit Committees	Comités de Control Interno
CoST	Construction Sector Transparency Initiative	Iniciativa de Transparencia en Infraestructura
CPC	Certified Public Purchasers	Comprador Público Certificado
CREE	Energy Regulatory Commission	Comisión Reguladora de Energía
CSO	Civil Society Organization	Organización de Sociedad Civil
CUBS	Unified Catalogue of Goods and Services	Catálogo Único de Bienes y Servicios
DARA	Adjunct Department of Customs Taxes	Dirección Adjunta de Rentas Aduaneras
DEI	Executive Department of Revenue	Dirección Ejecutiva de Ingresos
DGP	General Directorate of the Budget	Dirección General de Presupuesto
DIECP	Police Career Evaluation and Investigation Department	Dirección de Investigación y Evaluación de la Carrera Policial
DIGECEBI	General Directorate of School Construction and Real Estate	Dirección General de Construcciones Escolares y Bienes Inmuebles
DPMF	Directorate of Macro-Fiscal Policy	Dirección de Política Macroeconómica
DPT	Police Directorate of Telematics	Dirección Policial de Telemática
EEH	Honduras Energy Company	Empresa Energía Honduras
ENEE	National Electric Energy Company	Empresa Nacional de Energía Eléctrica
ERP	Enterprise Resource Planning System	Sistema de Planificación de Recursos Empresariales
ERR	Economic Rate of Return	
FDsF	Democracy without Borders Foundation	Fundación Democracia sin Fronteras

Acronym	English	Spanish (if in text)
FHIS	Honduran Social Investment Fund	Fondo Hondureño de Inversión Social
FIA	Fiscal Impact Analysis	Análisis de Impacto Fiscal
FIDE	Foundation for Investment and Development of Exports	Fundación para la Inversión y Desarrollo de Exportaciones
FOPRIDEH	Federation of Non-Governmental Organizations for the Development of Honduras	Federación de Organizaciones No Gubernamentales para el Desarrollo de Honduras
FRL	Fiscal Responsibility Law	Ley de Responsabilidad Social
FV	Road Fund	Fondo Vial
GAO	Government Accountability Office	Oficina de Rendición de Cuentas del Gobierno de los Estados Unidos
GDP	Gross Domestic Product	
GoH	Government of Honduras	Gobierno de Honduras
HNL	Honduran Lempiras	
IADB	Inter-American Development Bank	
IFC	International Finance Corporation	
IMAG	Guaranteed Minimal Annual Income	Ingreso Mínimo Anual Garantizado
IMF	International Monetary Fund	Fondo Monetario Internacional
INA	National Agricultural Institute	Instituto Nacional Agrario
INSEP	Secretariat of Infrastructure and Public Services	Secretaría de Infraestructura y Servicios Públicos
INVEST-H	Strategic Investment for Honduras	Inversión Estratégica de Honduras
ITT	Indicator Tracking Table	
KII	Key Informant Interview	
M&E	Monitoring and Evaluation	Monitoreo y Evaluación
MCA	Millennium Challenge Account	Cuenta del Milenio
MCA-H	Millennium Challenge Account - Honduras	Cuenta del Milenio-Honduras
MCC	Millennium Challenge Corporation	Corporación del Desafío del Milenio
MTEF	Medium Term Expenditure Framework	Marco de Gasto a Mediano Plazo
MTMFF	Medium Term Macroeconomic and Fiscal Framework	Marco Macroeconómico y Fiscal a Mediano Plazo
NGOs	Non-governmental Organizations	
OBL	Organic Budget Law	Ley Orgánica del Presupuesto

Acronym	English	Spanish (if in text)
ONADICI	National Office for the Integral Development of Internal Control	Oficina Nacional de Desarrollo Integral de Control Interno
ONCAE	Regulatory Office of Contracting and Acquisitions of Honduras	Oficina Normativa de Contratación y Adquisiciones del Estado
OPS	Pan American Health Organization	Organización Panamericana de Salud
OTA	Office of Technical Assistance	Oficina de Asistencia Técnica
PACC	Annual Procurement Plan	Plan Anual de Compras and Contrataciones
PAG	Annual Expenditure Plans	Programa Anual de Gasto
PEFA	Public Expenditure and Financial Accountability	Gasto Público y Responsabilidad Financiera
PFM	Public Financial Management	Gestión Financiera Pública
PGM	Monthly Expenditure Plans	Planes de Gastos Mensuales
POA	Annual Operational Plan	Plan Operativo Annual
POC	Point of Contact	
PPIV	Multiyear Road Investment Plan	Plan Plurianual de Inversiones Viales
PPP	Public-Private Partnership	Alianzas Público-Privadas
PROHECO	Honduran Program for Community Education	Programa Hondureño de Educación Comunitaria
QER	Quarterly Evaluation Report	Informes de Evaluación Trimestrales
SAPP	Superintendent of Public-Private Partnerships	Superintendencia de Alianza Público Privada
SAR	Revenue Administration Service	Servicio de Administración de Rentas
SBA	Stand-by Arrangement	
SCGG	Secretariat of General Government Coordination	Secretaría de Coordinación General del Gobierno
SEDS	Secretariat of Security	Secretaría de Seguridad
SEDUC	Secretariat of Education	Secretaría de Educación
SEFIN	Secretariat of Finance	Secretaría de Finanzas
SESAL	Secretariat of Health	Secretaría de Salud
SI	Social Impact, Inc.	
SIAFI	Financial Management System	Sistema de Administración Financiera Integrada
SIG	Integrated Management System	Sistema Integral de Gestión

Acronym	English	Spanish (if in text)
SIREP	Public Servants Registration and Control System	Sistema de Registro y Control de Servidores Públicos
SISOCS	System for Information and Follow-up of Public Works and Supervision Contracts	Sistema de Información y Seguimiento de Obras y Contratos de Supervisión
SPS	San Pedro Sula	
TCP	Threshold Country Program	Programa Umbral de País
TGR	General Treasury of the Republic	Tesorería General de la República
TOR	Terms of Reference	
TSA	Treasury Single Account	
TSC	Supreme Audit Tribunal	Tribunal Superior de Cuentas
UCF	Financial Contingencies Unit	Unidad de Contingencias Fiscales
UDEM	Modernization Unit	Unidad de Modernización
UNOPS	United Nations Office for Project Services	
UPEG	Planning and Evaluation Management Unit	Unidad de Planeamiento y Evaluación de Gestión
USAID	United States Agency for International Development	
USD	United States Dollars	
VFM	Value for Money	
WB	World Bank	

EXECUTIVE SUMMARY

Introduction

On August 28, 2013, the Millennium Challenge Corporation (MCC) and the government of Honduras (GoH) signed the Millennium Challenge Account Threshold Program Grant Agreement valued at \$15.6 million. The TCP Project Objectives are to increase the efficiency and transparency of public financial management (PFM) and public private partnership (PPP) with three results: saving the government money, improving service delivery, and reducing corruption. The Honduran TCP, originally scheduled to end in 2017, will now conclude in 2019.

Social Impact, Inc. (SI) was contracted by MCC to design and conduct an evaluation of the Honduras TCP. SI's evaluation approach was approved by MCC in October 2015, and baseline data collection occurred in 2016. This interim report, based solely on document reviews and qualitative data collected primarily in August 2017, examines changes since baseline data collection and offers preliminary responses to most of the 22 evaluation questions MCC has tasked SI with answering. A final round of qualitative and quantitative data collection will occur in 2018 – 2019 at the conclusion of the TCP.

Threshold projects and activities

Public Financial Management Project: The Honduras TCP seeks to support the GoH in improving transparency and government efficiency in PFM through four activities:

- **Activity 1.1: Budget and Treasury Management** provides technical assistance and training for the Secretariat of Finance (SEFIN) and other ministries, such as the Secretariat of Health (SESAL) and the Secretariat of Education (SEDUC), to improve budget analysis and treasury management. It also entails technical assistance and training for the Congressional Budget Commission (CBC) to improve congressional budget oversight capacity. Most activities under 1.1 have been carried out by the U.S. Treasury's Office of Technical Assistance (OTA).
- **Activity 1.2: Improving Procurement Capacity, Planning, and Controls** entails technical assistance to the Regulatory Office of Contracting and Acquisitions of Honduras (ONCAE) and other GoH entities to improve procurement. This activity expands ONCAE's online supply catalogue and promotes the purchase of a new electronic procurement software platform (i.e., HonduCompras).
- **Activity 1.3: Improving Capacity of the Supreme Audit Tribunal (TSC)** aims to strengthen the capacity of the TSC in performance auditing and illicit enrichment analysis.
- **Activity 1.4: Grant Facility for Social Accountability** seeks to increase government accountability by providing grants to Honduran Civil Society Organizations (CSOs) to conduct social accountability projects that assess the quality of spending and service delivery. The centerpiece of this activity is an assessment of key government institutions, via a grant to Association for a More Just Society (ASJ).

Public Private Partnerships Project: The TCP aims to improve transparency and government efficiency in PPPs through two activities:

- **Activity 2.1: Develop Core PPP Capacity** is designed to improve the capacity of and procedures utilized by GoH agencies with key PPP responsibilities to develop and implement PPPs in accordance with best practice. This activity includes support for the government institution responsible for structuring PPPs (COALIANZA), development of manuals and internal procedures, and support for SEFIN in properly identifying and managing fiscal risks in its PPP portfolio.
- **Activity 2.2: Design and Implementation of PPPs** provides specialized technical assistance for the GoH to facilitate the administration of current PPPs and to identify and analyze options for structuring new PPPs. This activity focuses on the Secretariat of Infrastructure and Public Services (INSEP).

Methodology

This interim report is part of a larger longitudinal performance evaluation of MCC's TCP in Honduras that involves diverse data collection activities. This interim report relies on data collected through (1) a review of relevant documentation including consultant deliverables, GoH documentation (e.g., budget reports and improvement plans), evaluations, and audit reports; (2) key informant interviews and group interviews; and (3) where possible, use of monitoring data from the Monitoring and Evaluation (M&E) Plan and Public Expenditure and Financial Accountability (PEFA) indicators.

The PFM interventions provide TCP support for primary partner institutions (e.g., SEFIN, ONCAE, TSC, ASJ) to conduct capacity building, assessment, and audits of targeted government entities. For example, a TCP advisor worked with the TSC, who then conducted performance audits of an agricultural institute, the electrical utility, the customs agency, and a road fund. Interim PFM data collection focused on the primary partner institutions (with an emphasis on SEDUC, SESAL, and INSEP) as well as a sample of targeted institutions across each of the four PFM activities.

PPP data collection focuses on the four primary PPP institutions: the Fiscal Contingencies Unit (UCF), INSEP, COALIANZA, and the Superintendent of Public-Private Partnerships (SAPP). To answer the evaluation questions, we explored the process of structuring, procuring, and managing PPPs across six case studies of projects, including the Civic Center (Centro Cívico) governmental complex, a dam and hydroelectric generation project (El Tablón), and four road projects, the CA-4 Highway, the Logistics Corridor, the Tourist Corridor, and San Pedro Sula Century XXI.

This report provides interim responses to the 22 evaluation questions as derived from data sources across case study institutions and PPPs. The findings section of the report is organized by evaluation question, beginning with core questions on the TCP as a whole (1 – 6), followed by questions on PFM (7 – 16) and finally, questions on PPP activities (17 – 22).

QUESTION 1: Were the Threshold Country Program goals and outcomes, as outlined in the Threshold Country Program document and M&E Plan, achieved? Why or why not?

In this question response, we briefly address the issue of Compact eligibility, one of the stated goals in the Threshold agreement. To be Compact eligible, countries must pass at least 10 of 20 policy performance indicators within the following criteria: (1) at least one pass in each of the categories of economic freedom, ruling justly, and investing in people; (2) a pass in either the political rights or civil liberties indicator; and (3) a pass on the control of corruption indicator. On its 2018 scorecard (based on results released in 2017), Honduras met the first two criteria, but scored just below the median on the control of corruption indicator. While still ineligible, the scorecard shows an improvement since the start of the TCP. The TCP, along with other GoH and International Monetary Fund (IMF) actions, likely played a role in the improved fiscal policy indicator of the scorecard. As noted at baseline, some interviewees were critical of the corruption indicator, suggesting that it does not offer Honduras clear steps to improve its governance-related ratings. TCP goals and outcomes are primarily addressed in Questions 2, 5, and 6.

QUESTION 2: What were the results of the interventions – intended and unintended, positive or negative?

To answer this question, we focused on the outputs, short-term outcomes, and medium-term outcomes laid out in the TCP program logic. With some exceptions, we found that the TCP is on track to achieve the outputs described in the logic across all activity areas.

PFM activities 1.1 (budget and treasury management), 1.2 (procurement), and 1.4 (social accountability) demonstrated progress towards achieving short-term outcomes. The TCP and GoH partners improved budget and treasury management through implementation of a Fiscal Impact Analysis methodology, made progress toward developing a Medium-Term Expenditure Framework (MTEF), and improved budgeting through basic baseline costings. Training and procurement assessments led to improvements in procurement processes in targeted institutions, and budget revisions and the use of circulars pushed improvements in procurement, as did the continued increase in the use of the e-catalogue. Under activity 1.4, ASJ reports led to the production of action plans in the targeted institutions, with improvements noted in three of the four institutions examined here. While these activities established a strong foundation for achieving medium-term outcomes, it is unlikely they can be achieved before TCP ends in 2019. Even if the GoH were able to continue the activities once the TCP ends, stakeholders were doubtful they would be successful without continued technical assistance and funding support by other donors. The TCP fell short of achieving several key short-term objectives due to challenges in implementing activities 1.3 (performance audits) and 2.1 (developing core PPP capacity). Performance audits were discontinued after the initial pilot. With respect to 2.1, PPP selection failed to follow objective criteria, and COALIANZA did not improve its structuring of PPPs. Achievement of most medium-term outcomes appears unlikely for activities 1.3, 2.1, and 2.2.

QUESTION 3: What are the lessons learned and are they applicable to other similar projects?

Lessons learned over the past three years of implementation of TCP include:

- Technical assistance requires the flexibility to adjust interventions as new information becomes available and new opportunities appear.
- Prioritizing flexibility does, however, risk undermining planning and may inhibit articulation of a clear theory of change, basic monitoring, and timeliness.
- By coordinating with existing initiatives, a TCP can build on the momentum of other reform efforts.
- Technical assistance depends on client ownership, which is more likely with technically driven institutions (e.g., SEFIN, ONCAE).
- MCA-H has played an essential role in pushing forward TCP goals and filling gaps in the GoH's capacity.

QUESTION 4: What is the likelihood that the results of the project will be sustained over time?

All four of the PFM activities face substantial sustainability concerns. Under Activity 1.1 (budget and treasury), development of an MTEF and reform to the system for paying vendors are long-term undertakings that will require a sustained effort. Similarly, under Activity 1.2 (procurement), initiatives like the creation of a Certified Public Purchaser have barely begun. The TCP has always recognized the need to incorporate ONCAE staff into the Honduran civil service in order to institutionalize much of its advances. While interviewees were optimistic that this step could still be achieved by the end of the TCP, this outcome has not yet been accomplished despite multi-year MCC pressure and GoH commitment to this goal. Activity 1.3 (performance audits) lost momentum with changes in leadership at the TSC, and as of interim data collection, it was hoped that a new consultancy could inject life into the initiative. For Activity 1.4, the theory of change underlying social audits of government institutions requires on-going citizen oversight of public institutions.

Sustainability is also a concern with the PPPs. The TCP's work with the UCF to develop, formalize, and institutionalize fiscal review of proposed PPPs at various stages offers the greatest promise of sustainability. The SAPP has not received substantial direct TCP support, but it also appears to have institutional capacity to remain viable and relevant in the future. However, sustainability is less likely at COALIANZA and INSEP. COALIANZA, the primary stakeholder in the PPP development process, has actively rejected TCP advice and guidance, and TCP has now withdrawn formal support of the agency. COALIANZA lost significant institutional knowledge when it dismissed nearly half its staff in 2017. Although INSEP created a PPP Unit to manage concessions in 2017, the unit remains without a director and is poorly consolidated. These weaknesses at COALIANZA and INSEP have led to *Inversión Estratégica de Honduras* (INVEST-H) and SEFIN taking over some of their responsibilities.

QUESTION 5: Does the program result in an increase in public sector cost savings, without resulting in deterioration in the quality or value of public expenditure?

The TCP evaluation and TCP monitoring systems lack a mechanism to track cost savings from TCP efforts. There are some examples of cost savings, but much of the savings potential had yet to be realized at interim data collection. TCP-promoted improvements in budget and treasury management (1.1) could lead to cost savings; however, as these reforms are still in their early stages, this remains a longer-term goal. In the area of procurement (1.2), ONCAE's internal studies suggest substantial savings from its electronic catalogue, an internal initiative that has received some TCP support, although many interviewees expressed concern about the quality of the products purchased through the catalogue. Implementation of select ASJ recommendations (e.g., market studies and asset management) can be associated with some savings. With PPPs, TCP-supported analysis of fiscal risk by the UCF has the potential to lead to significant cost savings.

QUESTION 6: Does the program result in an improvement in the quality of public service provision?

As noted in the design document, the evaluation team's research design is not able to provide an accurate and reliable measure of improvements to public services or to attribute such improvements to the TCP. While improved budget and treasury management could lead to improved service delivery, TCP efforts have not yet led to budgets that reflect planned public services nor have such efforts trickled down to improve service delivery. Performance audits are intended to improve public services; however, as of interim data collection, there is no indication that the pilots have had a direct or indirect impact on public service provision. Implementation of ASJ recommendations, such as those related to asset management, might have resulted in some improvements to service delivery. Since the majority of PPPs contracted or under consideration would not otherwise be built, it is possible to say that PPPs have improved or will improve the quality of public services; however, it is less certain if these investments offer or will offer a good value for money.

QUESTION 7: Do partner institutions realize improvement in the effectiveness and efficiency in the processing of invoices and cash management? Why or why not?

Delays in payments to vendors are partly the result of a vicious cycle that begins with institutions that do not always properly plan their monthly expenditures. As a result, the General Treasury of the Republic (TGR) imposes insufficient monthly spending limits on institutions. In response, institutions find creative ways to procure the good and services they need regardless of these limits. While they are able to obtain these items, they do not always have the funds from the TGR to pay for them, resulting in payment delays to vendors. The cycle is exacerbated by initial budgets that are often below what will eventually be spent and by modifications made to the overall budget during the course of the year, both of which undermine

institutions' expenditure planning. TCP efforts to improve timely payments to vendors has struggled with how to break this cycle. Recognizing that procurement planning is the basis for expenditure planning, the TCP has identified the annual procurement plans (PACC) as the entry point for addressing some of these challenges. As a result, the TCP merged its budgeting work with procurement planning to produce more accurate monthly predictions of procurement needs, which in turn should lead to improved cash management. Furthermore, with TCP support, SEFIN has been working to close the loopholes that allow institutions to procure goods and services without financial commitments. On the payroll side, the current strengthening and partial automation of the payroll system (SIREP), together with a new platform under development to improve the payment prioritization process at TGR, may also deliver improvements in cash management efficiency. If successful, the approach could be an important contributing factor to treasury management reforms; however, these efforts remain dependent on the reactions and buy-in among government institutions within the limited time remaining in the TCP.

QUESTION 8: Does the accuracy of revenue forecasting increase? Why or why not?

Revenue forecasts constitute a key part of a MTEF. One intermittent consultant provided revenue forecasting technical assistance through eight in-country missions over a period of two years. As of data collection, there had been minimal changes to revenue forecasting despite termination of technical assistance in November 2016. Efforts to add additional time series data to the model did not move forward after SEFIN's Modernization Unit's (UDEM) programmer left. In addition, while the consultant promoted microsimulation models, this methodology is not being used. Efforts to promote consensus on revenue forecasting have also not born fruit. The effectiveness of the technical assistant was handicapped by the dissolution of a key stakeholder at the time of the consultancy, the Executive Department of Revenue (DEI), now reinstated as the Revenue Administration Service (SAR).

QUESTION 9: Does the accuracy of budgeting increase in partner institutions? Why or why not?

Since baseline, OTA's workplan has been streamlined and more focused on the objective of "Strengthening the MTEF." With TCP support, the GoH has realized substantial advances towards an MTEF and a more accurate and reliable budgeting process:

- SEFIN's Directorate of Macro-Fiscal Policy (DPMF) now produces a macroeconomic and fiscal framework (MTMFF).
- SEFIN's General Directorate of the Budget (DGP) scaled up baseline budgeting to 44 institutions for the 2017 budget cycle.
- Progress has been made in building capacity for Fiscal Impact Analysis (FIA).
- The CBC has improved its budget preparation and budget execution hearing processes.

The TCP, OTA, and other advisors deserve credit for these advances through initial support for the MTMFF, work promoting baseline budgeting and FIA, and collaboration with the CBC. IMF-promoted

legal reforms and the passage of the Fiscal Responsibility Law have complemented TCP efforts. Most importantly, the TCP-promoted reforms have been championed in SEFIN, which has taken up and led baseline budgeting and FIA processes.

While these advances are important, MTEF efforts are still at what Allen et al. would characterize as an “elementary stage.”¹ At the time of data collection, baseline budgeting was still not informing the final budgets, and there was no reconciliation process in place to ensure that it does so.² In addition, FIA is not incorporated into the baseline budgeting process. There are several reasons for these limitations. First, changes to budgeting processes are inherently a medium- to long-term process as new innovations can only be tested once a year. Second, there are some legal limitations as an MTEF is not yet included in any existing legislation, and FIA does not have a strong legal foundation. While the current budget law has been undergoing a revision process, a new law has not passed. Third, there is some uncertainty about the direction that budget reform will take and who will take the lead. SEFIN has traditionally been responsible for the budget and has been promoting the MTEF; however, the Secretariat of General Government Coordination (SCGG) has become involved in the budget process and has been formally tasked by the president to ensure a results-based budgeting process.

QUESTION 10: Does the budget reporting and reporting of budget challenges improve in partner institutions? Why or why not?

The TCP identified, designed, and supported a series of relevant and appropriate interventions to improve budget monitoring, reporting, and scrutiny. Good progress was made in improving the Quarterly Evaluation Reports submitted by institutions to SEFIN and eventually to Congress. The revisions dramatically shortened the Quarterly Evaluation Reports (QERs), while also making them more useful in budget analysis, budget reporting, and the monitoring of budget execution challenges at the institutions. Nonetheless, congressional interest has been minimal, and the reports, while formally adopted, are reportedly not being used for oversight or to inform budget preparation.

QUESTION 11: Do procurement assessment recommendations lead to changes in practices?

One of the primary activities of the TCP’s procurement intervention is promoting evaluations of procurement processes in GoH institutions. We found that procurement evaluations - and the procurement evaluators - were viewed positively by almost all interviewees. The evaluation reports include recommendations that if implemented would result in meaningful changes. We also see some positive steps in implementing these recommendations, including reported improvements in PACCs, increased use of standardized documents in the Road Fund and INSEP, a stated commitment to avoid

¹ Allen, R. et al. (2017). Medium-Term Budget Frameworks in Sub-Saharan African Countries. International Monetary Fund. Retrieved from: <https://www.imf.org/en/Publications/WP/Issues/2017/09/11/Medium-Term-Budget-Frameworks-in-Sub-Saharan-African-Countries-45093>

² One reviewer reports that reconciliation is expected to be implemented with the 2019 budget process.

subdividing procurements in SESAL and SEDUC, reported increased use of HonduCompras, and improved evaluation processes.

Significantly, evaluation recommendations are supported by a host of other complementary actions being taken by ONCAE with TCP support. These actions include regulatory reforms (through circulars, budget guidelines, and proposed changes to procurement regulations), a robust training program, a forthcoming certification program, development of tools (e.g., improved PACC templates), forthcoming changes to HonduCompras, and the e-catalogue. The assessment findings also seem to have played a role in the dissolution of the Road Fund (FV) and the transfer of its functions to MCA-Honduras (recently renamed INVEST-H).

While there is clear progress on some recommendations, other recommendations seem unlikely to be implemented. In particular, interviewees tended to be defensive about allegations of possible procurement subdivisions and the extensive use of private procurements. Despite the potentially important exception of posting these procurements to HonduCompras, interviews did not suggest adoption of improved methodologies for selecting shortlists in private procurements (those only requiring three quotes) or an increase in public procurements.

Procurement reform in a context like Honduras must overcome the often quiet opposition from those that benefit from the status quo. It is not clear if in the absence of a more robust accountability mechanism to identify problems and the efforts to provide tools and train personnel in the correct way to conduct procurements will be sufficient to overcome the perverse incentives that drive procurement abuses. The certification program proposed by the ONCAE advisors offers a potential means to create accountability; however, to be effective, this initiative will require efforts beyond the end of the TCP.

QUESTION 12: Does business confidence in public procurements and participation in procurements increase? Why or why not? What explains variation in perceptions of fairness of the procurement process?

This question will be addressed at endline based on the results of the vendor survey.

QUESTION 13: Do changes to systems and processes reduce opportunities for corruption and/or improve perceptions of corruption in PFM?

Due to the illicit nature of corruption, it is difficult to know if corruption is increasing or decreasing in most contexts. Given this measurement challenge, this question asks about opportunities for corruption and perceptions of corruption, the latter of which will be addressed at endline. A focus on “opportunities for corruption” has its own methodological limitations, as corrupt actors might open new opportunities as old ones close.

Under these circumstances, it is difficult to know if the TCP is having an effect on corruption or even opportunities for corruption. It is important to note that none of the TCP interventions tackle corruption directly. The gathering of extensive evidence of irregularities in payment, procurement, and human

resources is not aimed at holding officials accountable. These studies have, however, produced an extensive diagnostic of the problems and generated a host of valuable proposals to address them. Some short-term wins have been realized, including increased competition in some traditionally closed private procurements, civil society participation in hiring processes in SESAL and SEDUC, and fewer opportunities for theft of goods in the Security Secretariat (SEDS). Proposals such as the creation of Certified Public Purchasers offer the potential for long-term impacts; however, these remain nascent reforms that will require support and oversight long past the close of the TCP.

QUESTION 14: Do performance audit recommendations lead to changes in practices?

Performance audits of the customs agency (DARA), the FV, the electrical utility (ENEE), and the National Agricultural Institute (INA) identified important findings and concerns affecting the performance of these institutions. These results are available to the public, representing an advance transparency. However, as of interim data collection, there had been only very limited advances in implementing recommendations in DARA and FV, and the team was unable to verify if any progress had occurred in ENEE and INA. While there could be consequences for failing to implement TSC recommendations, a recent analysis finds that almost half of TSC recommendations are not implemented. Unlike the procurement evaluations, the performance audits are not connected to other reform efforts. That is to say, they are not supported by other complementary efforts to foster institutional change. In addition, although the TSC has a follow-up process in place, follow-up efforts are poorly staffed, poorly resourced, do not include the original auditors that are familiar with the problem, and occur long after the audit is completed. The public nature of the audits could create incentives to implement the reforms; however, follow-up results are not publicly available, and a review of online media sources yielded only one media reference to any of the four performance audits. Finally, no performance audits were conducted in 2017, and the future of performance auditing in the TSC is unclear. The deployment of a former GAO auditor in October 2017 might inject new life into performance audits in the TSC.

QUESTION 15: Does civil society oversight and recommendations lead to changes in targeted institutions?

Through the TCP, four civil society organizations were provided grants to foster social accountability. As laid out in the evaluation design report, the evaluation focuses on the grant awarded to the ASJ to conduct annual institutional assessments. ASJ's TCP-supported oversight of government institutions is an innovative example of civil society oversight. Their research methodology is sound; their reporting is well presented; and their researchers are well regarded by interviewees. The organization can point to several improvements in targeted institutions. With strong presidential backing, SEDS has been consistently the most receptive to ASJ's work. SEDS' Improvement Plan was the most ambitious; they have engaged ASJ to provide technical assistance and oversight in other areas, and they have made the most radical changes over the course of the intervention. These changes include legal reforms, procurement and successful application of an ERP (Enterprise Resource Planning System), and substantial improvements in record keeping for both asset management and human resources. Although it is difficult to parse out

the effects of TCP funding compared with funding provided through other initiatives, the TCP activities deserve part of the credit for these advances.

Results have been less dramatic in SEDUC and SESAL; however, both institutions have opened up their hiring processes to civil society oversight and improved processes and documentation. It is perhaps too early to expect advances in INSEP; however, the evaluation team observed strong resistance among INSEP operational staff to ASJ findings, raising concerns about the likely impact of the initiative on INSEP.

The likely keys to ASJ's success include (1) direct presidential support, (2) the relatively high-profile, public nature of the reports, (3) complementarity of other efforts (e.g., ASJ's participation in the police reform commission, the TCP's work with ONCAE), and (4) a monthly follow-up process coupled with detailed follow-up reports. Despite these successes, ASJ and the TCP still confront several challenges. ASJ has altered its approach to make the initiative more manageable, and ASJ has struggled to overcome institutions' concerns with the methodology (e.g., considering new documentation as part of the revision process). In addition, the success of the initiative has depended on presidential political support and TCP financial support, raising concerns about the sustainability of the initiative.

QUESTION 16: Are there improvements in public employees' perceptions of human resources practices and procurement practices in targeted institutions?

This question will be answered at endline with the results of the public employees' survey.

QUESTION 18: Are there improvements in the efficiency and effectiveness of the process for developing and structuring PPPs?

We present Question 18 prior to Question 17 in this report because developing and structuring of PPPs, the topic of this question, comes before the tendering process, the topic of Question 17. With TCP support, there have clearly been some improvements in the effectiveness of the structuring process for PPPs. Several projects have entered the procurement phase with a stronger foundation, including the CA-4 Highway, El Tablón hydroelectric plant, and the Civic Center. Furthermore, the TCP has helped UCF develop its capacity to limit fiscal risk to the GoH. However, with the important exception of UCF, TCP, and INVEST-H interventions are best characterized as stop-gap measures to shore up weaknesses in the existing institutions, particularly in COALIANZA. The CA-4 Highway project was transferred from COALIANZA to UCF for restructuring, and El Tablón was transferred to INVEST-H. As of interim data collection, COALIANZA continued to suffer from problems of perverse incentives from its funding mechanism, politicization, and dependence on external advisors. COALIANZA recently suffered a dramatic loss in staff, and MCC has notified the government that it will no longer work with the institution. All these factors leave the fate of this central actor uncertain. INSEP and SAPP continue to have little input in the structuring process, although INSEP, through its involvement with TCP, participated in the restructuring the CA-4 in this stage of the process for the first time.

QUESTION 17: Does the PPP procurement process adhere to best practice?

In contrast to international best practice, the PPP tendering process used in the case studies examined here excessively limits the discretion of evaluation committees. At the prequalification stage, committee members only note if a potential concessionaire meets a criterion or not. At the bid stage, only the bid amount is used to determine award. This is contrary to international best practice, as it does not allow for an evaluation of the comparative strengths and weaknesses of potential bidders and their technical and financial proposals. Furthermore, there is typically no competitive dialogue to address final issues and ensure clarity between project sponsors and a preferred bidder. In the recent case of the Civic Center, however, the two bidding consortia were required to present their projects to the evaluation committee, a step closer to a competitive dialogue. The evaluation committee for the Civic Center was also more diverse than had been in the past, with participation from COALIANZA, Banco LAFISE, SEFIN, and the National Department of State Assets (*Dirección Nacional de Bienes del Estado*), who would be responsible for overseeing the Civic Center. While this suggests some improvement in the tendering process, it is not clear if this is the result of learning or a one-time consequence of SEFIN's involvement as the sponsoring institution. In general, the tender process does not appreciate the complex, long-term contractual relations for which the public sector must be appropriately prepared, and the private sector effectively evaluated and selected.

QUESTION 19: Are there improvements in the efficiency and effectiveness of the process for managing PPPs?

As of interim data collection, we continue to observe contract management challenges related to rights of way, government delays, and social protest, all of which have resulted in increased costs to the GoH and undermined the value for money (VFM) of PPPs. Many of these problems are rooted in how the projects were originally structured and procured. Unfortunately, it appears that despite TCP technical assistance, the CA-4 is likely to make some of these same contracting mistakes, including setting unrealistic deadlines to resolve right of way issues and employing overly optimistic revenue estimations.

Improvements in contract management are evidenced by INSEP's lead in project technical committees and by SAPP's roll out of an online informatics system. In addition, construction on the SPS Century XXI and Civic Center projects appears to be progressing. Nonetheless, the failure on the part of INSEP to consolidate a PPP Concession Unit despite TCP financial and technical support remains a major concern.

QUESTION 20: To what extent does the project facilitate greater capacity and coordination for PPPs within GoH?

As noted throughout the PPP section of this report, capacity and coordination remain low. The PPP training program is without question a step in the right direction, and it appears to be well taught and well received. Nonetheless, the training comes late in the TCP, representing a missed opportunity to use the training to build inter-institutional coordination and dialogue at an early stage of the TCP. While INSEP

and COALIANZA personnel have attended the trainings and accepted some support from the TCP, COALIANZA, to a large extent, and INSEP, to a lesser extent, have failed to take proper advantage of TCP resources and technical support. At the most basic level, COALIANZA has not adopted a more collaborative approach and INSEP has not consolidated a PPP unit, a key TCP milestone. Only the UCF appears to have taken advantage of the TCP to increase its capacity to analyze and mitigate the fiscal risks of PPP projects.

QUESTION 21: Do the systems put in place by the project reduce opportunities for corruption or improve perceptions regarding corruption?

According to the program logic, the TCP aims to reduce opportunities for corruption in PPPs through support for the UCF, who conducts financial reviews of PPPs, at three distinct points in the process. While external financial review by the UCF might catch gross instances of corruption, identification of corruption is not an expressed goal of UCF's activities. The TCP has also sought to reduce corruption in the business permitting process through its support for Foundation for Investment and Development of Exports (FIDE). However, the FIDE contract was cancelled in October 2016 for falling short of its intended objectives and its activities were not explored by the evaluation team.

QUESTION 22: Does the project result in greater transparency and awareness of PPP procedures for government, private sector, and civil society groups?

As the PPP program has evolved, and the information publicly available has also expanded. The COALIANZA and SAPP websites now carry extensive information on the various projects, partly due to increased transparency (e.g., the roll out of SAPP's website) and partly due to the generation of additional documentation (e.g., the value for money study of the Civic Center). While there is an overall increase in the availability of information, it does not appear that the TCP has played a direct role in this increase. In addition, while the value for money (VFM) study of the Civic Center is publicly available, we were unable to find the UCF's fiscal risk assessments, which should also be made publicly available.

RESUMEN EJECUTIVO

Introducción

El 28 de agosto de 2013, la Corporación del Desafío del Milenio (MCC, por sus siglas en inglés) y el Gobierno de Honduras firmaron un Acuerdo de Subvención para un Programa Umbral de País (TCP, por sus siglas en inglés) de la MCC valorado en 15.6 millones de dólares americanos. Los Objetivos del Proyecto del Programa Umbral tiene como objetivo aumentar la eficiencia y transparencia de la gestión financiera pública (GFP) y las alianzas público-privadas (APP) con tres resultados: ahorro del dinero del

gobierno, mejora de la prestación de servicios y reducción de la corrupción. El Programa Umbral de Honduras estaba planificado para concluir en 2017, sin embargo, se extendió hasta 2018.

Social Impact, Inc. (SI) fue contratada por la MCC para desarrollar y llevar a cabo una evaluación del Programa Umbral de Honduras. El enfoque de la evaluación de SI fue aprobado por la MCC en octubre de 2015 y la recolección de datos de línea de base se realizó en 2016. Este informe intermedio, basado únicamente en revisiones documentales y datos cualitativos recolectados principalmente en agosto de 2017, examina cambios desde la recolección de datos de línea de base y ofrece respuestas preliminares a la mayor parte de las preguntas de evaluación. Una ronda final de recolección de datos cuantitativos y cualitativos se llevará a cabo en 2018-2019 al concluir el Programa Umbral.

Proyectos y actividades del Programa Umbral

Proyecto gestión financiera pública: El Programa Umbral Honduras busca apoyar al Gobierno de Honduras en la mejora de la transparencia y eficiencia gubernamental en la GFP a través de cuatro actividades:

- **Actividad 1.1 Gestión presupuestaria y de la tesorería** implica asistencia técnica y capacitación para la Secretaría de Finanzas (SEFIN) y las secretarías de línea, tal como la Secretaría de Salud (SESAL) y la Secretaría de Educación (SEDUC), para mejorar el análisis presupuestario y aspectos de la gestión de la tesorería. También implica asistencia técnica y capacitación para la Comisión de Presupuesto del Congreso Nacional para mejorar la capacidad de supervisión presupuestaria. La mayoría de las actividades bajo el inciso 1.1 han sido llevadas a cabo por la Oficina de Asistencia Técnica (OTA, por sus siglas en inglés) del departamento del Tesoro de los Estados Unidos.
- **Actividad 1.2 Mejorar la capacidad de las contrataciones, planificación y controles** implica asistencia técnica para la Oficina Nacional de Regulación de Contrataciones y Adquisiciones del Estado de Honduras (ONCAE) y otras entidades gubernamentales para mejorar las contrataciones. Esta actividad también implica la ampliación del catálogo de oferta en línea de ONCAE.
- **Actividad 1.3 Mejorar la capacidad del Tribunal Superior de Cuentas (TSC)** está diseñada para fortalecer la capacidad del TSC en auditorías de desempeño.
- **Actividad 1.4 Facilidad de la concesión para la responsabilidad social** proporciona fondos a Organizaciones de la Sociedad Civil (OSC) hondureñas para que inicien proyectos de responsabilidad social que evalúen la calidad del gasto y los servicios prestados con el fin de aumentar la rendición de cuentas del Gobierno. El eje de esta actividad ha sido el proyecto de la Asociación Por una sociedad Más Justa (ASJ) para evaluar las instituciones gubernamentales clave.

Proyecto alianzas público-privadas: El Programa Umbral también busca mejorar la transparencia y la eficiencia del gobierno en las APP por medio de dos conjuntos de actividades:

- **Actividad 2.1 Desarrollo de la capacidad principal de APP** está diseñada para mejorar la capacidad de y los procedimientos utilizados por las instituciones del Gobierno de Honduras con

responsabilidades clave de APP para desarrollarlas e implementarlas de acuerdo con las mejores prácticas. Esta actividad incluye apoyo para la institución gubernamental responsable de estructurar APP, la Comisión para la Promoción de la Alianza Público-Privada (COALIANZA), desarrollo de manuales y procedimientos internos y apoyo a la Secretaría de Finanzas (SEFIN) para identificar y manejar apropiadamente los riesgos fiscales en su cartera de APP.

- **Actividad 2.2 Diseño e implementación de APP** brinda asistencia técnica especializada al Gobierno de Honduras para facilitar la administración de APP actuales y para identificar y analizar opciones para la estructuración de una nueva APP. Esta actividad se enfoca en la Secretaría de Infraestructura y Servicios Públicos (INSEP).

Metodología de evaluación

Este informe intermedio es parte de una evaluación de desempeño longitudinal más extensa del Programa Umbral de la MCC en Honduras, el cual involucra diversas actividades de recolección de datos. Este informe intermedio se basa en (1) una revisión de los documentos relevantes, incluyendo los entregables de los consultores, la documentación del Gobierno de Honduras (por ejemplo, informes presupuestarios, planes de mejora) e informes de evaluación y auditoría, (2) entrevistas con informantes clave y entrevistas en grupo y (3) donde fuese posible, el uso de datos de monitoreo del Plan de Monitoreo y Evaluación (M&E) e indicadores del Gasto Público y Responsabilidad Financiera (PEFA por sus siglas en inglés).

Todas las intervenciones de la GFP implican apoyo del Programa Umbral a una institución primaria social (SEFIN, ONCAE, TSC y ASJ); que luego se orienta a una serie de instituciones gubernamentales ya sea para actividades de creación de capacidades, una evaluación/auditoría o una combinación de ambas. Por ejemplo, en el caso de las auditorías de desempeño, un asesor del Programa Umbral trabajó con el TSC, que luego realizó auditorías de desempeño de un instituto agrícola, la empresa de energía eléctrica, la agencia de aduanas y fondo vial. La recolección de datos intermedios de la GFP se centró en estas instituciones sociales primarias y en una muestra de instituciones seleccionadas en cada una de las cuatro actividades de la GFP. Mantenemos un enfoque particular en la Secretaría de Educación (SEDUC), la Secretaría de Salud (SESAL) y la INSEP.

La recopilación de datos de APP se enfoca en las principales instituciones APP de la Unidad de Contingencias Fiscales (UCF), INSEP, COALIANZA y la Superintendencia de Asociaciones Público-Privadas (SAPP). Para responder las preguntas de evaluación, exploramos el proceso de estructurar, procurar y administrar APP en seis estudios de casos, incluidos cuatro proyectos viales: la Carretera CA-4, el corredor logístico, el corredor turístico, San Pedro Sula Siglo XXI, el Complejo gubernamental (Centro Cívico) y un proyecto de represa y generación hidroeléctrica (El Tablón).

Utilizando estas fuentes de datos en las instituciones de estudio de casos y APP se proporcionan respuestas intermedias a 22 preguntas de evaluación. La sección de hallazgos del informe está organizada por pregunta de evaluación. Se comienza con preguntas básicas sobre el Programa Umbral como un todo (Preguntas 1 – 6), seguidas de diez preguntas sobre la GFP (Preguntas 7 – 16) y seis preguntas sobre actividades de APP (Preguntas 17 – 22).

PREGUNTA 1: ¿Se lograron los objetivos y resultados del Programa Umbral de País tal como están descritos en el documento de Programa Umbral de País y el Plan de M&E? ¿Por qué o por qué no?

Los objetivos y resultados del Programa Umbral son abordados principalmente a un alto nivel en las preguntas 2, 5 y 6. En la respuesta a esta pregunta se aborda de forma breve el tema de la elegibilidad a compactos, uno de los objetivos indicados del acuerdo Umbral. Para ser elegible, los países deben (1) aprobar al menos 10 de 20 indicadores de desempeño de políticas, con al menos una aprobación en cada una de las tres categorías (libertad económica, gobernar con justicia e inversión en la gente), (2) aprobar ya sea el indicador de Derechos Políticos o Libertades Civiles, y (3) aprobar el indicador de Control de corrupción. Respecto a la puntuación de 2018 publicada en septiembre de 2017, Honduras cumple con los dos primeros criterios; sin embargo, obtuvo un puntaje justo por debajo de la mediana en el indicador de control de corrupción. Si bien aún no es elegible, esto representa una mejora con respecto a la línea de base. Adicionalmente, el Programa Umbral, junto con otras acciones del Fondo Monetario Internacional (FMI) y el Gobierno de Honduras, probablemente desempeñó un papel en la mejora del puntaje del indicador de política fiscal. Como se señaló al inicio del estudio, algunos de los entrevistados criticaron el indicador de corrupción, el cual no ofrece a Honduras pasos claros para mejorar sus calificaciones relacionadas con la gobernabilidad.

PREGUNTA 2: ¿Cuáles fueron los resultados de las intervenciones – intencionados o no intencionados, positivos o negativos?

Para responder a esta pregunta, nos enfocamos en los productos, resultados a corto plazo y resultados a mediano plazo expuestos en la lógica del Programa Umbral. Con algunas excepciones, encontramos que el Programa Umbral se encamina a lograr los resultados establecidos en la lógica a través de todas las áreas de actividad.

Las actividades de la GFP 1.1. (gestión presupuestaria y de la tesorería), 1.2 (contrataciones) y 1.4 (responsabilidad social) también demuestran progreso en el logro de los resultados a corto plazo. Para la actividad 1.1 esto incluye la implementación de una metodología de Análisis de Impacto Fiscal, un progreso constante en el desarrollo de un Marco de Gasto a Mediano Plazo (MGMP) y una mejor elaboración de presupuestos a través de costeos básicos de línea de base. En el área de contrataciones (1.2), el uso del catálogo electrónico continúa aumentando, las capacitaciones y las evaluaciones de contrataciones ya han conducido a algunas mejoras en los procesos de contratación en las instituciones seleccionadas, y las revisiones de las disposiciones presupuestarias y las emisiones de circulares han mejorado el marco regulatorio. Bajo la actividad 1.4, los informes de la ASJ han resultado en la producción de planes de acción en las instituciones seleccionadas y es posible señalar mejoras en tres de las cuatro instituciones examinadas aquí. Si bien estas actividades han sentado una base sólida para lograr resultados a mediano plazo, es poco probable que se logren antes del final del Programa Umbral. Aunque en principio el Gobierno de Honduras puede continuar estas actividades después de concluido el Programa Umbral, existe una percepción muy fuerte entre los involucrados que será importante que otros donantes adopten la asistencia técnica y el apoyo financiero para que estos objetivos se cumplan.

Los desafíos en la implementación de las actividades 1.3 (auditorías de desempeño) y 2.1 (desarrollo de la capacidad principal de APP) han provocado que el Programa Umbral no logre alcanzar varios objetivos clave a corto plazo. Hasta la etapa intermedia de recolección de datos, las auditorías de desempeño no se han continuado después del piloto inicial. Con las APP, el proceso de selección de APP no se basó en criterios objetivos y COALIANZA no mejoró su estructuración de APP. El logro de la mayoría de los resultados a mediano plazo parece improbable para las actividades 1.3, 2.1 y 2.2.

PREGUNTA 3: ¿Cuáles son las lecciones aprendidas y son estas aplicables a otros proyectos similares?

Después de casi tres años de implementación, se observan varias lecciones aprendidas del Programa Umbral con aplicaciones a proyectos similares.

- La asistencia técnica requiere de la flexibilidad para ajustar las intervenciones a medida que se dispone de nueva información y surgen nuevas oportunidades.
- El priorizar la flexibilidad, sin embargo, arriesga menoscabar la planificación, la articulación de una teoría de cambio clara, el monitoreo básico y la puntualidad.
- Al coordinarse con iniciativas existentes, un Programa Umbral puede aprovechar el impulso de otros esfuerzos de reforma.
- La asistencia técnica depende de la apropiación del cliente, la cual es más probable con instituciones impulsadas técnicamente (e.g., SEFIN, ONCAE).
- La Cuenta del Milenio-Honduras (MCA-H) ha jugado un papel esencial para impulsar los objetivos del Programa Umbral y llenar los vacíos en la capacidad del Gobierno de Honduras.

PREGUNTA 4: ¿Cuál es la probabilidad de que los resultados del proyecto sean sostenibles a través del tiempo?

Las cuatro actividades de la GFP enfrentan sustanciales problemas de sostenibilidad. En la actividad 1.1 (presupuesto y tesorería), el desarrollo de un MGMP y la reforma del sistema de proveedores de pago son compromisos a largo plazo que requerirán un esfuerzo sostenido. De manera similar, en la actividad 1.2 (contrataciones), iniciativas como la creación de un Comprador Público Certificado se encuentran en un estado naciente. Desde el principio, el Programa Umbral ha reconocido la necesidad de incorporar al personal de la ONCAE al régimen de servicio civil hondureño para institucionalizar gran parte de sus avances. Si bien los entrevistados se mostraron optimistas de que esto se lograría para el final del Programa Umbral, es preocupante que este resultado no se ha logrado, aun con la presión multianual de la MCC y a pesar del compromiso establecido del Gobierno de Honduras de incorporar el personal de la ONCAE dentro del servicio civil. La Actividad 1.3 (auditorías de desempeño) había perdido ímpetu con los cambios en el liderazgo en el TSC y, a hasta la etapa intermedia de recolección de datos, se esperaba que una nueva consultoría pudiera inyectar vida a la iniciativa. Para el área 1.4, la teoría del cambio que subyace a las auditorías sociales de las instituciones gubernamentales requiere de una supervisión ciudadana continua de las instituciones públicas.

La sostenibilidad también sigue siendo una preocupación con las APP. Desde un punto de vista positivo, el trabajo del Programa Umbral con la UCF para desarrollar, formalizar e institucionalizar la revisión fiscal de las APP propuestas en varias etapas ofrece la mayor promesa de sostenibilidad. Adicionalmente, aunque la SAPP no ha recibido un apoyo sustancial directo del Programa Umbral, parece tener capacidad institucional para seguir siendo viable y relevante en el futuro. Por otro lado, sin embargo, hay problemas de sostenibilidad críticos en COALIANZA e INSEP. COALIANZA, la principal parte interesada en el proceso de desarrollo de APP, ha rechazado activamente el asesoramiento y la orientación del Programa Umbral, y el Programa Umbral ahora ha retirado el apoyo formal. Adicionalmente, la institución despidió a casi la mitad de su personal en 2017, contribuyendo aún más a la pérdida de conocimiento institucional. Aunque INSEP creó una Unidad de APP para administrar concesiones en 2017, la unidad permanece sin un director y está poco consolidada. Estas debilidades en COALIANZA e INSEP han llevado a *Inversión Estratégica de Honduras* (INVEST-H) y a la SEFIN a asumir algunas de sus responsabilidades.

PREGUNTA 5: ¿El programa tiene como resultado un incremento en el ahorro de costos del sector público, sin resultar en el deterioro de la calidad o el valor del gasto público?

La evaluación y el monitoreo del Programa Umbral carecen de un mecanismo para hacer un seguimiento del ahorro de costos de los esfuerzos del Programa Umbral. Hay algunos ejemplos de ahorro de costos, pero gran parte del potencial de ahorro aún no se había materializado en la recopilación de datos intermedios. Las mejoras promovidas por el Programa Umbral en la gestión del presupuesto y la tesorería (1.1) podrían generar ahorros en los costos; sin embargo, como estas reformas todavía se encuentran en sus primeras etapas, esto sigue siendo un objetivo a más largo plazo. En el área de contrataciones (1.2), los estudios internos de la ONCAE sugieren ahorros sustanciales producto de su catálogo electrónico, una iniciativa interna que ha recibido cierto apoyo del Programa Umbral, aunque muchos entrevistados expresaron su preocupación sobre la calidad de los productos comprados a través del catálogo. La implementación de ciertas recomendaciones de la ASJ (por ejemplo, estudios de mercado y gestión de activos) puede asociarse con algunos ahorros. Con las APP, el análisis de riesgos fiscales respaldado por el Programa Umbral por parte de la UCF tiene el potencial de generar ahorros de costos significativos.

PREGUNTA 6: ¿El programa tiene como resultado una mejora en la calidad de la prestación de servicios públicos?

Como se señala en el documento de diseño, el diseño de investigación del equipo de evaluación no es capaz de proporcionar una medida precisa y confiable de las mejoras en los servicios públicos ni atribuir tales mejoras al Programa Umbral. Si bien una mejor gestión del presupuesto y la tesorería pueden conducir a una mejor prestación de servicios, los esfuerzos del Programa Umbral aún no han resultado en presupuestos que reflejen la planificación de servicios públicos; por tal razón, los posibles beneficios de un mejor presupuesto aún no han tenido la oportunidad de impactar en los servicios públicos. Las auditorías de desempeño están destinadas a mejorar los servicios públicos; sin embargo, hasta la etapa

intermedia de recolección de datos, todavía no hay ninguna indicación de que los pilotos hayan tenido un impacto directo o indirecto en la provisión de servicios públicos. La implementación de las recomendaciones de la ASJ, tal como las recomendaciones relacionadas con la gestión de activos, también podría haber producido algunas mejoras en la prestación de servicios. Dado que la mayoría de las APP contratadas o bajo consideración no se construirían de otro modo, es posible decir que las APP han mejorado la calidad de los servicios públicos; sin embargo, es menos seguro si estas inversiones ofrecen una buena relación calidad-precio.

PREGUNTA 7: ¿Las instituciones asociadas reconocen una mejora en la efectividad y la eficiencia en el procesamiento de facturas y gestión de efectivo? ¿Por qué o por qué no?

Los retrasos en los pagos a los proveedores son, en parte, el resultado de un círculo vicioso por el cual las instituciones no siempre planifican adecuadamente sus gastos mensuales; parcialmente en respuesta, la Tesorería General de la República (TGR) impone límites de gastos mensuales insuficientes a las instituciones y éstas frecuentemente responden encontrando formas creativas de continuar adquiriendo los bienes y servicios que necesitan sin importar el límite. Si bien pueden obtener estos artículos, no siempre tienen los fondos de la TGR para pagarlos, lo que resulta en retrasos en los pagos a los proveedores. El ciclo se ve agravado por los presupuestos iniciales que a menudo están por debajo de lo que eventualmente se gastará y por las modificaciones al presupuesto general durante el transcurso del año, lo que socava la planificación del gasto de las instituciones. Los esfuerzos del Programa Umbral para mejorar los pagos puntuales a los proveedores han tenido problemas para romper este ciclo. Reconociendo que la planificación de adquisiciones es la base de la planificación del gasto, el Programa Umbral ha identificado los Planes Anuales de Compras y Contrataciones (PACC) como el punto de entrada para abordar algunos de estos desafíos. Como resultado, el Programa Umbral fusionó su trabajo presupuestario con la planificación de contrataciones, con el objetivo de producir predicciones mensuales más precisas sobre las necesidades de contratación, lo que a su vez debería conducir a una mejor gestión del efectivo. Además, con el apoyo del Programa Umbral, la SEFIN ha estado trabajando para cerrar las salidas que permiten a las instituciones adquirir bienes y servicios sin compromisos financieros. Por el lado de la planilla de sueldos, el fortalecimiento actual y la automatización parcial del Sistema de Registro y Control de Servidores (SIREP), junto con una nueva plataforma en desarrollo para mejorar el proceso de priorización de pagos en la TGR, podría también ofrecer mejoras en la eficiencia de la administración de efectivo. Si tiene éxito, el enfoque podría ser un importante factor contribuyente a las reformas de la gestión de la tesorería; sin embargo, estos esfuerzos siguen dependiendo de las reacciones y la aceptación de las instituciones gubernamentales y queda muy poco tiempo en el Programa Umbral.

PREGUNTA 8: ¿La precisión en la proyección de los ingresos aumenta? ¿Por qué o por qué no?

Las proyecciones de ingresos constituyen una parte clave de un MGMP. La asistencia técnica para la proyección de ingresos estuvo a cargo de un consultor intermitente a través de ocho misiones en el país

durante un período de dos años. Hasta esta etapa intermedia de recolección de datos, hubo cambios mínimos en la proyección de ingresos a pesar de la finalización de la asistencia técnica en noviembre de 2016. Los esfuerzos para agregar datos adicionales a las series de tiempo del modelo no avanzaron después de que el programador de la Unidad de Modernización (UDEM) de la SEFIN salió. Adicionalmente, aunque el consultor promovió modelos de microsimulación, esta metodología no se está utilizando. Los esfuerzos para promover el consenso sobre la proyección de los ingresos tampoco han dado frutos. La efectividad de la asistencia técnica se vio obstaculizada por la disolución de una parte interesada clave en el momento de la consultoría, la Dirección Ejecutiva de Ingresos (DEI), ahora reinstituída como el Servicio de Administración de Rentas (SAR).

PREGUNTA 9: ¿La precisión en la elaboración de presupuestos aumenta en las instituciones asociadas? ¿Por qué o por qué no?

Desde la línea de base, el plan de trabajo de la OTA se ha simplificado y se ha enfocado más en el objetivo de "Fortalecer el MGMP." Con el apoyo del Programa Umbral, el Gobierno de Honduras ha logrado avances sustanciales hacia un MGMP y un proceso presupuestario más preciso y confiable:

- La Dirección General de Política Macroeconómica y Fiscal (DPMF) de la SEFIN ahora produce un Marco Macroeconómico y Fiscal a Mediano Plazo (MMFMP).
- La Dirección General de Presupuesto (DGP) de la SEFIN amplió las capacitaciones para la implementación de la metodología de línea base a 44 instituciones para el ciclo presupuestario 2017.
- Se ha avanzado en la creación de capacidad para el Análisis de Impacto Fiscal (AIF).
- La Comisión de Presupuesto del Congreso Nacional ha mejorado sus procesos de preparación presupuestaria y de audiencia de ejecución presupuestaria.

El Programa Umbral, la OTA y otros asesores tienen mérito parcial por estos avances por medio del apoyo inicial al MMFMP, el trabajo para promover el presupuesto de referencia y el AIF, y la colaboración con la Comisión de Presupuesto del Congreso Nacional. Los esfuerzos del Programa Umbral se han complementado con reformas legales promovidas por el FMI y la aprobación de la Ley de Responsabilidad Fiscal (FRL, por sus siglas en inglés). Lo más importante es que las reformas promovidas por el Programa Umbral han sido fomentadas en la SEFIN, que ha asumido y liderado el presupuesto básico y los procesos del AIF.

Si bien estos avances son importantes, los esfuerzos del MGMP aún están en lo que Allen et al. caracterizaría como una etapa elemental.³ El presupuesto de línea de base todavía no está informando a los presupuestos finales y no existe un proceso de reconciliación para garantizar que así sea. Además, el AIF no está incorporado en el proceso presupuestario de línea de base. Hay varias razones para estas limitaciones. En primer lugar, los cambios en los procesos presupuestarios son intrínsecamente un proceso de mediano a largo plazo, ya que las innovaciones nuevas solo se pueden probar una vez al año. En segundo lugar, existen algunas limitaciones legales, ya que un MGMP aún no está incluido en

³ Allen, R. et al. (2017). Medium-Term Budget Frameworks in Sub-Saharan African Countries.

ninguna legislación existente y el AIF no cuenta con una sólida base legal. Si bien la ley de presupuesto actual ha sido sometida a un proceso de revisión, no ha sido aprobada una nueva ley. En tercer lugar, existe cierta incertidumbre acerca de la dirección que tomará la reforma presupuestaria y quién tomará la iniciativa. La SEFIN ha sido tradicionalmente responsable del presupuesto y ha estado promoviendo el MGMP; sin embargo, la Secretaría de Coordinación General de Gobierno (SCGG) se ha estado afirmando en el proceso presupuestario y el presidente le ha encomendado formalmente la tarea de garantizar un proceso de presupuestos basado en resultados.

PREGUNTA 10: ¿El informe presupuestario y el informe sobre desafíos presupuestarios mejora en las instituciones asociadas? ¿Por qué o por qué no?

El Programa Umbral identificó, diseñó y apoyó una serie de intervenciones relevantes y apropiadas para mejorar el monitoreo, presentación de informes y el escrutinio presupuestario. Se logró un buen progreso en la mejora de los Informes de Evaluación Trimestrales (IET) presentados por las instituciones a la SEFIN y eventualmente al Congreso Nacional. Las revisiones acortaron drásticamente los IETs al tiempo que los hicieron más útiles en el análisis del presupuesto, la elaboración de informes presupuestarios y el monitoreo de los desafíos de ejecución presupuestaria en las instituciones. No obstante, el interés del Congreso Nacional ha sido mínimo y los informes, aunque formalmente adoptados, no se están utilizando para supervisión o para informar sobre la preparación del presupuesto.

PREGUNTA 11: ¿Las recomendaciones en las evaluaciones de contrataciones conducen a cambios en las prácticas?

Una de las principales actividades del Programa Umbral en la intervención de las contrataciones es promover evaluaciones de procesos de contratación en las instituciones del Gobierno de Honduras. Se encontró que las evaluaciones de contrataciones – y los evaluadores de contrataciones – fueron bien considerados y vistos positivamente por casi todos los entrevistados. Los informes incluyen recomendaciones que, de ser implementadas, darían lugar a cambios significativos. También se observaron algunos pasos positivos en la implementación de estas recomendaciones, que incluyen mejoras reportadas en los PACC, un mayor uso de documentos estandarizados en el Fondo Vial e INSEP, un compromiso explícito para evitar subdividir las adquisiciones en la SESAL y la SEDUC, un mayor uso documentado de HonduCompras y procesos de evaluación mejorados.

Significativamente, las recomendaciones de la evaluación son respaldadas por una serie de otras acciones complementarias tomadas por la ONCAE con apoyo del Programa Umbral. Esto incluye reformas regulatorias (a través de circulares, pautas presupuestarias y cambios propuestos a las normas de contratación), un programa de capacitación sólido, un próximo programa de certificación, desarrollo de herramientas (por ejemplo, plantillas de PACC mejoradas), próximos cambios en HonduCompras y el catálogo electrónico. Los hallazgos de la evaluación también parecen haber jugado un rol en la disolución del Fondo Vial (FV) y la transferencia de sus funciones a la MCA-Honduras, que recientemente fue renombrada como INVEST-H.

Si bien hay un claro avance en algunas recomendaciones, es poco probable que se implementen otras recomendaciones. En particular, los entrevistados tendían a estar a la defensiva sobre las denuncias de posibles subdivisiones de contratación y el amplio uso de licitaciones privadas. A pesar de la excepción potencialmente importante de publicar estas contrataciones en HonduCompras, las entrevistas no sugirieron la adopción de metodologías mejoradas para seleccionar listas cortas en compras directas (las que solo requieren tres cotizaciones) o un aumento en el número de licitaciones públicas.

La reforma de contrataciones en un contexto como el de Honduras debe superar la frecuente oposición de aquellos que se benefician del status quo. No está claro si identificar problemas, proporcionar herramientas y capacitar al personal sobre la forma correcta de realizar contrataciones será suficiente para superar los incentivos perversos que impulsan los abusos de las contrataciones en ausencia de un mecanismo de rendición de cuentas más sólido. El programa de certificación propuesto por los asesores de la ONCAE ofrece un medio potencial para crear responsabilidad; sin embargo, para ser efectivo, esta iniciativa requerirá esfuerzos más allá del final del Programa Umbral.

PREGUNTA 12: ¿La confianza empresarial en las contrataciones públicas y la participación en contrataciones aumenta? ¿Por qué o por qué no? ¿Qué explica la variación en percepciones de justicia del proceso de contratación?

Esta pregunta se abordará en la línea final en función de los resultados de la encuesta de proveedores.

PREGUNTA 13: ¿Los cambios en los sistemas y procesos reducen las oportunidades de corrupción y/o mejoran las percepciones de corrupción en la GFP?

Debido a la naturaleza ilícita de la corrupción, es difícil saber si la corrupción está aumentando o disminuyendo en la mayoría de los contextos. Dado este desafío de medición, esta pregunta indaga sobre las oportunidades de corrupción y la percepción de la corrupción, la última de las cuales se abordará en la línea final. Un enfoque sobre las "oportunidades para la corrupción" tiene sus propias limitaciones metodológicas, ya que los actores que buscan ingresos pueden abrir nuevas oportunidades a medida que se cierran las antiguas.

Parcialmente como resultado, es difícil saber si el Programa Umbral está teniendo un efecto en la corrupción o incluso en las oportunidades de corrupción. Es importante señalar que ninguna de las intervenciones del Programa Umbral aborda la corrupción frontalmente. La recolección de pruebas exhaustivas de irregularidades en los pagos, contrataciones y recursos humanos no tiene como objetivo responsabilizar a los funcionarios. Sin embargo, estos estudios han producido un amplio diagnóstico de los problemas y han generado una serie de valiosas propuestas para abordarlos. Estos también han resultado en algunos éxitos a corto plazo, incluyendo una mayor competencia en algunas licitaciones privadas tradicionalmente cerradas, participación de la sociedad civil en procesos de contratación en la SESAL y la SEDUC y menores oportunidades de robo de bienes en la Secretaría de Seguridad (SEDS).

Otras propuestas, como la creación de Compradores Públicos Certificados, brindan el potencial de crear impactos a largo plazo, sin embargo, estas reformas siguen siendo nacientes y requerirán apoyo y supervisión mucho después del cierre del Programa Umbral.

PREGUNTA 14: ¿Conducen las recomendaciones de auditorías de desempeño a cambios en prácticas?

Las auditorías de desempeño de la Dirección Adjunta de Rentas Aduaneras (DARA), el FV, la Empresa Nacional de Energía Eléctrica (ENEE) y el Instituto Nacional de Agricultura (INA) han identificado muchos hallazgos e inquietudes importantes que afectan el desempeño de estas instituciones. Estos resultados están disponibles al público, lo que representa un avance en transparencia. Sin embargo, hasta la etapa intermedia de recolección de datos, hubo avances muy limitados en la implementación de recomendaciones en la DARA y el FV, y el equipo no pudo verificar si se había producido algún progreso en la ENEE y el INA. Si bien podría haber consecuencias por no implementar las recomendaciones del Programa Umbral, un análisis reciente revela que casi la mitad de las recomendaciones del Programa Umbral no son implementadas. A diferencia de las evaluaciones de contrataciones, las auditorías de desempeño no están conectadas a otros esfuerzos de reforma. Esto quiere decir que no están respaldadas por otros esfuerzos complementarios para fomentar el cambio institucional. Además, aunque el Programa Umbral tiene un proceso de seguimiento en marcha, los esfuerzos de seguimiento cuentan con poco personal, pocos recursos, no incluyen a los auditores originales que están familiarizados con el problema y solo ocurren mucho después de que la auditoría se termina. La naturaleza pública de las auditorías podría crear incentivos para implementar las reformas; sin embargo, los resultados de seguimiento no están a disposición del público y una revisión de las fuentes de medios en línea arrojó solo referencia de un medio para cualquiera de las cuatro auditorías de desempeño. Finalmente, el destino de la auditoría de desempeño en el Programa Umbral no estaba claro. No se llevaron a cabo auditorías de desempeño en 2017 y el futuro del programa sigue siendo incierto. La implementación de un antiguo auditor de la Oficina de Rendición de Cuentas del Gobierno de los Estados Unidos (GAO) en octubre de 2017 podría inyectar nueva vida a las auditorías de desempeño en el TSC.

PREGUNTA 15: ¿La supervisión y recomendaciones de la sociedad civil conducen a cambios en las instituciones objetivo?

A través del Programa Umbral, cuatro organizaciones de la sociedad civil recibieron fondos para fomentar la responsabilidad social. Como se establece en el informe de diseño de la evaluación, la evaluación se centra en la concesión principal, que se ha otorgado a la ASJ para realizar evaluaciones institucionales anuales. La supervisión de parte de la ASJ de las instituciones gubernamentales respaldadas por el Programa Umbral es un ejemplo innovador de supervisión de la sociedad civil. Su metodología de investigación es sólida; sus informes bien presentados y sus investigadores son bien considerados por los entrevistados. La organización puede señalar varias mejoras en las instituciones seleccionadas. Con un fuerte respaldo presidencial, la SEDS ha sido consistentemente el más receptivo al trabajo de la ASJ. El plan de mejora de la SEDS fue el más ambicioso; han comprometido a la ASJ a proporcionar asistencia técnica y supervisión en otras áreas; y han hecho los cambios más radicales a

lo largo de la intervención. Esto incluye reformas legales, contrataciones y la aplicación exitosa de un Sistema de Planificación de Recursos Empresariales (ERP, por sus siglas en inglés) y mejoras sustanciales en el mantenimiento de registros tanto para la gestión de activos como para los recursos humanos. Aunque es difícil analizar los efectos del financiamiento del Programa Umbral en comparación con otras iniciativas, las actividades del Programa Umbral merecen parte del crédito por estos avances.

Los resultados han sido menos dramáticos en la SEDUC y la SESAL; sin embargo, ambas instituciones han abierto sus procesos de contratación a la supervisión de la sociedad civil y han mejorados procesos y documentación. Quizás sea demasiado pronto para esperar avances en INSEP; sin embargo, el equipo de evaluación observó una fuerte resistencia a los hallazgos entre el personal operativo, lo que generó algunas preocupaciones sobre el posible impacto de la iniciativa en esta institución.

Las probables claves para el éxito de la ASJ incluyen (1) apoyo presidencial directo, (2) la naturaleza pública relativamente alta de los informes, (3) la complementariedad de otros esfuerzos (por ejemplo, la participación de la ASJ en la comisión de reforma policial, el trabajo del Programa Umbral con la ONCAE, y (4) un proceso de seguimiento mensual junto con informes de seguimiento más detallados. A pesar de este éxito, la ASJ y el Programa Umbral se han enfrentado y continúan enfrentando varios desafíos. El enfoque y los documentos a entregar han tenido que modificarse para que el esfuerzo sea más manejable y la ASJ ha luchado para superar las preocupaciones de las instituciones con la metodología (por ejemplo, considerar la nueva documentación como parte del proceso de revisión). Además, el éxito de la iniciativa ha dependido del apoyo político presidencial y del apoyo financiero del Programa Umbral, produciendo preocupaciones sobre la sostenibilidad de la iniciativa.

PREGUNTA 16: ¿Hay mejoras en las percepciones de los empleados públicos sobre las prácticas de recursos humanos y las prácticas de contratación en las instituciones objetivo?

Esta pregunta será respondida en la línea final con los resultados de la encuesta de empleados públicos.

PREGUNTA 18: ¿Hay mejoras en la eficiencia y efectividad del proceso de desarrollo y estructuración de APP?

Presentamos la Pregunta 18 antes que la Pregunta 17 en este informe, ya que el desarrollo y la estructuración de APP, el tema de esta pregunta, se presenta antes de la contratación, el tema de la Pregunta 17. Con el apoyo del Programa Umbral claramente se han producido algunas mejoras en la efectividad del proceso de estructuración. Varios proyectos han avanzado hacia la fase de contrataciones con una base más sólida, que incluye la Carretera CA-4, la planta hidroeléctrica El Tablón y el Centro Cívico. Además, el Programa Umbral ha ayudado a la UCF a desarrollar su capacidad para limitar el riesgo fiscal al Gobierno de Honduras. Sin embargo, con la importante excepción de la UCF, las intervenciones del Programa Umbral y de INVEST-H se caracterizan mejor como un recurso provisional para complementar las debilidades en las instituciones existentes, particularmente COALIANZA. El proyecto de la carretera CA-4 fue transferido de COALIANZA a la UCF para su

reestructuración y El Tablón fue transferido a INVEST-H. Hasta esta etapa intermedia de recolección de datos, COALIANZA continuó teniendo problemas de incentivos corruptos por parte de su mecanismo de financiamiento, politización y dependencia de asesores externos. La institución había sufrido recientemente una pérdida dramática de personal y la MCC había notificado al gobierno que ya no trabajaría con la institución. Todos estos factores hacen que el destino de este actor central permanezca incierto. Además, la INSEP y la SAPP continúan desempeñando un pequeño rol en el proceso de estructuración, aunque a través de la participación del Programa Umbral en la reestructuración de la licitación de la carretera CA-4, la INSEP jugó un papel en esta etapa del proceso por primera vez.

PREGUNTA 17: ¿El proceso de contratación de las APP se adhiere a las mejores prácticas?

A diferencia de las mejores prácticas internacionales, el proceso de licitación de APP utilizado en los estudios de casos examinados aquí limita excesivamente la discreción de los comités de evaluación. En la etapa de precalificación, los miembros del comité solo notan si un potencial concesionario cumple con un criterio o no. En la etapa de evaluación, solo se utiliza el monto de la oferta para determinar la adjudicación. Esto es contrario a las mejores prácticas internacionales, ya que no permite una evaluación de las fortalezas y debilidades comparativas de los potenciales licitantes y sus propuestas técnicas y financieras. Además, generalmente no existe un diálogo competitivo para abordar cuestiones finales y garantizar la claridad entre los desarrolladores del proyecto y el licitante preferido. En el reciente caso del Centro Cívico, sin embargo, se requirió que los dos consorcios licitantes presentaran sus proyectos al comité de evaluación, un paso más cerca hacia un diálogo más competitivo. El comité de evaluación del Centro Cívico también fue más diverso que en el pasado, con participación de COALIANZA, Banco LAFISE, SEFIN, y aquellos responsables de supervisar el Centro Cívico, Dirección Nacional de Bienes del Estado. Si bien esto sugiere alguna mejora en el proceso de licitación, no está claro si esto es resultado del aprendizaje o una consecuencia única de la participación de la SEFIN como institución financiadora. En general, los procesos de licitación no aprecian las relaciones contractuales complejas a largo plazo, para lo cual el sector público debe estar adecuadamente preparado y el sector privado debe ser evaluado y seleccionado de manera efectiva.

PREGUNTA 19: ¿Existen mejoras en la eficiencia y la efectividad del proceso para gestionar APP?

Hasta la etapa intermedia de recolección de datos, se siguen observando desafíos en la administración de contratos relacionados con los derechos de vía, retrasos gubernamentales y protestas sociales que han resultado en mayores costos para el Gobierno de Honduras y han socavado la relación calidad-precio de las APP. Muchos de estos problemas tienen sus raíces en cómo los proyectos fueron originalmente estructurados y adquiridos. Desafortunadamente, parece que, a pesar de la asistencia técnica del Programa Umbral, es probable que la CA-4 cometa algunos de estos mismos errores de contratación, incluidos plazos poco realistas para resolver problemas de derecho de vía y estimaciones de ingresos excesivamente optimistas.

Parece haber algunas mejoras en la administración de contratos, incluidos los comités técnicos del proyecto liderados por INSEP y la SAPP ha implementado un sistema informático en línea. Adicionalmente, la construcción de los proyectos de SPS Siglo XXI y del Centro Cívico parece estar progresando. No obstante, el fracaso por parte de INSEP de consolidar una Unidad de Concesión de APP a pesar del apoyo financiero y técnico del Programa Umbral sigue siendo una preocupación importante.

PREGUNTA 20: ¿Hasta qué punto facilita el proyecto una mayor capacidad y coordinación para las APP dentro del Gobierno de Honduras?

Como se señaló a lo largo de la sección de APP de este informe, la capacidad y la coordinación siguen siendo bajas. El programa de capacitación de APP es sin duda un paso en la dirección correcta, y parece ser bien enseñado y bien recibido. No obstante, la capacitación llega de forma tardía en el Programa Umbral, lo que representa una oportunidad perdida para poder utilizar la capacitación para establecer una coordinación y un diálogo interinstitucionales en una etapa temprana del Programa Umbral. Mientras que el personal de INSEP y COALIANZA asistió a las capacitaciones y aceptó algún apoyo del Programa Umbral, COALIANZA, en gran medida, y la INSEP, en menor medida, no aprovecharon los recursos del Programa Umbral y el soporte técnico. En el nivel más básico, COALIANZA no ha adoptado un enfoque más colaborativo y la INSEP no ha consolidado una unidad de APP, un hito clave del Programa Umbral. Solo la UCF parece haber aprovechado el Programa Umbral para aumentar su capacidad de analizar y mitigar los riesgos fiscales de los proyectos de APP.

PREGUNTA 21: ¿Los sistemas implementados por el proyecto reducen las oportunidades de corrupción o mejoran las percepciones respecto a la corrupción?

De acuerdo con la lógica del programa, el Programa Umbral tiene como objetivo reducir las oportunidades de corrupción en las APP mediante el apoyo a la UCF, que lleva a cabo revisiones financieras de las APP en tres puntos distintos del proceso. Si bien la revisión externa de la UCF podría detectar casos graves de corrupción a través de sus revisiones financieras, identificar la corrupción no es un objetivo expreso de las actividades de la UCF. El Programa Umbral también ha buscado reducir la corrupción en el proceso de permisos de operación de negocios a través de su apoyo a FIDE. El contrato fue cancelado en octubre de 2017 por no cumplir con los objetivos previstos y no fue explorado por el equipo de evaluación.

PREGUNTA 22: ¿El programa tiene como resultado una mayor transparencia y conocimiento de los procedimientos APP para grupos gubernamentales, del sector privado o de la sociedad civil?

A medida que el programa de APP ha evolucionado, la información públicamente disponible también se ha expandido. Los sitios web de COALIANZA y la SAPP ahora contienen amplia información sobre los diversos proyectos. Parte de esto se debe a una mayor transparencia (por ejemplo, el despliegue del sitio web de la SAPP), pero parte de esto también se debe a la generación de documentación adicional (por ejemplo, el estudio de la relación precio-calidad para el Centro Cívico). Si bien hay un aumento general en la disponibilidad de información, no parece que el Programa Umbral haya jugado un papel directo en este aumento. Adicionalmente, aunque el estudio relación calidad-precio del Centro Cívico está a disposición del público, no pudimos encontrar las evaluaciones de riesgo fiscal de la UCF, que también deberían estar a disposición del público.

1. INTRODUCTION

On August 28, 2013, the Millennium Challenge Corporation (MCC) and the government of Honduras (GoH) signed the Millennium Challenge Account Threshold Program Grant Agreement valued at \$15,650,000. The goal of MCC's Threshold programs is to assist countries in becoming Compact eligible by supporting targeted policy and governmental reforms that are aimed at addressing binding constraints to economic growth. More specifically in the case of Honduras, the TCP aims to increase the efficiency and transparency of public financial management (PFM) and public private partnership (PPP). While TCPs typically last for three to four years (to end in August 2017), this TCP has been extended and will conclude in May 2019.

Social Impact, Inc. (SI) was contracted by MCC to design and conduct an evaluation of the Honduras TCP. An evaluation approach was approved in 2015 and baseline data collection involving qualitative data collection, a survey of public employees, and a survey of vendors to the government was largely completed in 2016. This interim report, based solely on document reviews and qualitative data collected primarily in August 2017, examines changes since baseline data collection and offers preliminary responses to most of the 22 evaluation questions. A final round of qualitative and quantitative data collection will occur in 2018 – 2019 at the conclusion of the TCP and will prove more definitive responses to the evaluation questions.

The approved evaluation design did not envision a full interim report; however, after the TCP was granted a one-year extension, SI recommended and MCC agreed that an interim analysis should be added to the evaluation for three primary reasons.⁴ First, MCC's extension memo describes some successes that would not have been expected at baseline (e.g., the expansion of the baseline budgeting).⁵ Second, the TCP had changed somewhat since baseline, particularly in the case of PPP-related interventions. Third, the addition of interim data collection means the evaluation can consider potential effects of personnel changes after the November 2017 elections.

1.1 Organization of the report

This report begins with background information on PFM and PPP challenges in Honduras and then explores the TCP response to these challenges, including the goals and objectives of the TCP and the activities under the Threshold Program Grant Agreement. Then the evaluation questions are presented along with an overview of the methodology for answering the questions. The findings section of the report is organized by evaluation question. We begin with core questions on the TCP as a whole (Questions 1 – 6), followed by ten questions on PFM (Questions 7 – 16) and six questions on PPP activities (Questions 17 – 22).

⁴ Social Impact (May 2017). Midline Evaluation Design Supplement and Trip Scope of Work.

⁵ Millennium Challenge Corporation (Jan. 2017). Memo: Extension of Honduras Threshold Program.

2. BACKGROUND

Honduras faces a number of economic, social, and political challenges that negatively affect investment and economic growth. MCC's constraints to economic growth analysis, carried out in the lead up to the Threshold Program in 2013, found that (1) crime and security and (2) transparency and government inefficiency were the most impactful constraints to economic growth.⁶ The TCP addresses the second constraint through activities designed to improve Honduras' PFM and nascent PPP efforts.

At the time of the agreement in 2013, the most recent Public Expenditure and Financial Accountability (PEFA) assessment on the soundness of PFM explained how certain practices contributed to government inefficiencies and potential corruption.⁷ The quality of budget formulation and execution was found to be lacking. This deficiency led to: (a) payment arrears, which cause vendors to set higher prices of goods and services, and (b) prioritization of payments based on political influence, subjective criteria, or bribes, which also increases costs in terms of both time and money. According to the IMF, arrears in Honduras accounted for 3.0 percent of GDP in 2013.⁸ As such, the TCP activities are designed to address problems of corruption, budgeting, payment arrears, procurement, and other aspects of PFM.

The second area of focus is on improving Honduras's PPP process. During the presidency of Porfirio Lobo Sosa (2010 – 2014) of the National Party, there was a strong push to develop PPPs in Honduras. Legislation passed in 2010 created the Commission for the Promotion of Public – Private Partnerships (*Comisión para la Promoción de la Alianza Público – Privada* COALIANZA) to develop and structure PPPs. COALIANZA reported directly to the Presidency, a criterion which was promoted as a means to prioritize PPPs and ensure that they did not fall victim to the institutional weaknesses and delays that were common in GoH ministries. As a result, PPPs advanced rapidly; however, GoH institutions lacked the capacity to manage the PPP process, which created several fiscal risks for the GoH. As a result, TCP activities were developed to build capacity among PPP stakeholder institutions and support PPP implementation.

⁶ Millennium Challenge Corporation (2013). Honduras Constraints Analysis. Retrieved from: https://assets.mcc.gov/content/uploads/2017/05/Honduras_CA_English_withCover.pdf. A recent World Bank report indicates that violence generates costs of up to 10 percent of GDP annually to businesses. See World Bank (2014). Overview. Retrieved from: <http://www.worldbank.org/en/country/honduras/overview>.

⁷ Hendley, Renee (2013). Honduras Informe del Desempeño de la Gestión de las Finanzas Públicas (PEFA) Informe Final. NORC University of Chicago, 1-4.

⁸ International Monetary Fund (2014). Honduras Request for a Stand-By Arrangement and an Arrangement under the Standby Credit Facility — Staff Report; Press Release. 9-10.

2.1 Threshold Goals and Objectives

At the time of the signing of the Threshold agreement, Honduras had unsatisfactory scores on MCC's rule of law, government effectiveness, and control of corruption performance indicators, and MCC did not select Honduras for a Compact. The grant agreement aims to address constraints to the country's economic growth through institutional and policy reforms to help achieve Compact eligibility. The objective of the program is to "increase the efficiency and transparency of the Government" through technical assistance in the two areas mentioned above: public financial management and public private partnerships.⁹ The TCP aims to (a) increase cost savings, (b) improve public service delivery, and (c) reduce corruption.

2.2 Description of the TCP and Program Logic

While the objectives of the TCP are clear, the program has lacked a formalized theory of change for achieving these objectives for most of its implementation. The program's original Monitoring and Evaluation (M&E) Plan offered only simplified program logic. In a January 2017 memo requesting an extension to the TCP, MCC offered a revised and more detailed project logic. The evaluation team was provided with another draft version of the program logic in October 2017. The program logic for both the PFM and PPP is presented in Annex I. In the following sections, we introduce the TCP activities and use the revised program logic to link activities to their intended outputs, outcomes, and objectives.

2.2.1 PFM Activity 1.1: Budget and Treasury Management

According to the Threshold agreement, this Activity is designed to strengthen budget formulation and execution in the executive and legislative branches by:

- Supporting technical assistance and training for the Secretariat of Finance (*Secretaría de Finanzas* – SEFIN) and the institutions (*Instituciones*) to improve budget analysis and treasury management by improving budget forecasting, establishing adequate controls, and strengthening the Treasury Single Account and payment prioritization.
- Supporting technical assistance and training for the Congressional Budget Commission (CBC) to improve congressional budget oversight capacity, improve congressional budget discipline by developing safeguards to ensure planned deficit targets are not breached, and provide better analysis and transparency regarding the cost implications of congressional mandates.¹⁰

⁹ Millennium Challenge Corporation (2013). Millennium Challenge Account Threshold Program Grant Agreement. Retrieved from: <https://assets.mcc.gov/content/uploads/2017/05/threshold-program-honduras.pdf>

¹⁰ *Ibid.*

In the course of implementation, activities under 1.1 have been streamlined and adapted to reform needs. Table 1 lays out the key sub-activities along with expected outputs, outcomes, and medium-term objectives.

Treasury management: Between the beginning of the intervention and SI's baseline evaluation, three consultants from the U.S. Department of Treasury's Office of Technical Assistance (OTA), including one resident advisor and two short-term consultants, provided limited inputs in treasury management through three distinct lines of work: payment arrears, payment processes, and cash management. Over time, however, MCC, MCA-H, and OTA's understanding of the nature of the problem and areas where the TCP could be most effective has evolved. With this evolved understanding, the intervention itself has changed, and technical assistance both at the Secretariat of Finance (Secretaría de Finanzas – SEFIN) and with partner institutions has been streamlined and grouped primarily under a single work stream dedicated to improving timeliness of payment to vendors. As a complementary but somewhat different activity, an external audit of public sector arrears was planned under TCP funding for 2015. This audit was to be funded by the TCP but was a GoH commitment, as described in a Memorandum of Understanding (MoU) signed with the International Monetary Fund (IMF). The planned audit of arrears was delayed, narrowed in its scope, and performed during the fourth quarter of 2016.

Revenue forecasting: One intermittent consultant led revenue forecasting technical assistance over a period of two years. Last inputs took place in November 2016, shortly after baseline. Technical support has been provided mainly to the Directorate of Macro-Fiscal Policy (Dirección de Política Macroeconómica – DPMF) and the General Directorate of the Budget (Dirección General de Presupuesto – DGP) with a view to assisting forecasting units in developing forecast procedures and capacity building on forecasting techniques, as well as to strengthen and clarify the institutional structure for forecasting revenues. Efforts have focused on (1) the macrofiscal forecasts at DPMF that draw on data from the financial management system (Sistema de Administración Financiera Integrada – SIAFI), (2) a microsimulation model that looks at how changes in policies affect revenues, and (3) improved intra-governmental coordination around the consensus forecast.

Medium-Term Expenditure Framework (MTEF): At baseline data collection, the TCP included several distinct budget related sub-activities that were primarily implemented by OTA. Since baseline, OTA's workplan has been streamlined and more focused on the objective of "Strengthening the MTEF." Prior to baseline data collection, the TCP provided a local consultant to support the Medium Term Macroeconomic and Fiscal Framework (Pillar 1 of the MTEF). Since the termination of that consultancy, Pillar 1 functions have been fully managed by SEFIN's DPMF. As of interim data collection, the TCP has primarily focused on supporting the preparation of bottom-up, multi-year, baseline expenditures presented by GoH institutions (as part of Pillar 2 of the MTEF).¹¹ The design and establishment of institutional decision-making processes that reconcile top-down ceilings and bottom-up budget requirements (Pillar 3 of the MTEF) is only

¹¹ Baseline budgets, or baseline expenditures, are baseline budget proposals unadjusted for planned policy changes. They are the initial step towards developing full cost estimates adjusted with policy changes (Pillar 2 of the MTEF).

emerging and has not yet been a part of the TCP. However, as of interim data collection, MCA-H was recruiting a short-term intermittent MTEF advisor who will be responsible for supporting the overall coordination of the MTEF. Within OTA’s revised work program, technical assistance on Fiscal Impact Analysis (FIA), that is, an estimate of the costs, savings, revenue gains or losses that could result from the implementation of a Legislative or Executive proposal, has been framed as an input to the MTEF. The future MTEF advisor will also work with the OTA advisors to facilitate the integration of FIA into the MTEF process.

Budget reporting and oversight: Consultants worked with the CBC and SEFIN to strengthen budget execution controls by reviewing reporting and issuing recommendations. Since baseline, the main focus of the intervention has been to strengthen the format and quality of quarterly budget execution reports at SEFIN and their utilization at Congress. TCP efforts also aimed to improve congressional budget oversight capacity, improve congressional budget discipline by developing safeguards to ensure planned deficit targets are not breached, and provide better analysis and transparency regarding the cost implications of congressional mandates. However, technical assistance to CBC was discontinued in November 2016, as most activities had either been completed or were not receiving enough support. Budget reporting reforms were also put on hold and may only be reactivated as part of the MTEF efforts at SEFIN.

As shown in the table below, these activities seek to improve timeliness of payment to vendors, reduce the stock of arrears, strengthen budget formulation and execution through the MTEF, and improve congressional budget oversight. Combined, these achievements should lead to cost savings and improved service delivery by the Government of Honduras.

Table 1: Activity 1.1 Budget and treasury management sub-activities, outputs, and outcomes

Key Sub-Activities	Outputs	Short-Term Outcomes	Medium-Term Outcomes
<ul style="list-style-type: none"> OTA technical assistance to strengthen budget formulation and execution (SEFIN, and GOH institutions with focus on INSEP, SEDUC, SESAL) OTA technical assistance to improve Congressional budget committee’s budget oversight, fiscal rules and fiscal transparency 	<ul style="list-style-type: none"> Improved formats for PGMs and PACCs Payment priority procedures in SIAFI and SIREP automated GoH writes off invalid arrears and starts paying some valid ones Improved revenue forecasting models Baseline Budget templates and training in more than 100 GOH institutions 	<ul style="list-style-type: none"> More transparent and less subjective payment prioritization Line Ministries promptly enter and approve invoices Improved budget forecasting and reduced expenditures that exceed original budget Medium-Term Expenditure Framework (MTEF) is gradually developed 	<ul style="list-style-type: none"> Vendors reduce bid premium for risk of delayed or non-payment Vendors reduce bid premium due to competition Reduced stock of payment arrears and current vendors paid on time GoH borrowing costs reduced Improved allocative efficiency of budget formulation

Key Sub-Activities	Outputs	Short-Term Outcomes	Medium-Term Outcomes
<ul style="list-style-type: none"> External audit of payment arrears by Deloitte (SEFIN) IT consultants to modify SIAFI Treasury module 	<ul style="list-style-type: none"> Fiscal Impact Analysis (FIA) methodology developed and staff trained in 26 institutions Legislative preparation for budget hearings is improved, as is public access Review of physical invoices Law revised to strengthen budget execution controls, impose fiscal discipline, and require a MTEF 	<ul style="list-style-type: none"> Budgets increasingly reflect costs of service delivery FIA starting to be piloted on new legislation Increased transparency in budget process and congressional oversight 	<ul style="list-style-type: none"> Improved operational efficiency of budget execution Reduced mid-year budget modifications that require inefficient reallocation of spending

Source: Millennium Challenge Corporation (Oct. 2017). Draft PFM Program Logic.

2.2.2 PFM Activity 1.2 Improving Procurement Capacity, Planning, and Controls

According to the Threshold agreement, Activity 1.2 is designed to increase the transparency, accountability, and quality of public procurement through:

- Technical assistance to the Regulatory Office of Contracting and Acquisitions of Honduras (Oficina Normativa de Contratación y Adquisiciones del Estado - ONCAE) and other government entities.
- Support for the expansion of ONCAE's online supply catalogue, or e-catalogue.
- Efforts to increase coordination between ONCAE and Supreme Audit Tribunal (Tribunal Superior de Cuentas – TSC).¹²

Activities under Activity 1.2 have evolved over time. The TCP has added support for upgrading the HonduCompras electronic procurement platform, increased training, developed a procurement personnel certification program, and provided support to the Construction Sector Transparency Initiative (CoST) in Honduras. Table 2 lays out the key sub-activities along with expected outputs, outcomes, and medium-term objectives.

Technical assistance: Following an initial consultancy by OTA, the TCP is supporting two embedded technical advisors for up to a 36-month period. This work started in October 2015 and is ongoing. One of the central objectives of the technical assistance has been to support the

¹² *Ibid.*

development of an evaluation unit, which is conducting evaluations of procurement in GoH institutions, developing formal reports with findings and recommendations, and working with targeted institutions to address identified problems. In addition, the advisors have created a 180-hour diploma course on procurement. As a complement, they are developing a procurement certification and promoting regulatory reforms that, among other things, would require certified procurement professionals to sign off on procurements. Among other actions, TCP technical assistance is focused on ensuring that ONCAE is incorporated into the civil service regime and that positions financially supported by the TCP are continued by the GoH.

E-catalogue: ONCAE awards vendors indefinite quantity contracts to provide specific goods to all government institutions through the e-catalogue. Vendors then order the goods electronically from the pre-awarded suppliers. This process allows GoH institutions to purchase goods and services at lower prices and with reduced administrative burden and fiduciary risk. During 2015, an international consultant from OTA provided some initial technical assistance for management of the e-catalogue, and the TCP funded a two-to-three person help desk to assist purchasing GoH institutions in using the e-catalogue. By documenting common problems, they are also identifying ways to improve the e-catalogue. TCP-supported help desk work started in August 2015 and continued through the end of 2017.

TSC: This area has been deemphasized from the TCP. Ideally, information from ONCAE evaluations will inform TSC audit strategy; however, as of interim data collection, there have not been major efforts to coordinate ONCAE evaluations and TSC audits.

HonduCompras 2.0: While not originally included in the Threshold, the TCP is supporting the development and implementation of HonduCompras 2.0, an upgraded electronic procurement platform that is expected to replace the current version of HonduCompras prior to the end of the TCP. The TCP has provided a technical advisor to assist in designing and developing the specifications for these changes. In addition, since June 2016, the TCP has funded a person to provide IT support for the existing HonduCompras system.

CoST: Another addition to Activity 1.2 was a small grant to CoST and the Democracy without Borders Foundation (FDsF) to support implementation of CoST, a multi-country initiative to increase transparency and accountability in the construction sector. The grant supports consolidation of existing CoST efforts, dissemination of results, training in citizen monitoring, and citizen use of the information disseminated.

As shown in the table below, these activities are intended to increase use of the e-catalogue, ensure that ONCAE staff are able to sustain existing efforts, and make the procurement process more transparent and more competitive throughout the GoH. Combined, these achievements should lead to (1) cost savings, as vendors reduce their bid premiums in a more competitive market, and (2) to a reduction in corruption, including in the use of bribes to receive contracts or payments.

Table 2: Activity 1.2 Procurement sub-activities, outputs, and outcomes

Key Sub-Activities	Outputs	Short-Term Outcomes	Medium-Term Outcomes
<ul style="list-style-type: none"> • OTA technical assistance for e-catalogue and ONCAE staff transition to civil service • TA for e-catalogue, civil service reform, evaluation methodology, evaluation unit, procurement certification program, training, and revision of procurement regulations • Support for staff for HonduCompras Help Desk • Support for staff in Procurement Evaluation Unit • Support to procure new HonduCompras • Support to CoST • Support for intervention on road maintenance fund 	<ul style="list-style-type: none"> • Market studies completed • Prompt payment for e-catalogue vendors • GoH buyers and vendors know how to use e-catalogue • Paperwork completed to transition ONCAE staff to the Civil Service • Recommendations to change legal procurement framework • ONCAE evaluation unit established • Government procurement plans published • Procurement assessments conducted in major institutions • Procurement officials trained and certified in 57 GoH institutions • HonduCompras 2.0 launched • Published and disseminated CoST findings • Strategic Action Plan for improvement of the Road Maintenance Fund 	<ul style="list-style-type: none"> • Increased number of products in the e-catalogue and increased government use • ONCAE staff have permanence • Procurement regulatory framework strengthened • Increased transparent and competitive procurements 	<ul style="list-style-type: none"> • More vendors bid • Improved competition, value for money, and controls in procurement • Decreased opportunities for corruption in GoH procurements • Sole source purchases and large contract modifications reduced • Sustained results of procurement assessment, training, and e-catalogue • Vendors reduce bid premium due to competition • Reduction in bribes taken to receive a contract, modification, or payment

Source: Millennium Challenge Corporation (Nov. 2017). PFM Program Logic.

2.2.3 PFM Activity 1.3: Improving Capacity of the TSC

According to the Threshold agreement, PFM Activity 1.3 is designed to strengthen the capacity of the TSC in specialized auditing and to support audits of the new controls introduced under the PFM Project, through:

- Training in performance audits, forensic audits (in coordination with the Public Ministry) and procurement audits, as well as the potential provision of associated equipment
- Support for specific audits of new controls introduced, either under the Program or by the Government, in procurement, budget commitments, payments, or other areas of public financial management.¹³

Sub-activities, outputs, and outcomes are presented in Table 3 and in the text below we present the two main sub-activities.

Performance audits: The TCP supported a long-term performance audit advisor for a period of 18 months. In addition, two short-term consultants with expertise in customs and electricity were hired to support performance audits. The long-term advisor trained TSC audit teams in performance auditing and developed a performance audit manual. With the support of these consultancies, trained TSC audit teams conducted four pilot performance audits in 2015 and 2016. No performance audit activity occurred during 2017 in the period prior to data collection; however, in October 2017 a new TCP performance audit consultant from the U.S. Government Accountability Office (GAO) began working with the TSC.

Procurement and forensic audits: The TSC has not received specific support on procurement audits and was not conducting stand-alone procurement audits. The performance audit pilots, however, did include procurement as one of several items examined. As of interim data collection, the TCP was beginning to provide support to the TSC’s illicit enrichment assessment unit. The TCP had hired a consultant to develop an initial report about the current research process of the TSC regarding illicit enrichment. From this initial report a more comprehensive plan to support the TSC in this area will be developed.

As shown in the following table, performance audits are expected to be institutionalized within the TSC, and audit reports are expected to result in improved managerial efficiency and effectiveness in audited institutions. Support for forensic audits is expected to result in improved capacity to detect illicit enrichment, which in turn is expected to lead to indictments, court cases, and a reduction in corruption.

Table 3: Activity 1.3 Improving Capacity of the TSC sub-activities, outputs, and outcomes

Key Sub-Activities	Outputs	Short-Term Outcomes	Medium-Term Outcomes
<ul style="list-style-type: none"> • TA on technical performance auditing in institutions • Equipment provision for performance audits 	<ul style="list-style-type: none"> • Guidelines and methodology; 42 auditors trained; 4 pilot audits completed • 80 purchased computers and 	<ul style="list-style-type: none"> • TSC implements a permanent program of performance auditing • Improved capacities and processes in 	<ul style="list-style-type: none"> • Program managers improve efficiency and/or effectiveness; improved allocative efficiency of budget formulation

¹³ *Ibid.*

Key Sub-Activities	Outputs	Short-Term Outcomes	Medium-Term Outcomes
<ul style="list-style-type: none"> • TA for improving audits • TA to support illicit enrichment audits 	measuring instruments acquired <ul style="list-style-type: none"> • Improved Performance Audit Guidelines and follow-up; Mentoring provided on new performance audits • Recommendations to improve illicit auditing; training provided 	TSC for illicit enrichment audits	<ul style="list-style-type: none"> • Robust case filings in court and bribes to receive a contract decrease

Source: Millennium Challenge Corporation (Nov. 2017). PFM Program Logic.

2.2.4 PFM Activity 1.4 Grant Facility for Social Accountability

As laid out in the Threshold agreement, the TCP is providing “grants to Honduran civil society organizations (“CSOs”) to undertake social accountability projects that assess the quality of spending and service delivery in order to increase government accountability.” Outputs and outcomes are presented in Table 4. TCP’s main grant to ASJ and other grants are described below.

ASJ: In 2015, MCA-H awarded a grant to a local chapter of Transparency International, the Association for a More Just Society (Asociación para una Sociedad más Justa – ASJ), to conduct civil-society-led assessments of government agencies. During the course of the TCP, ASJ has conducted a series of social audits of procurement, human resources, and monitoring processes in several government institutions, including the secretariats of health, education, security, and public works. Based on the findings, ASJ developed a series of recommendations and then put in place a process for monitoring and following up on an improvement plan developed by the institution. Their efforts are expected to lead to improved procurements and the implementation of institutional action plans.

Other grants: While the evaluation focuses on the grant to ASJ, three other grants have been issued to Honduran non-governmental organizations (NGOs). These grants are smaller undertakings; however, they use similar social auditing approaches. As of interim data collection, these three projects were ongoing and expected to end in early 2018. They include grants to:

- The Federation of Non-Governmental Organizations for the Development of Honduras (Federación de Organizaciones No Gubernamentales para el Desarrollo de Honduras - FOPRIDEH) for \$150,000 to conduct oversight of the quality of health services at the General Hospital South, including administering surveys to hospital patrons.
- FDsF Foundation for \$200,000 to conduct citizen monitoring of road infrastructure projects.
- Trócaire for \$200,000 to conduct social audits of health services for women and adolescents in the five Honduran municipalities.

Table 4: Activity 1.4 Grants for Social Accountability sub-activities, outputs, and outcomes

Key Sub-Activities	Outputs	Short-Term Outcomes	Medium-Term Outcomes
<ul style="list-style-type: none"> • Support for agreement between ASJ and GoH • Facilitate grants to CSOs to develop social audits of GoH services 	<ul style="list-style-type: none"> • Procurement assessments of major ministries • HR assessments of major ministries • Three CSO social audits carried out 	<ul style="list-style-type: none"> • Increased transparent and competitive procurements • Ministries/hospitals formulate and implement improvement plans 	<ul style="list-style-type: none"> • Improved competition, value for money, and controls in procurement • Decreased opportunities for corruption in GoH procurement • Sole source purchases and large contract modifications reduced • Enhanced internal and public dialogue about line ministry performance

Source: Millennium Challenge Corporation (Nov. 2017). PFM Program Logic.

2.2.5 PPP Activity 2.1 Develop Core PPP Capacity

According to the TCP agreement, Activity 2.1 “is designed to improve the capacity of, and procedures utilized, by GoH agencies with key PPP responsibilities to develop and implement PPPs in accordance with best practice,” including by:

- Supporting COALIANZA in developing manuals and internal procedures needed to properly (1) select, prioritize, structure, and award PPP projects, and (2) disseminate information about PPP projects in order to sustain public support and investor interest in PPPs;
- Supporting SEFIN in properly identifying and managing fiscal risks in its PPP portfolio, including the development of internal procedures and manuals and implementation of related training.”¹⁴

Table 5 lays out Activity 2.1 sub-activities and their expected outputs and outcomes. Sub-activities include:

Multiyear Road Investment Plan (PPIV) Consultant: The TCP supported a consultant from 2015 through early 2016 tasked with supporting the development of a Multiyear Road Investment Plan (Plan Plurianual de Inversiones Viales – PPIV) that built on work funded by the World Bank (WB) and Inter-American Development Bank (IADB). The plan was to consider costs and benefits,

¹⁴ *Ibid.*

value for money, and financing options. The consultant was also tasked with developing a strategy for strengthening GoH capacity to continually update the PPIV. The consultant produced detailed reports in 2015 covering road conditions, traffic, and other technical considerations. In addition, the consultant provided individual reports relating to the central, western, tourist, and agriculture corridors. In February 2016, the consultant produced a report covering the southern zone of Honduras, which prioritized a list of 21 roads that will improve southern access to Tegucigalpa. The report did not indicate the establishment of any formal mechanism to ensure that the PPIV was continually updated. Following the submission of this report, the consultant's contract ended and was not renewed.¹⁵

PPP Financial Advisor: MCA-H has funded a PPP Financial Advisor since the early days of the TCP. In 2015, the advisor and the IMF assisted SEFIN in creating its Financial Contingencies Unit (UCF). From its creation, UCF, with TCP support, has intervened in the PPP process as envisioned, issuing rulings (*dictámenes*) at critical points along the PPP process cycle. In 2016, the initial advisor was dismissed after failure to complete deliverables assigned in his TOR. Following the advisor's departure, two new financial advisors were hired to assume duties, stretching into mid-2017. In 2017, the financial advisors completed the first guidelines (*lineamiento*) for UCF to follow in managing contingent liabilities of PPPs. During this time, the advisors continued to work with UCF and COALIANZA to conduct financial analyses and mitigate contingent risks from PPPs. One of the advisors led the work of restructuring the CA-4 highway PPP, which was then subsequently retendered and awarded to the sole bidder during the summer of 2017.

Northern Triangle PPP Training Program: While not originally included in the TCP, the Northern Triangle PPP Training program began activities in early 2017. The program, which is implemented regionally in Honduras, Guatemala, and El Salvador, brings together public sector PPP stakeholders for a 200-hour course on PPPs. The course is taught in 40-hour instalments over 9 months. The first 40-hour training (of 200 hours total) covering the first two of nine modules was given in April 2017 for 49 participants from SEFIN (UCF), SAPP, INSEP, COALIANZA and other institutions. The second training, covering the next two modules was implemented in August 2017. At the time of writing, three additional trainings covering the final five modules were expected to take place throughout the rest of 2017 and into early 2018.

Together, these efforts are expected to lead to improved selection of PPPs and improved PPP structuring with lower fiscal risk with the result that PPPs will have a higher rate of return, require fewer budget modifications, offer good value for money, necessitate fewer payments to cover minimum guarantees, and improve infrastructure.

¹⁵ MCC and MCA-H confronted some contractual problems with this consultancy, as the consultant continued to work for INSEP long after the conclusion of his contract. It was not clear to the evaluation team why this happened, but the consultant was not compensated for this work.

Table 5: Activity 2.1 Develop Core PPP Capacity sub-activities, outputs, and outcomes

Key Sub-Activities	Outputs	Short-Term Outcomes	Medium-Term Outcomes
<ul style="list-style-type: none"> • Technical assistance to INSEP in identifying and prioritizing needed infrastructure investments • PPP Financial Advisors TA to the SEFIN Fiscal Contingencies Unit and COALIANZA • Northern Triangle PPP Training Program 	<ul style="list-style-type: none"> • Establishment of Multiyear Investment Plan (PPIV) for infrastructure projects • Establishment of a process to continually update the PPIV • UCF operational manual developed • Establishment of a Fiscal Contingencies Unit • Establishment of a Contingent liability monitoring system • PPP training of staff at SEFIN, COALIANZA, INSEP, SAPP and other relevant institutions 	<ul style="list-style-type: none"> • Selection of PPP according to established objective criteria • Fiscal risks are quantified and monitored • UCF conducts a high-quality analysis of projects at structuring, tendering, and signing • COALIANZA improves structuring of PPP 	<ul style="list-style-type: none"> • Bankable projects with the highest possible economic rate of return are structured as PPPs • Fewer surprise budget modifications • Contract negotiations are conducted to maximize VFM • Minimum revenue guarantees and other aspects of project structure are set to maximize VFM • Stronger public support for PPPs • Improved infrastructure (reducing travel times/ costs of people and goods) • Improved operational efficiency of budget execution • Fewer payments to cover minimum revenue guarantees and canons

Source: Millennium Challenge Corporation (Nov. 2017). PPP Program Logic.

2.2.6 PPP Activity 2.2 Design and Implementation of PPPs

According to the TCP agreement, Activity 2.2 is designed to institutionalize best practices and reinforce Activity 2.1 by supporting specific current and potential PPPs. This is accomplished by:

- “Providing specialized technical assistance for the GoH regarding the administration of current PPPs, specifically, the Logistic Corridor and Tourist Corridor concessions, in accordance with best practice.”

“Providing specialized technical assistance for the GoH to facilitate the administration of current PPPs and to identify and analyze options for structuring a new PPP. This activity focuses on the

Secretariat of Infrastructure and Public Services (Secretaría de Infraestructura y Servicios Públicos - INSEP).”¹⁶Outputs and outcomes of Activity 2.2 are presented in Table 6: Activity 2.2. The following paragraphs detail Activity 2.2 sub-activities.

Road Concessions Advisor: Since 2017, the TCP has supported a Road Concession Advisor to provide technical support to INSEP and other key institutions to improve their ability to develop and manage PPPs. From April 2015 to the present, the advisor provided advice to INSEP in addressing issues arising from poorly drafted contracts with existing concessions. The advisor has also promoted the creation of a concessions unit within INSEP. It was not clear to the evaluation team if this unit was functioning at the time of data collection. One interviewee reported that the unit had been created in April 2017 and had five staff; however, other interviewees held that the unit existed only on paper. Interviewees agreed that there was no director for the unit. As part of this work, the advisor developed manuals for INSEP on managing PPPs. More recently, the advisor has provided support to INVEST-H in developing its own concessions unit. The advisor’s contract was extended into 2018.

PPP Support to Centro Civico: The Centro Civico PPP was successfully designed, bid, and awarded in 2016. Construction on the Centro Civico began in 2017. While the 2017 program logic includes advisors supporting the Civic Center, this work had not yet begun as of interim data collection.

FIDE: At baseline, the TCP was supporting FIDE, a Honduran non-profit organization that had a PPP concession to simplify, automate, and monitor the rules and procedures of three target processes: starting a business, obtaining importing and exporting permits, and obtaining environmental licenses. Businesses and individuals were to be able to apply for these permits through a website, *MiEmpresaEnLínea*. In October 2017, however, MCC/MCA-H cancelled its contract with FIDE for reasons that were not clear to the evaluation team. Before the cancellation of the contract, FIDE had completed one of its major deliverables, *EmprendeGuía*, which documented online all steps and documentation necessary to register a business in Honduras. *MiEmpresaEnLínea*, the website deliverable, had experienced long delays and was unfinished when FIDE’s contract was cancelled.

ENEE: The TCP originally intended to focus on a PPP in the electricity sector, the National Electric Energy Company (Empresa Nacional de Energía Eléctrica – ENEE). However, since the ENEE was already receiving support from the International Finance Corporation (IFC), MCC chose to focus on other potential PPPs.

Activities 2.2 aim to produce an effective and sustainable contract management framework. It is posited that such a framework will result in fewer opportunities for corruption and better implementation of PPPs.

¹⁶ *Ibid.*

Table 6: Activity 2.2 PPP Design and Implementation sub-activities, outputs, and outcomes

Key Sub-Activities	Outputs	Short-Term Outcomes	Medium-Term Outcomes
<ul style="list-style-type: none"> • Road Concession Advisor TA to INSEP, SEFIN, INVEST-H to help manage concession contracts • Funding for one-year Legal Advisor for Civic Center PPP • Funding for one-year Engineer Advisor in Civic Center PPP • Support FIDE PPP (import/export, environmental licenses, start a business) 	<ul style="list-style-type: none"> • Operational manual developed for managing line ministries • Training of concession unit staff to manage concessions • Establishment of a concession unit within INVEST-H to manage road PPP contracts • Establishment of a concession unit within SEFIN to manage the Civic Center • Import/export procedures, starting a business, and environmental licensing procedures documented and made available to the public online 	<ul style="list-style-type: none"> • An effective and sustainable contract management framework is established for properly managing each PPP contract • Improved access to information for businesses 	<ul style="list-style-type: none"> • Improved implementation of PPPs in terms of how GoH reduces penalties, GoH monitors and enforces service delivery vs. key performance indicators in contract, and GoH manages contractor claims and change orders • Transparency and fewer opportunities for corruption in import/export, starting a business, and environmental licensing • Reduction in bribes to receive permits • Reduction in bribes to receive a contract • Reduction in bribes for contract modification

Source: Millennium Challenge Corporation (Nov. 2017). PPP Program Logic.

2.3 Evaluation Type and Questions

Social Impact has been tasked to “assess the program design and implementation to develop the most rigorous evaluation design feasible, whether it is a performance or impact evaluation, and identify the most appropriate evaluation methodology feasible given the context.”¹⁷ Unfortunately, it will not be possible to estimate a credible and rigorously defined counterfactual using experimental or quasi-experimental methods, and, as such, the evaluation team will conduct a longitudinal performance evaluation involving a comparison of changes over time. A performance evaluation is defined by MCC as:

¹⁷ Social Impact and the Millennium Challenge Corporation (Sept. 2014). Evaluation Design and Implementation Services for Honduras. MCC-13-BPA-0017, Section: C.2.7.5.1, 14.

A study that seeks to answer descriptive questions, such as: what were the objectives of a particular project or program, what the project or program has achieved; how it has been implemented; how it is perceived and valued; whether expected results are occurring and are sustainable; and other questions that are pertinent to program design, management and operational decision making. MCC’s performance evaluations also address questions of program impact and cost-effectiveness.¹⁸

The inability to define a counterfactual led to a reformulation of some of the evaluation and research questions originally proposed by MCC.¹⁹ In some cases, questions were maintained with the understanding that there will be limits to the evaluation team’s ability to confidently answer the question. For example, absent a counterfactual it will be difficult to estimate any costs savings or service delivery improvements attributable to the TCP. Instead, the team will look for cost savings and service improvements in response to specific TCP interventions (e.g. cost savings from support for the e-catalogue), explore if the TCP “contributed” to an outcome rather than determine the “independent effect” of the TCP on the outcome, and often rely on the perceptions of key informants and survey respondents to assign potential attribution. The table below provides a list of the evaluation and research questions and the data sources that will be used to answer them. In the following section we explore the methodology used to answer these questions.

Table 7: Evaluation questions

Relevant activities	Questions	Evaluation methodology
TCP	<ol style="list-style-type: none"> 1. Were the Threshold Country Program Goals and Outcomes, as outlined in the Threshold Country Program document and M&E Plan, achieved? Why or why not? <ol style="list-style-type: none"> a. Did the TCP assist Honduras to become eligible for a Millennium Challenge Compact? b. Did the PFM Project increase the efficiency and transparency of public financial management?²⁰ 	<p>Changes in Honduras’s country scorecard; PFM and PPP group interviews focused on efficiency (budget, audits, PPP, FIDE, treasury); comparison between budgeted and outturns of public revenues and expenditures and other fiscal variables; document reviews and content analysis focused on transparency (budgeting, treasury, procurement, congress); process evaluation; key informant interviews (KIIs); document reviews.</p>

¹⁸ *Ibid.* Section: C.2.1.3.2, 5.

¹⁹ See the design document for a detailed discussion: Sabet, Daniel et al. (2015). Evaluation Design Report: Millennium Challenge Corporation: Honduras Threshold Program. Social Impact.

²⁰ Efficiency improvements are understood as performing operations with reduced time and effort. Effectiveness improvements are understood as better accomplishing PFM objectives. For this evaluation, we will be looking at both efficiency and effectiveness.

Relevant activities	Questions	Evaluation methodology
	c. Did the TCP improve the efficiency and transparency of PPPs?	
TCP	2. What were the results of the interventions – intended and unintended, positive or negative? ²¹	Monitoring data on select indicators supported by qualitative data from KIIs with consultants, GoH Points of Contact (POCs) and MCC/MCA-H.
TCP	3. What are the lessons learned and are they applicable to other similar projects?	KIIs with consultants, GoH POCs, and MCC/MCA-H.
TCP	4. What is the likelihood that the results of the Project will be sustained over time?	KIIs with consultants, GoH POCs, and MCC/MCA-H.
Activities 1.1, 1.2, 2.2	5. Does the Program result in an increase in public sector cost savings, without resulting in deterioration in the quality or value of public expenditure?	Document and financial data with particular reference to potential value for money assessments of PPPs; perceptive measures: survey of vendors and survey of public employees; focus on specific interventions with likely cost savings (e.g. e-catalogue; payment arrears).
Activities 1.3, 1.4, 2.2	6. Does the Program result in an improvement in the quality of public service provision?	PPP: Focus on roads through INSEP document reviews and perceptions in KIIs. PFM: ASJ findings; survey of vendors; survey of public employees; review of implementation of TSC, ASJ, assessment recommendations, and other signed Grant Agreements.
Public Financial Management		
Activity 1.1	7. Do partner institutions realize improvement in effectiveness and efficiency in the processing of invoices and cash management?	PEFA indicators for expenditure arrears (2011-PI-4, 2016-22) and debt management (2011-PI-17, 2016-13); document review of consultant deliverables; group interviews with Treasury personnel; KII with consultant.
Activity 1.1	8. Does the accuracy of financial forecasting increase? Why or why not?	PEFA revenue outturn compared to budget (2011-PI-1/PI-2/PI-3, 2016-1/2/3) and un-reported government operations (2011-PI-7, 2016-6); KIIs with consultant and government forecasters.

²¹ MCC uses "results" in its logic model and "results" in the question somewhat differently. In the logic model "results" are very high-level outcomes; however, here "results" are understood broadly.

Relevant activities	Questions	Evaluation methodology
Activity 1.1	9. Does the accuracy of budgeting increase in partner institutions? Why or why not?	PEFA revenue outturn compared to budget (2011-PI-1/PI-2/PI-3, 2016-1/2/3) and un-reported government operations (2011-PI-7, 2016-6); document review of consultant deliverables and budget reporting documentation; KIIs with consultants and budget personnel.
Activity 1.1	10. Does the budget reporting and reporting of budget challenges improve in partner institutions? Why or why not?	Congressional document review; PEFA indicators for budget classification (2011-PI-5, 2016-4), public access to fiscal information (2011-PI-10, 2016-9), accounts reconciliation (2011-PI-22, 2016-27), and annual financial statements (2011-PI-25, 2016-28/29); KIIs with consultants and budget personnel.
Activity 1.2	11. Do procurement assessment recommendations lead to changes in practices? a. Do procurement assessments lead to relevant recommendations that could improve procurement? b. Are these recommendations implemented?	Document review of consultant deliverables and procurement assessments; group interviews with ONCAE personnel and procurement personnel in select institutions; KII with consultant.
Activity 1.2	12. Does business confidence in public procurements and participation in procurements increase? Why or why not? What explains variation in perceptions of fairness of the procurement process?	Survey of vendors; group interviews with procurement personnel in select institutions; KII with consultant.
Activity 1.2, 1.4	13. Do changes to systems and processes reduce opportunities for corruption and/or improve perceptions of corruption and transparency?	Document review of ASJ and consultant deliverables; KIIs, including with members of civil society; surveys of vendors; survey of public employees; follow-up focus groups.
Activity 1.3	14. Do performance audit recommendations lead to changes in practices? a. Do performance audits conducted by the TSC with TCP support lead to relevant recommendations that could improve service delivery? b. Are these recommendations implemented?	Document reviews of audit reports and recommendations and consultant deliverables; group interview with TSC auditors; KIIs with personnel in audited institutions; survey of public employees; follow-up focus groups.

Relevant activities	Questions	Evaluation methodology
Activity 1.4	15. Does civil society oversight and recommendations lead to changes in targeted institutions?	Document review of ASJ reports and recommendations; interviews with ASJ researchers; interviews with officials from relevant institutions; survey of public employees; follow-up focus groups.
Activity 1.4	16. Are there improvements in public employees' perceptions of human resources practices and procurement practices in targeted institutions?	Survey of public employees; follow-up focus groups.
Public Private Partnerships		
Activity 2.1, 2.2	17. Does the PPP project procurement process adhere to best practice?	Comparative case studies of PPPs involving document reviews; group interviews; KIIs.
Activity 2.1, 2.2	18. Are there improvements in the efficiency and effectiveness of the process for developing and structuring PPPs?	Comparative case studies of PPPs involving document reviews; group interviews; KIIs.
Activity 2.1, 2.2	19. Are there improvements in the efficiency and effectiveness of the process for managing PPP?	Comparative case studies of PPPs involving document reviews; group interviews; KIIs.
Activity 2.1, 2.2	20. To what extent does the project facilitate greater capacity and coordination for PPPs within GoH?	Comparative case studies of PPPs involving document reviews; group interviews; KIIs.
Activity 2.1, 2.2	21. Do the systems put in place by the project reduce opportunities for corruption or improve perceptions regarding corruption?	Comparative case studies of PPPs involving document reviews; group interviews; KIIs, including with civil society groups; INSEP portion of the public sector employee survey.
Activity 2.1, 2.2	22. Does the project result in greater transparency and awareness of PPP procedures for government, private sector, and civil society groups?	Comparative case studies of PPPs involving document reviews; group interviews; KIIs.

3. METHODOLOGY

This interim report is part of a larger longitudinal performance evaluation of MCC's TCP in Honduras. It is preceded by a baseline report of findings compiled from data collected in 2016. It will be followed by an endline report based on data collected in 2018 and 2019. Given the disparate nature of the TCP, the evaluation is in many ways a collection of several small evaluations rather than one comprehensive study. As such, the evaluation designs and

methodologies employed are diverse. For a full discussion of the evaluation methodology, please see the Evaluation Design Report and the interim design supplement.²² Further details of specific methodologies are also discussed in the body of the report.

3.1 PFM evaluation

Interim evaluation activities under the PFM include the following; we discuss each in turn below:

- A review of relevant documentation, including consultant deliverables, GoH documentation (e.g., budget reports, improvement plans), and evaluation and audit reports.
- Key informant interviews and group interviews.
- Where possible, use of monitoring data from the M&E Plan and PEFA indicators.

The overall evaluation also entails two waves of a survey of public employees in three large government agencies and a survey of vendors to the government. These sources are not used in this interim report and are not described here.

Case selection: The PFM interventions all entail TCP support for a primary partner, for example, SEFIN, ONCAE, TSC, and ASJ. The primary partner then targets a series of government institutions for whom they provide capacity building activities, an assessment/audit, or a combination of the two. For example, in the case of performance audits, a TCP advisor worked with the TSC, who then conducted performance audits of the INA, ENEE, DEI, and Fondo Vial. A checkmark in the table below means that the corresponding government institution was targeted by the TCP primary partner. The second checkmark means that the institution was chosen as a focus for the evaluation. Activities under 1.1, 1.2, and 1.4 all targeted SEDUC, SESAL, and INSEP. These institutions were selected by the TCP because they make up a large part of the government's budget and personnel.²³ Improving budgeting, procurement, and payments in these three institutions could have a profound effect on financial management and corruption in Honduras. Given the concentration of the intervention on these three institutions, we have also chosen to focus on these in the evaluation. In the case of our evaluations of activities 1.2 and 1.4, we added Fondo Vial and SEDS as important institutions with high levels of irregularities. Fondo Vial is also of interest because of the TCP's investment in the roads sector. In the case of 1.3, we examine all four institutions where performance audits occurred.

²² Sabet, Daniel et al. (2015). Evaluation Design Report; Midline Evaluation Design Supplement. Social Impact.

²³ For the 2017 budget, SEDUC, SESAL, and INSEP made up 36 percent of the budget of the central government. See Secretaría de Finanzas (2017). Centralizada: Presupuesto de Egresos por Institución y Finalidad, Todas las Fuentes. Retrieved from: <http://www.sefin.gob.hn/wp-content/uploads/Presupuesto/2017/aprobado/Descentralizadas/R00822845.pdf>

Table 8: Institutions targeted by PFM interventions and case study selection

	1.1 Budget and Treasury Management	1.2 Procurement Evaluation	1.3 Performance Audit	1.4 Civil society Assessment
Agriculture (SAG)		✓		
Agriculture Institute (INA)			✓✓	
Central District Municipality		✓		
Education (SEDUC)	✓✓	✓✓		✓✓
Electricity (ENEE)		✓	✓✓	
Health (SESAL)	✓✓	✓✓		✓✓
Internal Control (ONADICI)				✓
Procurement (ONCAE)	✓			✓
Infrastructure (INSEP)	✓✓*	✓✓		✓✓
Revenue (DEI/SAR)	✓		✓✓	✓
Roads (Fondo Vial)			✓✓	
Security (SEDS)				✓✓
Social Fund (FHIS)		✓		
Water and Sewer (SANAA)		✓		

* Work with INSEP was later discontinued due to lack of interest on the part of the institution.

M&E Plan/PEFA data: The evaluation had planned to use M&E data to track progress quantitatively on key indicators. Unfortunately, with a few important exceptions, MCC and MCA-H have not yet fully defined the indicators or collected data on many indicators. This is problematic from an evaluation point of view, but it is also of concern for very basic TCP monitoring. The TCP's Indicator Tracking Table (ITT) does contain some data on bad debt and a number of PEFA indicators; however, it relies on the 2012 PEFA using the 2011 PEFA framework as a baseline. Unfortunately, this PEFA offered an update of the 2011 exercise and covers 2009 – 2011 and 2012 for some indicators. The assessment included data from 2008 –

2010. Given that these data are from several years prior to the TCP and given the economic and political challenges experienced during this period, the 2012 exercise does not provide a valid baseline for assessing the TCP. The evaluation team also had access to the more recent PEFA 2016 draft, which utilizes the 2016 updated framework. The 2016 PEFA is not yet in the public domain; however, the evaluation team has used the last two PEFA scores to complement the qualitative research to the extent possible.

Document review: Qualitative interim data collection began with a review of existing, relevant documentation. Items reviewed included documents related to the specific consultancies, including terms of reference (TOR), the submitted workplan or inception report, trip reports, and written deliverables. Additional documents reviewed were specific to the activity. Procurement evaluations conducted by ONCAE’s Statistics and Evaluation Unit, performance audits written by the TSC, and assessments carried out by ASJ are TCP deliverables and valuable sources of data.

Interviews: Using the documentation as a jumping off point, a series of key informant and group interviews were conducted with consultants, their counterparts in partner institutions, key personnel in targeted government institutions, and other key informants. Interviewees were generally selected based on their functional role in the TCP, which could be as a consultant, a GoH partner, or a point of contact for the GoH institution targeted by the TCP. For example, in the case of budgeting support, we conducted interviews with the consultants and their partners in SEFIN, as well as with budget personnel from different institutions that had participated in TCP-supported workshops. In the case of the procurement activity, we conducted interviews with the consultants, their partners in ONCAE, and procurement personnel in four institutions assessed by ONCAE. In some cases, it was not possible to obtain an interview with the indicated person in a given institution. For example, we were unable to speak with anyone from the electricity utility, which had undergone a performance audit, and we were unable to speak at length with the right person responsible for procurement at the health ministry. As seen in the following table, we conducted 35 interviews and group interviews with 94 respondents. The column “institutions targeted” does not include primary TCP partner institutions, such as SEFIN for 1.1: Budget and Treasury, but rather the institutions these partner institutions focused on.

Table 9: Data collection events and interviewees by activity

Activity	Institutions targeted by the evaluation	Number of data collection events	Total number of interviewees
1.1: Budget and Treasury	Education (SEDUC)	13	28
	Health (SESAL)		
	Infrastructure (INSEP)		
1.2: Procurement	Education (SEDUC)	7*	21*
	Health (SESAL)		
	Infrastructure (INSEP)		
	Roads (Fondo Vial)		

Activity	Institutions targeted by the evaluation	Number of data collection events	Total number of interviewees
1.3: Performance audits	Revenue (DEI) Electricity (ENEE) Agriculture Institute (INA) Fondo Vial	6	17
1.4: Civil Society accountability	Education (SEDUC) Health (SESAL) Infrastructure (INSEP) Security (SEDS)	9*	26*
FGDs with vendors related to 1.2 and 1.4	Education (SEDUC) Health (SESAL) Infrastructure (INSEP)	3	14
Total		35	94

* Includes 3 interviews and 12 interviewees that were interviewed for both 1.2 and 1.4. These are not double counted in the total.

3.2 PPP evaluation methodology

Interim evaluation activities under the PPP include the following, and we discuss each in turn below:

- A review of relevant documentation, including consultant TORs and deliverables, PPP training curriculum, public sector online reports, and web articles
- Key informant interviews and group interviews

Data from the survey of public employees in INSEP was also used as a source of data to inform PPP findings, though these findings are not detailed in this report.

Case selection: The PPP interventions entail TCP support to improve the PPP process at its four critical phases: development, structuring, procurement, and management. To get a practical sense for changes in these phases, the evaluation team employs a case study methodology. As of this writing, COALIANZA lists 25 national PPPs in various stages of the PPP process. The projects include eleven road-based PPPs, an urban development project, three port projects, one proposed airport, five energy projects, three services initiatives, and one mining project. At the design stage, we chose to focus exclusively on large road concession projects to ensure comparability and facilitate measuring changes over time. These included CA-4 Highway, the Logistics Corridor, the Tourist Corridor, and San Pedro Sula Century XXI. These projects are large in scope and have the potential to affect a large number of Hondurans. As shown in Table

10, three of the projects were at the contract management stage and one was in procurement. The intention in the original design was to eventually select additional cases at early stages of the PPP process. By comparing these with the older cases, we hoped to observe any potential improvements related to TCP technical assistance. As of interim data collection, however, TCP technical support was focused on other non-road based projects, and as such, the new cases selected are not road-based projects. The two additional cases added at interim data collection are a Civic Center (Centro Cívico) governmental complex and a dam and hydroelectric generation project (El Tablón). At the time of data collection, the Civic Center had recently completed the procurement stage and El Tablón was in the development phase.

Table 10: PPP Case Studies and their PPP Project Cycle Phases at Baseline, Interim, and Endline

PPP Case study	Sector	PPP phase at baseline	PPP phase at interim	Expected PPP phase at endline
CA-4	Roads/highway	Procurement	Procurement	Contract management
San Pedro Sula Century XXI ("Siglo XXI")	Roads/highway	Contract management	Contract management	Contract management
Tourist Corridor	Roads/highway	Contract management	Contract management	Contract management
Logistics Corridor	Roads/highway	Contract management	Contract management	Contract management
Civic Center	Governmental civic center	Procurement	Contract management	Contract management
El Tablón	Dam/hydroelectric	Development	Development	Procurement

Document review: As with PFM, qualitative interim data collection began with a review of existing, relevant documentation. Items reviewed included documents related to the specific consultancies, including terms of reference, the submitted workplan or inception report, trip reports, and written deliverables. Additional documents reviewed included any documentation on the selection and evaluation of PPP projects, evaluations of bids submitted by potential private sector firms for past projects, PPP project contracts, and any regular reporting (monthly, annual, etc.) on project activities by key actors such as supervisory entities and concessionaires. Relevant secondary documents were obtained from MCC/MCA-H consultants and staff and other pertinent players such as the IADB and World Bank. We also collected data from the websites of institutions involved in the PPP process (COALIANZA, INSEP, SEFIN/UCF, SAPP).

Interviews: At baseline, the evaluation team drafted a qualitative interview guide using the documentation gathered as a starting point. We revised the guide at interim data collection to take

into account changes and additions to TCP activities since baseline. The updated guide was then used in key informant and group interviews of consultants, their counterparts, and other key informants across the relevant institutions involved in PPPs. At interim, we conducted 15 group and key informant interviews with 26 PPP stakeholders in August 2017. Interviewees were selected based on their functional role in the TCP as a consultant, partner, indirect beneficiary, or external key informant. The interviewees included representatives from the key institutions of COALIANZA (at baseline only), SAPP, INSEP, and SEFIN, as well as key informants from civil society, concessionaires, TCP consultants, and MCA-H personnel. A breakdown of interviewees by institution is provided in Table 11. While the evaluation team was generally able to obtain all the interviews requested at baseline, at the interim data collection, the team was notably unable to confirm any meetings with COALIANZA. This is a substantial omission given the key role that COALIANZA plays in the PPP process. COALIANZA's decision not to participate may be related to the deterioration of relations between MCC/MCA-H and COALIANZA. Further, though two representatives of private sector concessionaires were interviewed at baseline, none were successfully reached at interim; ideally, more private sector interviews would have been conducted to gain insight into how the sector views the PPP process. As in the PFM section, qualitative research activities will continue over the remainder of the TCP, and a similar qualitative data collection effort will take place at the end of the TCP.

Table 11: Number of interviews and interviewees by PPP stakeholder, at interim data collection

Stakeholder	Number of interviews	Number of interviewees
SEFIN/UCF	2	2
INSEP	2	5
SAPP	2	4
COALIANZA	0	0
TCP consultants	3	3
Northern Triangle Training	3	8
MCA-H	3	4
Total	15	26

4. THRESHOLD COUNTRY PROGRAM GOALS AND OUTCOMES

Q1: Were the Threshold Country Program goals and outcomes, as outlined in the Threshold Country Program document and M&E Plan, achieved? Why or why not?

The TCP agreement states that the Program Goal of the TCP is to assist Honduras to become eligible for a Millennium Challenge Compact. The Program Objective is to increase the efficiency and transparency of the government, and the Project Objectives are to increase the efficiency and transparency of PFM and PPPs. In addition, the current PFM draft program logic, which should form part of a revised M&E plan, lists 37 short-term outcomes, medium-term outcomes, and objectives, and the PPP draft project logic lists 23. These objectives and outcomes are addressed at a high level in Question 2.

In this question response, we briefly address the goal of Compact eligibility. MCC's board uses three factors in evaluating candidate country eligibility for a Compact. These include: (1) policy performance, (2) the opportunity to reduce poverty and generate economic growth, and (3) the availability of MCC funds.²⁴ Eligibility under policy performance is determined using 20 third-party developed and measured indicators across three categories: Economic freedom, ruling justly, and investing in people. Countries must:

- Pass at least 10 of the 20 indicators, with at least one pass in each of the three categories
- Pass either the Political Rights or Civil Liberties indicator
- Pass the Control of Corruption indicator

A country passes an indicator if it scores above the median country score of countries in the same income category. Honduras is judged against other lower middle-income countries, which include Bolivia, Nicaragua, and Guatemala. For the 2018 scorecard, which was released in September 2017, Honduras met the first two criteria; however, it scored just below the median on the control of corruption indicator.²⁵ This result represents an improvement from baseline when Honduras obtained non-passing scores across 11 of 20 indicators and was further from the median on the corruption score. The TCP, along with other GoH and IMF efforts, likely played a role in the improved fiscal policy score and its change from failure to pass. It is possible that the country will become eligible in 2019.

At baseline, some interviewees were critical of the governance indicators and suggested that the indicators did not provide Honduras with clear steps for improving its governance ratings. It was

²⁴ Millennium Challenge Corporation (2017). Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance for Fiscal Year 2018. Retrieved from: <https://www.mcc.gov/resources/doc/report-selection-criteria-methodology-fy18>.

²⁵ Millennium Challenge Corporation (2017). Honduras FY18 Scorecard. Retrieved from: <https://www.mcc.gov/who-we-fund/scorecard/fy-2018/HN>.

also noted that because the indicators are perception based, they are unlikely to capture changes quickly. Because of these limitations, some interviewees argued that MCC might be missing a chance to assist Honduras at a critical time in its development.

5. RESULTS OF THE INTERVENTIONS

Q2: What were the results of the interventions – intended and unintended, positive or negative?

Throughout this report, we consider the impact of diverse TCP activities. For example, Questions 7-10 look at the results of budget and treasury management activities and Questions 17-22 explore the outcomes of PPP interventions. To avoid duplication, we offer a higher-level summary here and allow for more detailed responses with supporting evidence in the more specific questions. In the section that follows, we use the draft October 2017 program logic to offer a summary of expected outputs, short-term outcomes, and medium-term outcomes across the TCP activities. (Questions 5, 6, 13, and 21 address the higher-level results of cost savings, public service delivery improvements, and reduction in corruption opportunities). We then consider the extent to which the TCP had achieved the intended outcomes as of interim data collection. To provide a general sense of progress, we color code items included in the program logic in a series of tables.

5.1 PFM Activity 1.1 Budget and Treasury Management

The TCP is largely on track to achieve some of the outputs identified in the revised program logic and summarized in Table 12. The program is also starting to deliver on some of the shorter-term outcomes: a Fiscal Impact Analysis methodology is being put in place, the MTEF is progressing slowly but steadily, and budgets increasingly reflect costs of service delivery through basic baseline costings. Transparency and congressional oversight improved with a strengthened budget hearings process, although technical assistance to CBC was discontinued in November 2016, as most activities had either been completed or were not receiving sufficient traction. Consolidated work around PACCs to improve timeliness of payment prioritization to vendors is only starting to emerge following some diagnostic work at the beginning of the Program.

While the TCP is helping to lay a reasonable foundation towards achieving the medium-term outcomes listed in Table 12, meaningful change and the achievement of these outcomes appears unlikely by the end of the TCP. For example, even if treasury processes are strengthened, we may not see reduction in bid premiums, stock of arrears, or borrowing costs by the end of the TCP. Building on the existing foundation to achieve these outcomes will require additional government efforts and technical assistance post-TCP.

Table 12: Activity 1.1 Budget and Treasury Management sub-activities, outputs, and outcomes

Key Sub-Activities	Outputs	Short-Term Outcomes	Medium-Term Outcomes
<ul style="list-style-type: none"> • OTA technical assistance to strengthen budget formulation and execution (SEFIN, and GOH institutions with focus on INSEP, SEDUC, SESAL) • OTA technical assistance to improve Congressional budget committee's budget oversight, fiscal rules and fiscal transparency • External audit of payment arrears by Deloitte (SEFIN) • IT consultants to modify SIAFI Treasury module 	<ul style="list-style-type: none"> • Improved formats for PGMs and PACCs • Payment priority procedures in SIAFI and SIREP automated • GoH writes off invalid arrears and starts paying some valid ones • Improved revenue forecasting models • Baseline Budget templates and training in more than 100 GOH institutions • Fiscal Impact Analysis (FIA) methodology developed and staff trained in 26 institutions • Legislative preparation for budget hearings is improved, as is public access • Review of physical invoices • Law revised to strengthen budget execution controls, impose fiscal discipline, and require MTEF 	<ul style="list-style-type: none"> • More transparent and less subjective payment prioritization • Line Ministries promptly enter and approve invoices • Improved budget forecasting and reduced expenditures that exceed original budget • Medium-term Expenditure Framework (MTEF) is gradually developed • Budgets increasingly reflect costs of service delivery • FIA starting to be piloted on new legislation • Increased transparency in budget process and Congressional oversight 	<ul style="list-style-type: none"> • Vendors reduce bid premium for risk of delayed or non-payment • Vendors reduce bid premium due to competition • Reduced stock of payment arrears and current vendors paid on time • GoH borrowing costs reduced • Improved allocative efficiency of budget formulation • Improved operational efficiency of budget execution • Reduced mid-year budget modifications that require inefficient reallocation of spending

Source: Millennium Challenge Corporation (Oct. 2017). Draft PFM Program Logic.

Note: Green indicates that the item has been completed/instituted or that completion is highly likely. Orange indicates a general positive trajectory that if sustained could potentially lead to achieving the item. In some cases, however, this could go beyond the TCP period and would require concerted efforts after the TCP. Red indicates that the item is not completed and that the trajectory of change – even if there has been some progress – makes achievement unlikely. Grey indicates uncertainty. The color-coding is a simple heuristic designed to give the reader an overall sense of progress. The evaluation was not designed nor intended to measure progress on each of these specific items.

5.2 PFM Activity 1.2: Improving Procurement Capacity, Planning and Controls

Activity 1.2 has been one of the more active areas of the TCP. It has included long-term technical assistance, long-term e-catalogue helpdesk support, detailed procurement assessments, and a training and certification program. The activities are well regarded by interviewees and are on-track to achieve most output goals laid out in Table 13. The intervention has also achieved some of its short-term outcomes: use of the e-catalogue continues to increase, trainings and procurement assessments have already led to some improvements in procurement processes in targeted institutions, and revisions to budget dispositions and the issuances of circulars have improved the regulatory framework. Medium-term outcomes are pending; however, TCP supported consultants have promoted some innovated solutions to the GoH's procurement problems.²⁶ Perhaps most promising is a proposal to certify procurement officials and reform the law to require procurements above a certain threshold to be signed by these certified public procurement officers. These individuals would then be legally responsible for any procurement irregularities, creating an incentive for legal compliance. Other innovative solutions to the GoH's procurement problems include a new requirement to post private procurements – traditionally limited to three quotes – on HonduCompras and allow additional bids from potentially new vendors. These actions have the potential to decrease opportunities for corruption, increase competition, and lower prices. However, procurement reform is notoriously difficult, as many key stakeholders benefit from the status quo. For example, while institutions are reportedly posting private procurements to HonduCompras, these postings are not resulting in a high volume of additional bids, suggesting that the informal rules of limited competition remain in effect. As such, activities under 1.2 represent one of the highlights of the TCP, but we have concerns over long-term impacts and sustainability (see Question 4).

²⁶ The evaluation will not be able to determine if many of the medium-term outcomes have been achieved at endline with the current evaluation design. The numbers of vendors bidding, sole sourced purchases, and contract modifications should ideally be included and calculated in the TCP's Indicator Tracking Table. Other indicators are difficult to measure and will be difficult to determine. For example, while the survey attempts to measure bribery, we have no means to measure if vendors reduce their bid premiums.

Table 13: Activity 1.2 procurement sub-activities, outputs, and outcomes

Key Sub-Activities	Outputs	Short-Term Outcomes	Medium-Term Outcomes
<ul style="list-style-type: none"> • OTA technical assistance for e-catalogue and ONCAE staff transition to civil service • TA for e-catalogue, civil service reform, evaluation methodology and unit, procurement certification program, and training, and revision of regulations • Support for staff for HonduCompras Help Desk • Support for Staff in Procurement Evaluation Unit • Support to procure new HonduCompras • Support to CoST • Support for intervention on road maintenance fund 	<ul style="list-style-type: none"> • Market studies completed • Prompt payment for e-catalogue vendors* • GoH buyers and vendors know how to use e-catalogue* • Paperwork completed to transition ONCAE staff to the Civil Service • Draft recommendations for changes to procurement legal frameworks • ONCAE evaluation unit established • Complete procurement plans published • Procurement assessments done in major institutions • Procurement officials trained and certified in 57 GoH institutions • New HonduCompras launched • Published, socialized roads/Infrastructure project (CoST) • Strategic Action Plan for improvement of the Road Maintenance Fund 	<ul style="list-style-type: none"> • Increased products in the e-catalogue and increased use • ONCAE staff have permanence • Procurement regulatory framework strengthened • Increased transparent and competitive procurements 	<ul style="list-style-type: none"> • More vendors bid • Improved competition, value for money, and controls in procurement • Decreased opportunities for corruption in GoH procurements • Sole source purchases and large contract modifications reduced • Sustained results of procurement assessment, training, and e-catalogue • Vendors reduce bid premium due to competition • Reduction in bribes for contracts, modifications, or payments

Source: Millennium Challenge Corporation (Oct. 2017). Draft PFM Program Logic.

Note: Green indicates that the item has been completed/instituted or that completion is highly likely. Orange indicates a general positive trajectory that if sustained could potentially lead to achieving the item. In some cases, however, this could go beyond the TCP period and would require concerted efforts after the TCP. Red indicates that the item is not completed and that the trajectory of change – even if there has been some progress – makes achievement unlikely. Grey indicates uncertainty. The color-coding is a simple heuristic designed to give the reader an overall sense of progress. The evaluation was not designed nor intended to measure progress on each of these specific items.

* While listed as outputs these appear to be short-term outcomes

5.3 PFM Activity 1.3 Improving Capacity of the TSC

While illicit enrichment audit support was only beginning at the time of data collection, most of the performance audit outputs had been realized by interim data collection, that is, auditors had been trained, equipment procured, and pilots conducted. Performance Audit Guidelines were produced

under the initial long-term consultancy. They will be revised by a new TCP consultant who came onboard at the beginning of interim data collection. As of interim data collection, a permanent program of performance auditing had not yet been established and the appointment of new magistrates in December 2016 brought into question the future of performance auditing in the TCP. At the time of data collection, there was some indication that the arrival of a new consultant in September 2017 would revitalize interest.

For the pilot institutions, it is unclear if the medium-term outcomes of improved efficiency and effectiveness will be achieved. We will have a better sense of this at endline once the TSC has completed its follow-up process in all four institutions. As of interim data collection, the advances appeared to be minimal:

- In DARA, there was little action on any of the TSC recommendations; however, it was difficult to know if this was because of a weakness in the performance audit’s theory of change or if the performance audit was simply deprioritized as DEI was dissolved and DARA transferred to SEFIN.
- In Fondo Vial, there was similarly little response; however, it is possible that the audit findings played a role in the dissolution of Fondo Vial. The transfer of Fondo Vial’s functions to INVEST-H could lead to major efficiency and effectiveness gains.
- ENEE contested many of the TSC’s findings in its response to the audit, and it was unclear if ENEE made any significant changes as a result of the audit.
- INA responded to most audit findings by noting limitations to implementing the recommendations. As such, it appears unlikely that INA’s situation will be improved in the medium-term.

Table 14: Activity 1.3 TSC sub-activities, outputs, and outcomes

Key Sub-Activities	Outputs	Short-Term Outcomes	Medium-Term Outcomes
<ul style="list-style-type: none"> • TA on technical performance auditing in institutions • Equipment provision for performance audits • TA for improving audits • TA to support illicit enrichment audits 	<ul style="list-style-type: none"> • Guidelines and methodology; 42 auditors trained; 4 pilot audits completed • 80 computers and measuring instruments acquired • Performance Audit Guidelines revised, improve audit follow-up; mentor on new performance audits • Recommendations and training to improve illicit auditing 	<ul style="list-style-type: none"> • TSC implements a permanent program of performance auditing • Improved capacities and processes in TSC for illicit enrichment audits 	<ul style="list-style-type: none"> • Program managers improve efficiency and/or effectiveness; allocative efficiency of budget formulation improved • Robust case filings in court; fewer contract awards influenced by bribes

Source: Millennium Challenge Corporation (Oct. 2017). Draft PFM Program Logic.

Note: Green indicates that the item has been completed/instituted or that completion is highly likely. Orange indicates a general positive trajectory that if sustained could potentially lead to achieving the item. In some cases, however, this

could go beyond the TCP period and would require concerted efforts after the TCP. Red indicates that the item is not completed and that the trajectory of change – even if there has been some progress – makes achievement unlikely. Grey indicates uncertainty. The color-coding is a simple heuristic designed to give the reader an overall sense of progress. The evaluation was not designed nor intended to measure progress on each of these specific items.

5.4 PFM Activity 1.4: Grant Facility for Social Accountability

The TCP is on track to achieve all its outputs. Focusing on ASJ's work, we also see considerable progress in achieving short-term outcomes, including some improvements to procurement processes and implementation of improvement plans. The TCP helped contribute to these outcomes, along with internal ministry initiatives, presidential leadership, and other complementary ASJ actions.

In SEDS we see: (1) development of a robust and technologically supported asset management system (SIG), (2) the creation of a centralized procurement unit, (3) trainings for procurement personnel, (4) increased posting of procurements to HonduCompras, (5) passage of the Organic National Police Law and an entirely new Police Career Personnel Law, and (6) installation of the SIG and HR-related modules allowing for improved personnel management and payroll processes.

In SEDUC, advances include: (1) efforts to improve SEDUC personnel procurement capacity, (2) development of a procurement manual for all types of processes carried out by SEDUC, (3) improvement of the process for distribution and storage of assets, (4) development of a policy for accountability and citizen participation in procurement at central and non-central levels, (5) the development of two competitive hiring processes, (6) active participation of civil society in these two hiring processes, and (7) uploading of information onto the transparency website.

SESAL efforts include: (1) steps taken to compile pricing information for main products and its vendors, (2) some progress in implementing international regulations for storage and distribution of assets, (3) a new policy for accountability and citizen participation in procurement at central and non-central levels, (4) a draft document defining an internal regulation and human resources procedure, and (5) an updated census of SESAL's personnel.

These advances are likely to contribute to some medium-term outcomes. There are certainly improved procurement controls, and while it seems reasonable that these improvements would lead to improved competition, value for money, and reduced opportunity for corruption, we do not have an accurate way to determine this based on the current evaluation design. Sole source purchases and contract modifications should ideally be captured in the TCP's monitoring data, although it is not clear if this will be added to the Indicator Tracking Table by endline. There have likely been some improvements in public dialogue as a result of the reports, which have been covered in the Honduran press.

Table 15: Activity 1.4 Grants for Social Accountability sub-activities, outputs, and outcomes

Key Sub-Activities	Outputs	Short-Term Outcomes	Medium-Term Outcomes
<ul style="list-style-type: none"> • Support for agreement between ASJ and GoH • Facilitate grants to CSOs to develop social audits of GoH services 	<ul style="list-style-type: none"> • Procurement assessments of major ministries • HR assessments of major ministries • Three CSO social audits carried out 	<ul style="list-style-type: none"> • Increased transparent and competitive procurements • Ministries/hospitals formulate and implement improvement plans 	<ul style="list-style-type: none"> • Improved competition, value for money, and controls in procurement • Decreased opportunities for corruption in GoH procurement • Sole source purchases and large contract modifications reduced • Enhanced internal and public dialogue about performance by line ministries

Source: Millennium Challenge Corporation (Oct. 2017). Draft PFM Program Logic.

Note: Green indicates that the item has been completed/instituted or that completion is highly likely. Orange indicates a generally positive trajectory that if sustained could lead to achieving the item. In some cases, however, accomplishment of the task would require concerted efforts after the TCP. Red indicates that the item is not completed and that the trajectory of change – even if there has been some progress – makes achievement unlikely. Grey indicates uncertainty. The color coding is a simple heuristic designed to give the reader an overall sense of progress. The evaluation was not designed nor intended to measure progress on each of these specific items.

5.5 PPP Activity 2.1: Develop Core PPP Capacity

The TCP is on track to achieve the outputs listed in the program logic; however, there has been only limited progress in obtaining even short-term outcomes. The PPP selection process still seems to be driven largely by unscientific selection and political considerations at both INSEP and COALIANZA. By all accounts, COALIANZA has not improved structuring of PPPs. This has been evidenced by the fact that (1) attempts to introduce more stringent PPP project structuring guidance, led by UCF on the basis of inputs from the TCP advisers, have encountered opposition from COALIANZA, (2) very little attention has been given to such key factors as VFM or affordability analyses, with the exception of the Centro Civico PPP, and (3) the transfer of the CA-4 procurement from COALIANZA to the UCF after COALIANZA's own structuring attempts did not attract any bidders in two rounds of procurement.

The UCF by contrast has made some progress towards short-term outcomes. At the time of interim data collection, UCF had (1) developed manuals and guidelines for appropriate fiscal risk

analysis of PPPs, (2) increased its capacity to conduct high quality analysis, and (3) applied its powers to halt the movement of a PPP (the CA-4 road) after it did not pass one of UCF's analyses.

As of interim data collection, there has been little progress in achieving medium-term outcomes. There is no evidence to support the use of economic rates of return (ERR) as having been a factor in the selection or in the award of final contracts. With the exception of the Civic Center PPP, VFM analysis has not been conducted or considered. Further, minimum revenue guarantees appear to be included in contracts to ensure that the private sector will bid, and this decision is not tied to a VFM analysis.

Inadequate fiscal analysis and the lack of involvement of key technical actors (i.e., INSEP, SAPP) have led to both budget modifications and additional costs from minimum revenue guarantees and other penalties. These have happened due to (1) construction delays stemming from late transfer of land title (Logistics Corridor), (2) failure by INSEP to deliver a component of the project (Logistics Corridor), (3) unforeseen events such as social protest against the installation of toll booths (Tourist Corridor), and (4) over-estimated traffic flow, with consequent lower revenue and the need to initiate payments under the minimum guaranteed income (IMAG) provision (Tourist Corridor).

Table 16: Activity 2.1 Develop Core PPP Capacity sub-activities, outputs, and outcomes

Key Sub-Activities	Outputs	Short-Term Outcomes	Medium-Term Outcomes
<ul style="list-style-type: none"> • Technical assistance to INSEP in identifying and prioritizing needed infrastructure investments • PPP Financial Advisors TA to the SEFIN Fiscal Contingencies Unit and COALIANZA • PPP Regional Training Program 	<ul style="list-style-type: none"> • Establishment of Multiyear Investment Plan (PPIV) for infrastructure projects • Establishment of a process to continually update the PPIV • UCF operational manual developed • Fiscal Contingencies Unit established • Contingent liability monitoring system established • PPP training of staff at SEFIN, COALIANZA, INSEP, SAPP and other relevant institutions completed 	<ul style="list-style-type: none"> • Selection of PPP according to established objective criteria • Fiscal risks are quantified and monitored • UCF conducts a high-quality analysis of projects at structuring, tendering, and signing • COALIANZA improves structuring of PPP 	<ul style="list-style-type: none"> • Bankable projects with the highest possible economic rate of return are structured as PPPs • Fewer surprise budget modifications • Contract negotiations are conducted to maximize VFM • Minimum revenue guarantees and other aspects of project structure are set to maximize VFM • Stronger public support for PPPs • Improved infrastructure (reducing travel times/ costs of people and goods) • Improved operational efficiency of budget execution • Fewer payments to cover minimum revenue guarantees and canons

Source: Millennium Challenge Corporation (Oct. 2017). Draft PFM Program Logic.

Note: Green indicates that the item has been completed/instituted or that completion is highly likely. Orange indicates a general positive trajectory that if sustained could potentially lead to achieving the item. In some cases, however, this could be beyond the TCP period and would require concerted efforts after the TCP. Red indicates that the item is not completed and that the trajectory of change – even if there has been some progress – makes achievement unlikely. Grey indicates uncertainty. The color coding is a simple heuristic designed to give the reader an overall sense of progress. The evaluation was not designed nor intended to measure progress on each of these specific items.

5.6 PPP Activity 2.2 Design and Implementation of PPPs

TCP activities have contributed to some progress with regard to effective and sustainable PPP contract management frameworks. For one, through support provided by TCP-funded legal and

engineering advisors and by learning from past experience, SEFIN appears to have acquired a better understanding of the PPP contract management issues as evidenced through the current contract management of the Civic Center PPP. Further, at the time of interim data collection, a unit to manage PPP concessions had been established at INSEP; however, its scope and the status of its activities were largely unclear or unknown.

There is still work to be done to arrive at a truly sustainable contract management process owned by the appropriate public-sector actors of INSEP and SAPP. In particular, monitoring of most existing PPP contracts, is largely delegated to private sector supervisory groups (paid for by the concessionaire and often contracted by the trustee bank). These groups report to SAPP and have limited interaction or collaboration with INSEP. As the ultimate beneficiary of the work, and according to best practice, INSEP should play a much larger role in the supervisory process. This “tripartite” management structure of the private entity, SAPP, and to a lesser degree INSEP, has oftentimes led to confusion as the various actors in contract management do not have clearly defined roles.

The medium-term outcome of “improved implementation of PPPs through better management” has not yet been achieved. Delays in transfer of land titles in many of the early highway PPP continue to lead to additional costs for private sector concessionaires and the public sector continues to reimburse concessionaires for those costs. The Road Concession advisor for INSEP continues to spend more time on managing claims or requests made by concessionaires than on building capacity to manage contracts.

Short and medium-term outcomes related to the work of FIDE are not detailed in this report given that TCP support to FIDE was withdrawn in late 2016.

Table 17: Activity 2.2 PPP Design and Implementation sub-activities, outputs, and outcomes

Key Sub-Activities	Outputs	Short-Term Outcomes	Medium-Term Outcomes
<ul style="list-style-type: none"> Road Concession Advisor TA to INSEP, SEFIN, INVEST-H to help manage concession contracts Funding for one-year Legal Advisor for Civic Center PPP Funding for one-year Engineer Advisor in Civic Center PPP Support FIDE PPP (import/export, environmental licenses, start a business) 	<ul style="list-style-type: none"> Operational manual developed for managing line ministry Training of concession unit staff to manage concessions Establishment of a concession unit within INVEST-H to manage road PPP contracts Establishment of a concession unit within SEFIN to manage the Civic Center Import/export procedures, starting a business, and environmental licensing procedures documented and made publicly available online 	<ul style="list-style-type: none"> An effective and sustainable contract management framework is established for properly managing each PPP contract Improved access to information for businesses 	<ul style="list-style-type: none"> Improved implementation of PPPs in terms of GoH manages their obligations to reduce penalties, GoH monitors and enforces service delivery vs key performance indicators in contract, and GoH manages contractor claims and change orders Transparency and fewer opportunities for corruption in import/export, starting a business, and environmental licensing Permit process less influenced by bribes Reduction in bribes to receive a contract Reduction in bribes for contract modification

Source: Millennium Challenge Corporation (Oct. 2017). Draft PFM Program Logic.

Note: Green indicates that the item has been completed/instituted or that completion is highly likely. Orange indicates a general positive trajectory that if sustained could potentially lead to achieving the item. In some cases, however, this could be beyond the TCP period and would require concerted efforts after the TCP. Red indicates that the item is not completed and that the trajectory of change – even if there has been some progress – makes achievement unlikely. Grey indicates uncertainty. The color coding is a simple heuristic designed to give the reader an overall sense of progress. The evaluation was not designed nor intended to measure progress on each of these specific items.

5.7 Conclusions

The analysis of Question 1 (“What were the results of the intervention, intended and unintended and positive and negative?”) focused on the outputs, short-term outcomes, and medium-term outcomes laid out in the TCP program logic. With some exceptions, the analysis found that the TCP is on track to achieve the outputs laid out in the logic across all activity areas.

PFM activities 1.1. (budget and treasury management), 1.2 (procurement), and 1.4 (social accountability) demonstrate progress in achieving short-term outcomes. Those outcomes include, for budget and treasury management, implementation of a Fiscal Impact Analysis methodology, steady progress on developing an MTEF, and improved budgeting through basic baseline costings. In the area of procurement, short-term outcomes include increased use of the e-catalogue, improvements in procurement processes in targeted institutions through training and procurement assessments, and improvements to the regulatory framework by way of revisions to budget dispositions and the issuances of circulars. ASJ's reports have led to the production of action plans in the targeted institutions and improvements in three of the four institutions examined here.

By contrast, the TCP fell short of achieving several key short-term objectives for implementing activities for Activity 1.3 (performance audits), and Activity 2.1 (developing core PPP capacity). As of interim data collection, performance audits had been discontinued after the initial pilot. Further, the process for selecting PPPs was not based on objective criteria and COALIANZA had not improved its structuring of PPPs.

While Activities 1.1, 1.2, and 1.4 laid a strong foundation for achieving medium-term outcomes; it is doubtful that they will be achieved prior to the end of the TCP. It will be important for technical assistance and funding support to be adopted by other donors if these goals are to be realized. Achievement of most medium-term outcomes appears unlikely for Activities 1.3, 2.1, and 2.2.

6. LESSONS LEARNED

Q3: What are the lessons learned and are they applicable to other similar projects?

After close to three years of implementation, we observe several lessons learned from the TCP with applications to similar projects.

Technical assistance requires the flexibility to adjust interventions as new information becomes available and new opportunities appear. Effective TA needs flexible and iterative approaches that recognize change and capacity development are long-term processes that are difficult to predict.²⁷ On a spectrum from extreme flexibility to extreme planning, the TCP falls closer to the former. While this approach has not come without costs (see below), it has allowed the TCP to evolve in positive directions across most aspects of the TCP. In the area of budgeting, OTA's baseline budgeting approach was adapted to complement pre-TCP MTEF efforts and the work consolidated around the MTEF. In the area of payments to vendors, new lines of work are

²⁷ Land, Tony (2007). Joint Evaluation Study of Provision of Technical Assistance Personnel: What can we learn from promising experiences? ECDPM Discussion Paper 78. ECDPM. Retrieved from: <https://ecdpm.org/publications/joint-evaluation-study-provision-technical-assistance-personnel/>

focusing on various government institutions (rather than just the Treasury) through a common denominator to all (the PACC). In procurement, the scope of the intervention expanded to include a robust training exercise and the creation of a certification process for procurement officials. In grant making for social accountability, the TCP took advantage of a unique opportunity to fund ASJ far beyond what was originally envisioned. In PPPs, the TCP adapted its approach (in the absence of adequate political support in COALIANZA and INSEP) to work more closely with SEFIN and to focus on training. This ability to respond to new information, closing windows, and the opening of new opportunities increased the effectiveness of the TCP.²⁸

Prioritizing flexibility does, however, introduce risk, including in the areas of undermining planning, limiting articulation of a clear theory of change, interfering with basic monitoring, and assuring timeliness. While we believe that the TCP's flexible approach has been a net positive, it has come at a cost. There were clearly areas of the TCP that could have been better planned with greater due diligence. For example, the original TCP assumed that sole-source contracts were a major problem in GoH procurement and a reduction in such contracts was an objective of the intervention; however, once on the job, procurement advisors learned that such procurements were relatively rare. Instead they have focused their efforts on different procurement problems. In addition, the TCP only included a very rough theory of change at its inception; that theory of change was not updated until November 2017. To the extent that a theory of change is an important planning tool to identify programmatic risk, this omission is of concern as it could have led to the funding of ineffective pet projects. Now in its last year of implementation, the TCP still does not have adequate monitoring indicators, data, or targets. Even a flexible program design should have a clearly articulated theory of change and monitoring framework. While activities and milestones might change with a flexible design, medium-term and higher-level outcomes should be held fairly constant. Finally, while the evolving nature of the TCP has eventually led to an adaptively well-designed program, it has produced sequencing and timing concerns. For example, although PPP training courses, which were not a part of the original TCP, have been well received and well regarded, they would have been better placed at the beginning of the TCP. Furthermore, the procurement advisors have initiated several long-term efforts in the final year of the TCP, including a positively regarded effort to certify procurement personnel. The initiation of these projects at this late date raises concerns about sustainability.

By coordinating with existing initiatives, a TCP can build on the momentum of other reform efforts. The TCP has occurred at a time of numerous other financial and corruption-related reform initiatives in Honduras. Rather than attempt to develop its own independent programming, MCC and MCA-H technical assistance builds effectively on these existing efforts. For example:

- The Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding (MoU) 2014-17, signed between the GoH and the IMF, under its commitments to structural reforms, calls for an MTEF with a clear fiscal anchor and fiscal

²⁸ This is not to say that every adaptation led to desired goal achievement. For example, while the focus on training was a reasonable adaptation to a shut window of opportunity in core PPP institutions, a training could not achieve the originally planned goals of the PPP activity.

policy targets. Support provided under the TCP to improve budgeting, estimate revenue, and limit fiscal risks dovetails well with this objective.

- This MoU also included a GoH commitment to complete an audit of public sector arrears with the intention of clearing them. While there were major delays in carrying this audit out, the TCP funded and procured the research.
- In October 2014, the current administration of Juan Orlando Hernández signed a Collaboration Agreement (*Convenio de Colaboración*) with ASJ, the local chapter of Transparency International, for ASJ to undertake a social audit of government institutions. The agreement did not, however, include a mechanism to fund the activities, and, to its credit, the TCP stepped in to meet this financial need.
- TCP-funded ASJ work has also effectively complemented other ASJ work, particularly with the security secretariat.
- The TCP has worked in parallel with a technical advisor provided to INSEP for capacity building by the IADB, though it is not evident that they necessarily contributed to each other's work. The PPP training program that was running during interim data collection was using PPIAF (The Public-Private Infrastructure Advisory Facility) training material.

TA depends on client ownership, which is more likely with technically driven institutions.

Government ownership is considered critical to the success of technical assistance projects.²⁹ Stated government promises and commitments have not led to changes on their own. The TCP has been most effective where it has elicited strong ownership and reform champions. Most notably, the TCP could count on partners in SEFIN for advancing budgeting and fiscal contingency work and in ONCAE for procurement reform. In these cases, MCC-funded technical advisors worked closely and effectively with their counterparts to achieve and even exceed planned outputs. Notably, where the TCP lacked strong partners, it has been unable to achieve desired outcomes. This challenge is evident with COALIANZA, INSEP, and the CBC staff. MCC and MCA-H employed several techniques to build buy-in with these partners. In the case of COALIANZA, when its CA-4 procurement failed and had to be cancelled, MCC and MCA-H conducted an analysis of what went wrong and worked with COALIANZA on an improved process. With presidential support, COALIANZA originally agreed to adapt its process, but in the end the next CA-4 bidding documents contained many of the same problems that undermined earlier PPPs. It is worth noting that SEFIN and ONCAE are generally considered by stakeholders to be more technical in nature, while COALIANZA, INSEP, and the Budget Committee are generally considered to be more political, meaning that in these latter institutions, personnel appointments and project prioritization responds to political rather than technical needs. Technical assistance

²⁹ Selowsky, Marcelo (2005). Evaluation of the Technical Assistance Provided by the International Monetary Fund. International Monetary Fund. Retrieved from: <https://www.imf.org/en/Publications/Independent-Evaluation-Office-Reports/Issues/2016/12/31/Evaluation-of-the-Technical-Assistance-Provided-by-the-International-Monetary-Fund-18000>. See also World Bank (2016). Knowledge-Based Country Programs: An Evaluation of World Bank Group Experience. Retrieved from: <http://documents.worldbank.org/curated/en/436361469075535538/Knowledge-based-country-programs-an-evaluation-of-World-Bank-Group-experience>

requires champions, and champions are more likely to exist in institutions that prioritize technical capacity over political ties.

MCA-H has played an essential role in pushing forward TCP goals and filling gaps in the GoH's capacity. MCA-H has played a unique role in the TCP in two ways. First, Threshold projects do not typically benefit from an MCA office, as these are only established with Compacts. However, since Honduras previously had a Compact and because the GoH had made the decision to maintain the MCA office, the TCP was able to rely on MCA-H five years of experience in-country to push forward TCP objectives, much like an MCA office would do with a Compact. Second, not only did the GoH maintain its MCA office, but it expanded its mission and rebranded itself as INVEST-H, an entity tasked with managing strategic projects and programs. Unlike other GoH infrastructure institutions, INVEST-H has maintained its political independence and professional technical staff. When other GoH institutions failed to realize their missions, INVEST-H has been able to take over these tasks. For example, when COALIANZA could not structure an irrigation dam and hydroelectric plant PPP, responsibility was shifted to INVEST-H. When a TCP procurement audit and other evidence suggested that the Fondo Vial faced a number of fundamental limitations, the institution was dissolved, and its authority passed to INVEST-H. Furthermore, it seems likely that given INSEP's failure to take on management of road PPP's, this authority might also be transferred to INVEST-H. As noted above, all three of these institutions have become highly politicized, and their progress is undermined by a patronage-based approach to management and infrastructure development. INVEST-H is part of the GoH, but it has avoided such politicization. Although the existence of INVEST-H is unique to Honduras, the experience highlights the lesson learned above: Reform requires insulation from politicization of staffing and project prioritization.

7. SUSTAINABILITY

Q4: What is the likelihood that the results of the project will be sustained over time?

Sustainability is a major challenge for reform initiatives. Termination of project funding support, the absence of technical advisors pushing reforms forward, or turnover in reform leaders and champions can all cause reform to stagnate or even roll back. To answer this question, we consider each TCP activity in turn.

7.1 PFM Activity 1.1 Budget and Treasury Management

The approach taken by TCP to roll out key reforms and build government capacity is to prioritize interventions that can be implemented and scaled up only when feasible. However, both treasury

and budgeting reforms are only halfway through implementation and significant results are unlikely to be sustained after TCP ends without further external assistance.

With regard to treasury management, work supported by TCP is now highly coherent and touches on several issues that, if tackled jointly, can have a positive impact on cash forecasting, the quota setting process, and payment prioritization, ultimately helping to reduce payment delays. The reconceptualization of sub-activities around the PACC as the common denominator is encouraging and innovative, but there is very little time remaining. Most TA support is still in inception stages. How far TCP will be able to push into implementation is questionable, given that the TCP will end in 2019. Successful implementation will depend on institutions developing accurate and meaningful PACCs, and on the TGR issuing appropriate spending authorizations. This will likely be a multi-year process that will require a means to ensure sustainability following the end of the TCP.

It is not realistic, either, to assume that a functioning MTEF will be in place by the end of TCP. While MTEF reform efforts started on a strong footing with local ownership and support from both the IMF and TCP, many challenges remain. Every innovation has to be understood, tested, and accepted before it becomes practice. The opportunity to do so only comes once every budget cycle, so reforming the budget process is inherently a medium- to long-term undertaking. Other challenges revolve around coordination across government, which requires strong political will. The recent elections may cause some political uncertainty. If the reforms are to progress, major efforts will be required well after the intervention, including further technical assistance and capacity development.

7.2 PFM Activity 1.2: Improving Procurement Capacity, Planning, and Controls

Efforts to implement Activity 1.2's strategy for sustainability improvements in procurement include: (1) ensure the permanence of staff by making ONCAE personnel part of the civil service, (2) establish the position of Certified Public Purchaser (*Comprador Público Certificado*) to approve procurements and contracts above a certain threshold, (3) initiate revisions to the implementing regulations for the Public Procurement Law, and (4) purchase an updated version of *HonduCompras*. As of interim data collection, these reforms were in progress. The GoH had taken over the salaries of ONCAE staff funded through the TCP; however, staff were being retained through short-term, one- or two-month contracts and were still not a part of the civil service. Also, at the time of interim data collection, TCP-supported consultants were developing the Certified Public Purchaser (*Comprador Público Certificado* – CPC) position and proposing regulatory changes. The new *HonduCompras* was still in procurement.

While interviewees were optimistic that these changes would occur, ONCAE's situation will be precarious without future international support. Interviewees note that past initiatives supported by the Inter-American Development Bank and World Bank were rolled back after project completion. As ASJ points out in its 2016 baseline assessment, ONCAE only has around 35 staff and a budget of USD \$529,000 (HNL – Honduran Lempiras 13 million) to attend to over 400

procurement units.³⁰ After noting that ONCAE is generally heading in the right direction, ASJ cautions, "...[ONCAE] presents enormous limitations that make it impossible to comply with its legal mandate. Its functioning and performance are the result of 10 years of instability and uncertainty, three secretaries of state, more than five directors, few budgetary resources, high turnover of personnel, governments that do not sustain the support of international cooperation, and a legal framework that falls short of giving it the authorities or attributions needed."³¹

There is also concern over the long-term impacts of procurement evaluations on individual institutions. As of interim data collection, ONCAE did not have a robust follow-up mechanism in place to ensure that evaluation recommendations are implemented.

7.3 PFM Activity 1.3 Improving Capacity of the TSC

Despite positive feedback from participating auditors, the pilots were completed in 2016 and no additional performance audits occurred in all of 2017. No separate unit had been established for performance auditing and no budget had been allocated for such audits, largely due to a change in the three magistrates that lead the TSC in December 2016. The magistrates and their new leadership team undertook a strategic planning process, which resulted in a July 2017 strategic plan.³² While performance audits are mentioned in the TSC's new strategy, the presentation is unclear and suggests a shift in focus. TSC's new leadership has proposed legal reforms that would devolve performance audit responsibility to internal auditors within each institution. As such, there was little indication at interim data collection that TCP efforts could be sustained. Nonetheless, after SI conducted interviews, a new TCP performance audit consultant from the Government Accountability Office (GAO) began working with the TSC in October 2017. MCC reports that the new consultant has been well received and that there is renewed interest in the performance audits.

With respect to audited institutions, while the TSC does have a follow-up mechanism in place to incentivize the implementation of audit recommendations, as discussed in the Question 14 response, the mechanism is not robust and historically, almost half of TSC recommendations are not implemented. Given the lack of complementary initiatives to support reform in audited institutions, we do not anticipate long-term sustainable changes in the audited institutions, with the possible exception of FV.

³⁰ Ramírez Irías, Lester (2016). Informe Situacional y Línea de Base de la Oficina Normativa de Contrataciones y Adquisiciones del Estado. Asociación para una Sociedad más Justa. Retrieved from: <http://asjhonduras.com/ti-asj/resultados/resultados-oncae/>

³¹ *Ibid.*, 8.

³² Rodríguez, Ricardo et al. (July 2017). Lineamientos Estratégicos de Gestión de la Nueva Agenda 2017-2023. Tribunal Superior de Cuentas.

7.4 PFM Activity 1.4: Grant Facility for Social Accountability

We focus on the ASJ activities in PFM Activity 1.4.

Sustainability in ASJ's work can be considered in two related ways: (1) that institutions continue to implement improvements based on ASJ report findings and (2) that civil society oversight continues. The former could be easily rolled back with a change in leadership at the top of any one of these institutions. For example, while SEDS has new legislation, the challenge going forward is implementation. Civil society oversight has improved SESAL and SEDUC hiring processes, but in the absence of wider civil service reform, new ministers could easily return to previous approaches to hiring.

In order to be effective, civil society oversight needs to be sustained over many years and far beyond the conclusion of the TCP. As one interviewee noted, "The thing that is very clear to all of us here is that these are still very weak institutions and any positive change is still very fragile and that it is a long-term process to strengthen these institutions... We shouldn't get overly excited about a one-year or year-and-a-half change or overly depressed that there wasn't a change in a year." The respondent went on to recommend that this needs to be a ten-year initiative that requires consistency and persistence. As such, ASJ and organizations like ASJ need to be able to count on the same level of political support going forward that they have enjoyed under the Juan Orlando Hernandez administration; they must also identify additional external resources on par with TCP funding. Prior to the 2017 elections, some ASJ interviewees felt that political support would continue regardless of who won the election. They were also optimistic about obtaining funding sources after TCP concludes.

7.5 PPP Activity 2.1: Develop Core PPP Capacity

UCF is the principal beneficiary of 2.1 activities in terms of understanding and absorbing the material provided by the TCP advisers. UCF has prepared internal manuals and guidelines for internal use, based on the TCP material. Even though there is uncertainty about the continuity of the UCF team at the highest level, we assume that this documentation will remain and be available to its successors and future UCF teams.

The picture is less clear in the case of INSEP. A PPP unit was established in early 2017. The unit is staffed by five employees but still did not have a director at the time of the interim evaluation). The PPP unit may be a step in the right direction in terms of consolidating experience gained under the TCP in the hands of the managers who have been working on the main highways projects. However, despite participation in the TCP-led training course, the evaluation team did not come away with the impression that INSEP employees had attained expertise in the key disciplines of PPPs. In the absence of a strong director for its new PPP Concessions Unit, INSEP is unlikely to carry much weight when facing ministerial pressure. The question of staff rotation will more than likely jeopardize even this preliminary progress, given the evaluation team's observation that INSEP tends to rely on short term contracts for its staff.

SAPP is likely to be able to sustain its ability to monitor and apply contractual conditions. SAPP may have benefited less from direct support of the TCP compared to other stakeholders, but it is probable that the role of SAPP, as currently defined by the PPP regulatory framework, will survive in future PPP projects.

COALIANZA is the great unknown when it comes to the long-term sustainability of core capacity generated by the TCP program. Issues of staff instability have been endemic since the baseline evaluation. Citing lack of revenues, COALIANZA laid off approximately 35 staff in August of 2017. At interim data collection, there was little evidence that the benefits offered by the TCP had passed through to COALIANZA. TCP has formally withdrawn any further support to COALIANZA. Overall, the impression is that COALIANZA has worsened rather than improved at doing its job in the period since the baseline evaluation, most recently evidenced by the fact that the restructuring of the CA-4 Highway was formally transferred to UCF following unsuccessful attempts by COALIANZA to run the corresponding public tender. In terms of sustainability for COALIANZA, only a review of the institutional structure, including staffing and internal coordination arrangements, as well as strengthened interinstitutional dialogue with other key stakeholders, is likely to improve matters.

7.6 PPP Activity 2.2: Design and Implementation of PPPs

Results of the baseline and interim evaluations show that the process of PPP project selection remains highly political, with relatively little regard for value for money or other benefits inherent in the PPP approach. To date, only the Civic Center PPP appears to have benefited from a value for money evaluation. Instead of value for money, the main driver for using a PPP instead of traditional public-sector procurement process appears to be the need to mobilize private sector finance in the absence of physical public resources.

The evaluation team can find little evidence of lessons learned by COALIANZA from exposure to the TCP program. Absent future TCP support, there is little chance this finding will change. Recent examples, such as the CA-4 highway and the Civic Center, have seen a reduction in the involvement of COALIANZA in the critical stages of the PPP process.

Independent transaction advisors are crucial to structuring complex PPP projects at the design stage. Data collected at baseline indicated the advisors were not being hired based on their expertise in the field. Instead, the trustee banks, whose responsibility it was to pay for the advisors, were hiring them based on who was the cheapest, not the best. The recent example of the Civic Center project suggests that more attention is being focused on ensuring an appropriate quality of adviser for future projects. To the extent that this becomes the norm, future projects may well demonstrate better quality design and development.

In the transport sector, where the prime stakeholder is INSEP, the picture is less clear. Although since baseline the involvement of INSEP officials appears to have increased, and the institution has formally taken the step to put in place a PPP Unit, findings of the interim evaluation were inconclusive as to the level of PPP know-how in INSEP. Knowledge within the institution does not

appear to have reached a level at which it would be able significantly to determine the design of future PPP transport projects.

While SEFIN/UCF has appeared to benefit the most from the TCP program, staff rotation, electoral cycles, and other extraneous factors may well impinge upon the ability of the institution to retain and enhance its capacity to play an effective role at different stages of the PPP project cycle. Like many countries in the region, strategies and policies are vulnerable to the electoral cycle and elections often lead to changes in the upper echelons of key institutions.

7.7 Conclusions

All four of the PFM activities face substantial sustainability concerns. Under Activity 1.1 (budget and treasury), development of an MTEF and reform of the vendor payment system are long-term undertakings that will require a sustained effort. Similarly, under Activity 1.2 (procurement), initiatives like the creation of a Certified Public Purchaser are only at a nascent state. Since the beginning, the TCP has recognized the need to incorporate ONCAE staff into the Honduran civil service in order to institutionalize many of its advances. While interviewees were optimistic that this would be achieved by the end of the TCP, this change was still pending at interim data collection. Activity 1.3 (performance audits) had lost momentum with changes in leadership at the TSC, and as of interim data collection, it was hoped that a new consultancy could inject life into the initiative. For Activity 1.4, the theory of change underlying social audits of government institutions requires ongoing citizen oversight of public institutions.

Sustainability also remains a concern with PPPs. On the positive side, the TCP's work with the UCF to develop, formalize, and institutionalize fiscal review of proposed PPPs at various stages offers the greatest promise of sustainability. In addition, while the SAPP has not received substantial direct TCP support, it appears to have institutional capacity to remain viable and relevant in the future. However, there are critical sustainability issues at COALIANZA and INSEP. COALIANZA, the primary stakeholder in the PPP development process, has actively rejected TCP advice and guidance, and TCP has now withdrawn formal support. Further, the institution dismissed nearly half of its staff in 2017, further contributing to a loss of institutional knowledge. Although INSEP created a PPP Unit to manage concessions in 2017, the unit remains without a director and is poorly consolidated. These weaknesses at COALIANZA and INSEP have led to INVEST-H and SEFIN taking over some of their responsibilities.

8. PUBLIC SECTOR COST SAVINGS

Q5: Does the Program result in an increase in public sector cost savings without resulting in deterioration in the quality or value of public expenditure?

8.1 Cost savings

As noted in the design document, the evaluation team’s research design is not able to provide an accurate and reliable answer to Question 5. We can, however, consider what cost savings could occur from the different interventions and consider if the TCP has contributed to savings.

Table 18: Public sector cost savings by TCP activity

TCP activity	Theoretical link to cost savings	Comments on potential cost savings as of data collection
1.1: Budget and treasury	<p>According to the law, the government is required to pay vendors interest for outstanding debts greater than 45 days. As of September 2016, the TCP’s ITT recorded that the GoH owed HNL 11.5 billion in arrears greater than 90 days. Payment of such arrears should result in a reduction in interest payments.</p> <p>It is believed that vendors, aware of the delay in payments, which stem from inadequate budgeting, cash management problems, and payment process problems, add a bid premium to mitigate the risk of delayed payment or non-payment. If payment timeliness can be improved, then this premium should be reduced.</p> <p>If vendors know they will be paid on time, then more vendors will bid, producing greater competition, and lower prices.</p>	<p>There are several activities that could lead to a reduction in arrears. First, a recent TCP-funded review of a sample of government arrears undertaken by Deloitte established several legitimate arrears, which the government seems determined to settle. Second, with TCP support, the General Accounting Department (<i>Contaduría General de la República - CGR</i>) issued a circular that defined the budgetary commitment criteria on an accruals basis (<i>devengado</i>) and clarified how institutions should fill in F01 forms. The circular delineates more accurately what does or does not constitute a government arrear. Third, the consolidated treasury management workplan around PACCs to improve timeliness of payment prioritization to vendors is underway, with collaboration across the GoH.</p> <p>While the TCP is helping to lay a good foundation in treasury management, cost savings derived from these interventions will likely only be realized in the medium-term. It is unlikely that during the life of TCP we will observe a</p>

TCP activity	Theoretical link to cost savings	Comments on potential cost savings as of data collection
1.2: Procurement, e-catalogue	The e-catalogue should result in government savings in several ways: (1) a reduction in transaction costs from all government agencies repeating the same procurements, (2) a reduction in prices through economies of scale of large procurements, and (3) a reduction in prices by reducing any corruption related mark-ups that might have occurred in earlier procurements.	<p>reduction in bid premiums, the stock of arrears, or borrowing costs, directly attributable to the above activities.</p> <p>Interviewees, including procurement personnel institutions, ONCAE personnel, and vendors agree that the e-catalogue has led to cost savings. As reported at baseline, a 2015 study conducted by ONCAE found substantial saving as measured by percent of overcharge avoided.³³ In our 2016 baseline report, we noted some potential methodological concerns and used ONCAE figures to calculate an average saving of 27.8 percent across four catalogues and three institutions – a substantial savings. While we are not confident in the exact percent of the savings, we do feel confident in stating that there have been savings.</p> <p>Most respondents felt that the e-catalogue was a net positive; however, it is hard to know if the catalogue has resulted in better value for money as the question suggests. Dozens of interviewees across public institutions complained about the low quality of goods purchased through the catalogue.³⁴</p>
1.2: Procurement, procurement evaluations	Procurement evaluations have identified several irregularities in procurement processes. Some of these irregularities might result in unnecessarily high-cost purchases and contracts (e.g., INSEP and FV overpaying for asphalt, inefficiencies resulting from the subdivision of contracts to avoid public procurements). Many of the recommendations, if implemented, could therefore lead to a reduction in bids and substantial savings	As noted in Question 11, there has been progress in implementing the recommendations. The biggest savings would occur if ONCAE's circular requiring that private procurements be posted to HonduCompras, and that institutions accept quotes from other interested firms, to break the cycle of corruption that appears likely to exist in private procurements in many institutions. Unfortunately, interviewees in targeted institutions tended to be defensive about allegations of possible subdivisions of procurements and the

³³ Sabet, Daniel et al. (2017). Baseline Report. Social Impact.

³⁴ It should also be noted that the e-catalogue is primarily a GoH initiative, which the TCP has supported with limited technical assistance and more importantly through staffing a Help Desk.

TCP activity	Theoretical link to cost savings	Comments on potential cost savings as of data collection
		extensive use of private procurements. While there have been reported cases of a fourth or fifth bidder entering a private procurement and winning with a lower price, it is not clear how widespread such savings are. ³⁵
1.3: Performance audits	MCC's theory of change does not posit a link between performance audits and costs savings.	n/a.
1.4: Grants for social accountability	As with Activity 1.2, ASJ's reports and recommendations are expected to result in improved procurement processes and subsequent costs savings from lower bids.	Neither the evaluation team, ASJ, nor targeted institutions have quantified costs savings from changes made as a result of ASJ activities. There is, however, some anecdotal evidence of cost savings. For example, while SEDS has not undertaken the full market studies that ASJ recommended, they did conduct something of a market study on the price of engine oil for their many vehicles. As a result, they shifted from purchasing oil by the quart to purchasing it by the barrel at a substantial savings. Also in SEDS, there are several costs savings resulting from the new information management system through improved asset management, financial management, and more efficient payroll; however, it is important to note that this system also came at a substantial cost. SESAL has developed a new unit that compiles information (e.g., prices, vendors) about the products they purchase most often, which helps ensure competitive prices and subsequent savings.
2.1 and 2.2 PPPs	Involvement by and scrutiny from TCP technical advisors should help ensure that the PPPs are a better value than they would have been without the TCP. For example, an earlier PPP contained a contracting error that made the government rather than the private sector concessionaire	In the absence of formal value for money studies at the project selection and design stage, it is difficult to project if PPPs result in better value for money than more traditional approaches. As discussed in the Question 18 response, VFM and cost savings are not the motivation for PPPs or a basis on which

³⁵ For example, in a procurement in INSEP a fourth bidder won the contract with a price that was almost 8 percent lower than the next lowest bid. See Villalta, Luis (May 2016). Informe de Actividades.

TCP activity	Theoretical link to cost savings	Comments on potential cost savings as of data collection
	<p>responsible for clearing roads damaged by landslides. Identification of such errors in the early phase of contract development could result in considerable savings. MCC's program logic posits that its interventions will result in fewer payments to cover minimum revenue guarantees.</p>	<p>they are judged; rather, the goal is to attract private capital and to move projects forward.</p> <p>TCP support for the UCF to determine if PPP projects are acceptable in terms of "affordability" and VFM offer the greatest potential to result in cost savings. The UCF held up procurements for both the CA-4 Highway and the Civic Center until it could analyze the fiscal risk of these projects. While it was reported that there were costs savings resulting from this review, the evaluation team was not able to verify this.</p> <p>TCP advisors have also played a role in restructuring two of the case study PPPs examined here: the CA-4 Highway and El Tablón hydroelectric plant. While TCP allowed the CA-4 Highway project to move forward under an "availability payment," whereby the concessionaire is paid for making the road available, there is some concern that this could be a major liability for the GoH instead of resulting in savings.</p>

8.2 Conclusions

The evaluation and TCP monitoring lacks a mechanism to track cost savings from TCP efforts. There are some examples of cost savings, but much of the savings potential had yet to be realized at interim data collection. TCP-promoted improvements in budget and treasury management (1.1) could lead to cost savings; however, as these reforms are still in their early stages, this remains a longer-term goal. In the area of procurement (1.2), ONCAE's internal studies suggest substantial savings from its electronic catalogue, an internal initiative that has received some TCP support, although many interviewees expressed concern about the quality of the products purchased through the catalogue. Other procurement initiatives could also lead to savings in the future. Implementation of select ASJ recommendations can be associated with some savings. With PPPs, TCP-supported analysis of fiscal risk by the UCF has the potential to lead to significant cost savings.

9. PUBLIC SERVICE PROVISION

Q6: Does the Program result in an improvement in the quality of public service provision?

As noted in the design document, the evaluation team’s research design is not able to provide an accurate and reliable answer to Question 6. We do, however, consider what improvements in service provision could occur from the various interventions, and if any of these have been realized.

Table 19: Public service provision by TCP activity

TCP activity	Theoretical link to improved services	Comments on potential improved services as of data collection
1.1: Budget and treasury	<p>Through the strengthening of the MTEF and improved congressional oversight, TCP efforts are intended to increase the accuracy of budgeting, reduce expenditures that exceed the original budget, and reduce mid-year budget modifications that entail inefficient reallocations of funds. The MTEF should increasingly enable institutions to prepare and negotiate bottom-up multi-year cost estimates of expenditure (what has to be financed).</p> <p>Eventually, leaving behind years of traditional incremental budgeting, institutions would better reflect the financial resources needed for planned public investment and public service delivery. The successful roll out of the MTEF should strengthen fiscal discipline, as well as improve both operational and allocative efficiency, ultimately improving public service delivery.</p>	<p>As discussed in Question 9, a significant share of TCP technical assistance has helped foster the development of an MTEF, and these efforts have benefited from local ownership from SEFIN and support from the IMF. Nonetheless, many challenges remain ahead. While the MTMFF (the first Pillar of the MTEF) is in place and baseline expenditures (a core element of Pillar 2) are being rolled out, there is currently no formal interaction in the budget process between SEFIN and the institutions that allows for a technical discussion on submissions based on baseline budgets as part of the expenditure ceiling-setting process. Therefore, as of interim data collection, TCP efforts have not led to budgets that reflect planned public services (non-incremental) nor have improved budgets trickled down to improve service delivery. In order to achieve these goals, major technical assistance efforts will be required well after the TCP.</p>
1.2: Procurement	<p>The program logic does not propose a link between the procurement activities and improved service delivery. In theory, however, improved procurements, should result in improved value for money in procurements and less corruption,</p>	n/a.

TCP activity	Theoretical link to improved services	Comments on potential improved services as of data collection
1.3: Performance audits	<p>which in turn should lead to improved service delivery.</p> <p>Performance audits are expected to lead to improved managerial efficiency and/or effectiveness, improved budget execution, and subsequently, to improved service delivery.</p>	<p>The evaluation team will be able to provide a better answer to this question at endline following the completion of TSC monitoring of audited institutions. Along with other TCP interventions, the audit contributed to a GoH decision to dissolve the Fondo Vial, which could theoretically lead to improved public service provision in the future. As noted in Question 14, there had been limited response by the DARA to the audit. We are unsure of the status of INA and ENEE. As such, as of interim data collection, there is not yet any indication that the pilots have had a direct or indirect impact on public service provision. One TSC reviewer notes that it will be difficult to determine improvements in public services due to the absence of performance indicators.</p>
1.4: Grants for social accountability	<p>According to the program logic, ASJ's reports are expected to lead to enhanced internal and public dialogue about service delivery by line ministries, which in turn is expected to result in improved services. It seems likely that much of the potential impact would be from the indirect effects of improved processes that lead to better staff, better promotion decisions, better procurements, better measurement of results, and subsequently, to improved public services.</p>	<p>Implementation of some ASJ recommendations could lead to improved service delivery. For example, in SESAL, ASJ recommended that the secretariat improve the receipt, counting, and quality systems for procured medicines at a time when stock outs of drugs is a salient health care issue. Similar asset management recommendations were offered with SEDUC and SEDS. Institutions have taken some steps to address these issues; however, it is not clear if there has been a measurable impact on service quality. In addition, ASJ has participated in hiring processes at SEDUC, which could result in better hires, and subsequently, better service delivery.</p>
2.1 and 2.2 PPPs	<p>According to program logic, technical assistance provided by TCP consultants and capacity building of key PPP stakeholders (INSEP, SAPP, COALIANZA, UCF) through the Northern Triangle PPP Training program are expected to result, in the</p>	<p>PPPs have become an attractive option in Honduras, given the lack of government resources to finance public infrastructure. Since the majority of PPPs contracted or under consideration would not otherwise be built, it is possible to say that PPPs can and have</p>

TCP activity	Theoretical link to improved services	Comments on potential improved services as of data collection
	short-term, in the eventual selection of PPPs based on established, objective criteria, the conducting of VFM analyses, the minimization of fiscal risks, and the formulation of sustainable and effective contract management frameworks. These short-term outcomes will result, in the longer term, in bankable PPPs with high ERRs, maximum VFM, stronger public support for PPPs, and improved management of PPPs by the GoH. The final objective of these longer-term outcomes is improved service delivery in the form of improved infrastructure (namely roads) and improved efficiency of budgets.	improved the quality of public services. As noted in the previous question, however, it is less certain if these improvements offer a good value for money. The TCP program, through the work of its team of external advisers, has sought to improve, where possible, the execution of the PPP projects launched to date by COALIANZA, particularly in the highways sector. Their advice has been used to resolve contractual issues with the concessionaires, thereby presumably ensuring that the contracts have been maintained and that the infrastructure has been built and delivered, as well as maintained over time.

9.1 Conclusions

As noted in the design document, the evaluation team’s research design is not able to provide an accurate and reliable measure of improvements to public services or to attribute such improvements to the TCP. While improved budget and treasury management could lead to improved service delivery, TCP efforts have not yet led to budgets that reflect planned public services nor trickled down to improve service delivery. Performance audits are intended to improve public services; however, as of interim data collection, there is not yet any indication that the pilots have had a direct or indirect impact on public service provision. Implementation of ASJ recommendations, such as recommendations related to asset management, might also have resulted in some improvements to service delivery. Since the majority of PPPs contracted or under consideration would not otherwise be built, it is possible to say that PPPs can and have improved the quality of public services. As noted in the previous question, however, it is less certain if these improvements offer a good value for money.

10. INVOICE AND CASH MANAGEMENT

Q7: Do partner institutions realize improvement in the effectiveness and efficiency in the processing of invoices and cash management? Why or why not?

10.1 The intervention

The suite of technical assistance activities under the TCP relevant to this evaluation question falls under Activity 1.1 of the PFM Project (budget and treasury management). In particular, OTA and MCA-H have been working to improve treasury management and reduce payment arrears by developing a transparent process for prioritizing payments, strengthening cash management practices, and reducing delays in payments to vendors.

Between the beginning of the intervention and SI's baseline evaluation, three OTA consultants, including the resident advisor, provided limited inputs in these areas, which were grouped under three components: payment arrears, payment processes, and cash management. Over time, however, MCC, MCA-H, and OTA's understanding of the nature of the problem and areas where the TCP could be most effective has evolved. With this evolved understanding, the intervention itself has changed. Since baseline, technical assistance on cash management, the processing of invoices, and payment prioritization, both at SEFIN and with partner institutions, has now been streamlined and grouped primarily under a single work stream dedicated to improving timeliness of payment to vendors. Current TA efforts are now led by the OTA resident advisor, with support from national consultants to the TGR, SEFIN's Public Servants Registration and Control System (Sistema de Registro y Control de Servidores Públicos - SIREP) and ONCAE. The current approach evolved out of earlier OTA consultancies and an OTA consultant's study conducted at the time of SI's baseline on the weaknesses and challenges in the payment processes to vendors.³⁶

As a complementary but somewhat separate work stream, an external audit of public sector arrears was planned under TCP funding for 2015. This audit was to be funded by the TCP, but was a GoH commitment stemming from an MoU signed with the IMF. The planned audit of arrears was delayed, narrowed in its scope, and performed during the fourth quarter of 2016.

10.2 Evaluation methodology

The evaluation focuses on two partner government institutions, SEFIN-TGR, ONCAE, and three pilot secretariats, SEDUC, SESAL, and INSEP. As noted in the methodology section above, these

³⁶ Blackburn, Kay and Fleming, Lori (March 2016). Improving Vendor Payment Timelines. OTA.

three institutions are examined throughout the evaluation. The following analysis is based on a document review and key face-to-face interviews. The evaluation team reviewed progress reports and monitoring matrices produced by TCP. This information was complemented with interviews with TCP consultants. In total, 11 persons were interviewed for this portion of the report. Interviewees were selected because of their role in the TCP or their position within pilot institutions.

Where possible, data collected as part of recent PEFA assessments is used to monitor improvements in relevant reform areas. At the time of interim data collection, the 2012 PEFA, using the 2011 PEFA framework, was the most recent assessment published. The evaluation team also had access to the more recent PEFA 2016 draft, which utilizes the 2016 updated framework. The 2016 PEFA has not been yet signed off on and is not in the public domain. Given that the latest published PEFA is from several years prior to the TCP and given the economic and political challenges experienced during this period, the 2012 exercise does not provide a valid baseline for assessing the TCP. However, the evaluation team has drawn on the 2012 and 2016 PEFA documents to compare Performance Indicators (PI) and complement the direction of travel of TCP-supported reforms to the extent possible.³⁷

10.3 Improvements in the efficiency and effectiveness of invoice processing and cash management

In the analysis that follows, we begin by examining how TCP's understanding of the complexity of the GoH invoice-processing problem has evolved. Second, we explore how new TCP initiatives are being explored to ensure improved procurement and cash management planning through the strengthening of annual and monthly procurement planning. These goals are articulated around a formal document that is central to TGR, ONCAE, and the institutions themselves, that is, the Annual Purchases and Procurements Plan (Plan Anual de Compras y Contrataciones - PACC). It is hoped the PACC will lead to more reliable monthly procurement and cash projections. The success of this effort requires ensuring that the GoH's procurement platform, HonduCompras, and its financial management platform, SIAFI, can communicate with one another. This analysis explores efforts to end issuance of financial commitments to vendors without corresponding financial orders from the TGR. The section also examines efforts to automate payments, automate payroll changes, and develop monitoring and evaluation systems. In general, we find that the TCP is moving in the right direction; however, we note that many efforts are still at an early stage, raising concerns over how much progress can be made and how progress will be sustained when the TCP ends.

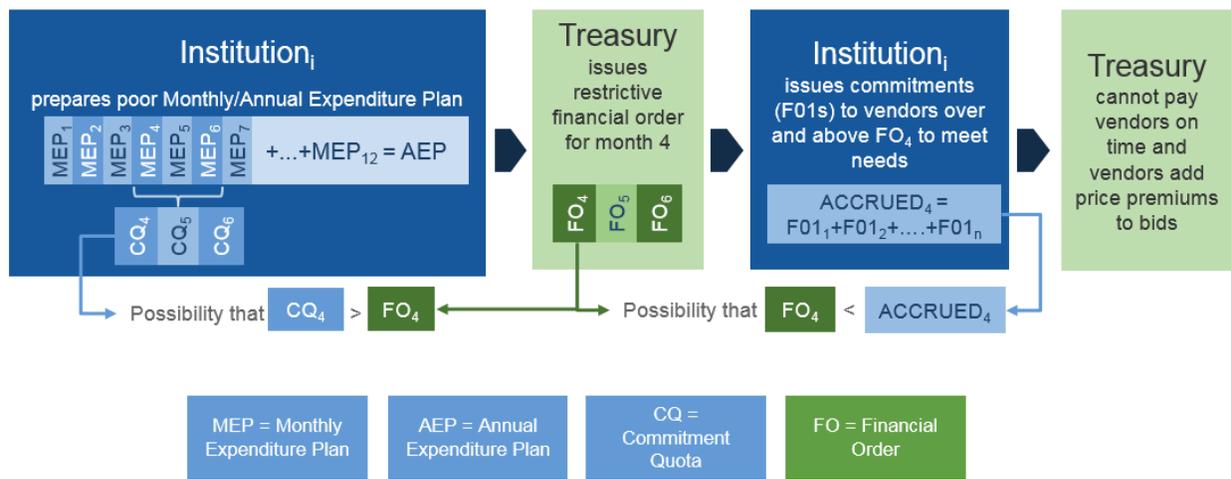
³⁷ Fortunately, the updated PEFA assessment was conducted using both the 2011 and 2016 framework. The published results of this assessment will provide the evaluation team with further information at endline.

Improved understanding of the complexity of the problem: The invoicing and cash management problems the TCP is trying to address has emerged with greater clarity as MCA-H and the OTA technical team have gained a better grasp of its root causes and entry points. The evaluation team understands the core problem of invoicing and cash management as the following: As stipulated in the General Dispositions of the budget,³⁸ institutions are required to submit Annual Expenditure Plans (Programa Anual de Gasto – PAG) to the TGR at the beginning of the year (no later than 30 January). The Plans must be broken down by month into Monthly Expenditure Plans (Planes de Gastos Mensuales – PGM), and adjusted quarterly to reflect their budget execution needs.³⁹ Monthly amounts requested by institutions are known as commitment quotas (*cuotas de compromiso*), although there is no limit to what institutions can order. At the beginning of the year, commitment quotas would coincide with the PAG, but the quotas can be adjusted every quarter, so long as they conform to the PAG. Commitment quotas are submitted to TGR through the SIAFI system by spending unit (*entidad ejecutora*), and broken down by expenditure class (*clase de gasto*) and object of expenditure (*objeto de gasto*). In order for institutions to be able to enter expenditures onto SIAFI (and get paid by TGR), expenditures need to be in their expenditure plan. TGR issues quarterly financial orders allowing institutions to spend money (known as *cuotas de gasto trimestral - CGT*). Financial orders act as expenditure controls against which institutions can execute their budgets. For each line item of expenditure in the financial order, expenditure forms (called F01s) need to be prepared by Administrative Management Units (Gerencia Administrativa) and approved by the TGR for payment. In order for a spending unit to contract out for goods and services, they need to provide vendors with an F01 form. TGR expenditure controls exist for each spending unit down to the five-digit level of the SIAFI budget classification. Any overall budget modification needs to be approved by DGP. In theory, this process forces spending units to effectively plan their spending and provides the TGR tools to control spending by these units. However, the process does not work as intended when put in practice.

First, as there is no limit to what institutions can order, commitment quotas do not always act as a commitments control or a true cash-planning tool. TGR staff interviewees suggested that some institutions simply divide their annual budget allocation by twelve. Second, partly as a consequence of inaccurate information, interviewees report that the TGR frequently allocates only around one-third of the monthly commitment quota requested by the secretariat as a monthly financial order (*cuota de gasto*). This complicates the accrual (*devengo*) of expenditures by institutions and subsequent payment of F01s. Third, faced with insufficient resources to purchase the goods and services they need, institutions simply issue F01s to vendors without ensuring sufficient funds exist in their quarterly financial order. The TGR lacks a means to effectively verify if F01s are being properly issued. The result, illustrated graphically in Figure 1, creates a cycle wherein the GoH is unable to pay vendors on time.

³⁸ See Tribunal Superior de Cuentas (2016). 2016 General Budget. Retrieved from: http://www.tsc.gob.hn/leyes/Presupuesto_general_2016.pdf

³⁹ This requirement applies to source of funding 11 (National Treasury) only.

Figure 1: Budget planning and vendor payment process cycle


Treasury management is also weakened by initial budgets that are often below what will actually be spent and by modifications to the overall budget during the course of the year, both of which undermine institutions' expenditure planning. Interviewees at SEDUC, for example, note that the approved budget is traditionally 85 percent of the total actually spent at year-end. The remaining 15 percent is allocated in the last quarter of the year through inter-institutional budget modifications. As a result, SEDUC staffers feel that the PGMs are not a true expenditure and cash planning tool.

The cycle is somewhat exacerbated by the requirement that institutions provide vendors with F01s in order to contract any goods and services. To minimize recorded arrears and avoid cash shortages caused by low financial orders, institutions may falsely record the invoice reception date (*fecha de recepción*) recorded on F01s, in order to postpone payments until the institution has the cash in hand. In theory, this problem of unauthorized F01 issuance could be addressed with expenditure controls instituted by TGR at the point of commitment, but the SIAFI system in its current version does not support true commitment quotas. Therefore, institutions have less control of the payment process, resulting in delays in payments and poor linkages between budget formulation and execution processes. Identification of this problem has led to a more targeted intervention.

Promotion of procurement planning as a means for expenditure and cash planning: The cycle identified above begins with unreliable estimates of monthly expenditure needs. Seeking a remedy, TCP stakeholders identified the Annual Procurement Plan (Plan Annual de Compras y Contrataciones – PACC), an existing subset of the PAG, as the entry point into overcoming some of these challenges. As all procurements in the PACC necessarily have one (or more) F01 forms attached to them, the PACCs offer a vehicle to ensure that PGMs and corresponding financial orders are more accurate. The PACC was required by the General Budget Regulations (Disposiciones Generales del Presupuesto) prior to the entry of TCP; however, the 2017

regulations, developed with the support of TCP, OTA, and procurement advisors, strengthened the PACC language, adding a due date, a reference to ONCAE guidance, a grant of authority to ONCAE to evaluate execution of the PACC, and a reference to administrative sanctions for failing to publish a PACC. As with the PAG, institutions are required to prepare their PACC and submit it to ONCAE by January 30th each year. As discussed in greater detail below, under the procurement section of this report, there have been subsequent improvements in the quality of the PACC in case study institutions. However, challenges remain to instituting a strategy based on strengthening procurement planning, including:

- First, PACCs need to be regularly updated when budgets are modified and needs change. In SEDUC, for example, the 2017 PACC was formulated in June and July of 2016 in the budget planning process, but it was not adequately revised based on the final budget. This problem is exacerbated by the fact that SEFIN often alters the budget throughout the year, requiring further adjustments to the PACC that many institutions do not make. SEFIN needs an opportunity early in the process to review or provide input to the development of institutions' PACCs so as to better coordinate the timing of purchases with the availability of cash.
- Second, greater SEFIN engagement requires a change in how PACCs are prepared. Traditionally, each of the multiple spending units within an institution develops and executes its own PACC. The TCP has promoted centralizing PACC development within each institution, which would allow comprehensive oversight of expenditures and expedition of updates to the PACC.
- Third, institutions have a hard time adequately estimating operating expenses. Institutions have to submit the PACC (and its amendments) to ONCAE to be evaluated quarterly by ONCAE. It is difficult for institutions to predict in advance their annual needs for many items (e.g., fuel requirements or meals for meetings). SEDUC and SESAL report needing greater flexibility in procurements for certain operational budget lines, possibly through ring-fenced framework contracts like the electronic catalogue. For example, SESAL interviewees cite vaccines purchased through the Pan American Health Organization (Organización Panamericana de Salud - OPS) as an example of necessarily flexible framework agreements.
- Fourth, strengthening the PACCs depends on the participation of individual institutions with varying levels of capacity and buy-in. The sub-directorate of budget at INSEP took part in the initial PACC conversations with TCP advisors, but INSEP has not been party to the discussions since. Interviewees at INSEP complained that TGR caps commitment quotas but does not provide feedback on submitted PGMs or encourage their re-programming. According to interviewees at INSEP, the communication channels between TGR and the institution need to be improved.

The TCP has developed a holistic support program to address concerns about the PACC process. At the time of interim data collection, the OTA workplan included developing a proposal to simplify the PACC process, make it more efficient, and identify the specific elements to be reviewed and that establish accountability. It is also envisaged that, after sign-off, OTA will assist in developing manuals and capacity building in the pilot institutions around the PACC. Ultimately, it is expected that this work will contribute to reducing payment delays and government arrears.

While the TCP is headed in the right direction, there are a number of challenges to overcome. The most relevant PEFA indicator related to these efforts is 2011-PI-21: Predictability of in-year resource allocation. Draft 2016 PEFA results indicate that the score given to this indicator has not improved between PEFA 2012 and 2016.

Merging PACC and SIAFI information: In order for the PACC to serve as a tool for budget and cash planning, PACC information must be integrated into the financial platform SIAFI. However, there are at least three major obstacles to merging PACC and SIAFI information. First, at the time of data collection, PACCs were uploaded on the HonduCompras system, but because HonduCompras is not linked to SIAFI, information does not flow between the two systems. Second, HonduCompras uses codes from the Unified Catalogue of Goods and Services (Catálogo Único de Bienes y Servicio - CUBS), while SIAFI uses a different set of expenditure codes. To circumvent this problem, ONCAE officials must manually enter object of expenditure data *ex-post* for each procurement, creating the possibility that certain procurements will be matched to the wrong SIAFI code. Third, the TGR does not set financial orders (*cuotas de gasto*) at the PACC level. The orders are not broken down by CUBS codes and object of expenditure but, rather, by expenditure class. Because of these limitations, as of interim data collection, institutions did not consider preparation of a PACC as an efficient cash forecasting or cash-planning tool. As a result of these limitations, the TCP has been promoting harmonization of the PACC codes within the SIAFI expenditure classes.

The OTA work program developed after baseline envisioned bringing the key actors in cash forecasting and planning together to correct, or at least mitigate, the limitations of the PACC. With TCP support, several preliminary meetings have been convened between TGR ONCAE, SEDUC, and SESAL as pilot institutions. In parallel, local TCP consultants are working with ONCAE through a dedicated consultancy, to map out and index CUBS codes against SIAFI object/class of expenditure codes. The goal is to integrate the software used by ONCAE (HonduCompras) with SIAFI's budget classification, which will be facilitated by the procurement of a new HonduCompras platform. (It should be noted that CUBS codes used in HonduCompras are based on the UN catalogue and some interviewees felt that it may be easier to modify the budget classification in SIAFI than the other way around.)

Out of the 49,000 items in HonduCompras' system, only about 4,000 are yet to be matched with the SIAFI coding. Once this mapping is complete, SEFIN-TGR have indicated their intention to develop a quota-setting methodology that brings PACCs into the process, linking financial orders to information supported by a procurement plan. Working in close collaboration with ONCAE on these issues has allowed the consolidation of 1.1 and 1.2 TCP activities, bringing greater coherence to the TCP's PFM program.

Attempting to close the loopholes that perpetuate late payments: As noted above, if institutions issue F01s without financial orders then vendors cannot be paid on time. Institutions come up with creative loopholes to be able to issue such F01s without a financial order. For example, vendors or institutions might modify the dates on F01s or invoices to avoid recorded arrears. Another way to try to delay payment is to order a set of goods from the same supplier in a single F01, so that if one of the items does not arrive on time due to lack of stock, the institution

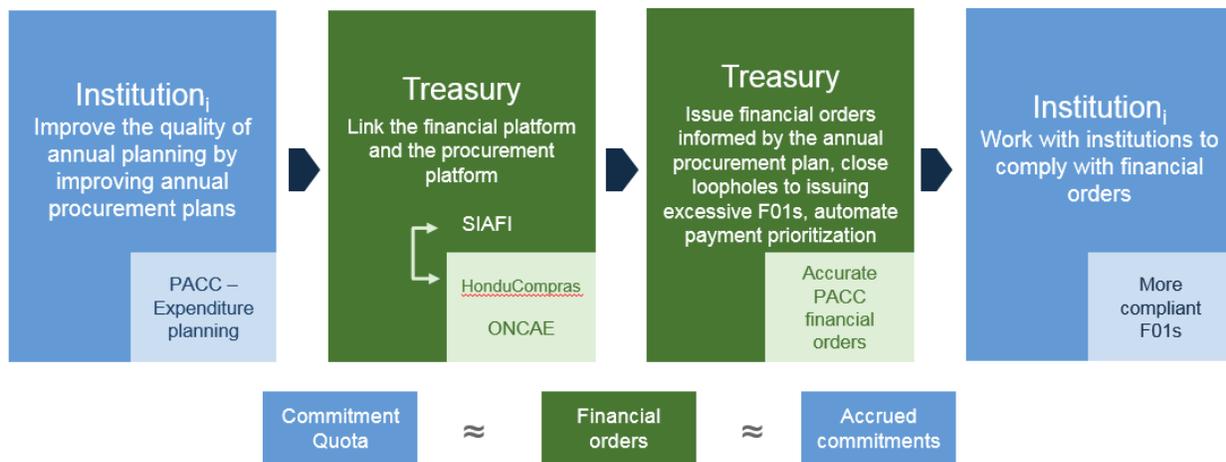
can then claim that not all goods were delivered, thus allowing them to extend the reception and payment date. When faced with a large procurement (F01), in a cash-constrained situation, institutions may avoid accruing all expenditure at once by breaking one F01 down into smaller ones, to ensure there is enough quota for partial payments. This “solution” helps the institution fully utilize its monthly quota and avoid having to fraction payments. All of these strategies contribute to delaying payments to vendors.

In sequence with the above technical assistance interventions, TCP is identifying other ways to reduce delays in payments to external suppliers. With TCP advice, in March 2017, the General Accounting Department (Contaduría General de la República - CGR) issued a circular that defined the budgetary commitment criteria on an accruals basis (*devengado*) and clarified how institutions should fill in F01 forms. The circular established the reception date (*fecha recepción*) entered on F01 as the point in time when goods or services are received.⁴⁰ In response to the circular, SEFIN’s Department of Norms and Procedures provided a sample of itemized expenditures where the criteria was applied, showing that the reception date was on or after the signature date on F01s, as one would expect. It appears that there is goodwill in case study institutions to respond positively to the circular and delineate more accurately what does or does not constitute a government arrear. CGR performed a review of compliance with the circular but has not conducted a physical review of source documentation yet.

Automation of payment prioritization: On a related issue, MCA-H is currently building on previous support provided by an earlier OTA consultant through resident consultant to SEFIN’s Innovation and Technology Unit. The first deliverable by the consultancy was an improved process that yields daily cash balances for the Treasury Single Account (TSA) and strengthens weekly/monthly/annual budget planning according to cash balances available. Another aim of the consultancy was to strengthen the automation of payment prioritisation processes on SIAFI at TGR. A new platform is being created for this purpose, although it is not yet part of SIAFI or the upgraded SIAFI-GES. The consultant is also working to improve the validation of payment proposals/orders. The platform is focused on payments to external suppliers, so that payments will be secured within the 45 days that the law dictates.

A relevant PEFA indicator in the above areas is PI.25–Internal controls on non-salary expenditure, with particular reference to its second dimension on the effectiveness of expenditure commitment controls. Preliminary 2016 PEFA results indicate that this dimension of the indicator has remained flat between the last two PEFA exercises. As summed up in Figure 2, TCP efforts aim to break the cycle described above and facilitate on time payments to vendors.

⁴⁰ See circular CGR-001-2017.

Figure 2: TCP and TGR efforts to break the cycle fostering late payments to vendors


Payroll – the other piece of the puzzle: While most TCP efforts have focused on cash management and payments related to third-party vendors, salaries make up the other large proportion of the budget. National TCP consultant David Sánchez has been supporting SEFIN’s Unidad de Modernización (UDEM) in improving the payroll system (SIREP). Traditionally, payroll management staff revise wages and salaries by hand each month. TCP support seeks to enable automation and strengthen planning of the payroll.

As reforms are rolled out, it is expected that TGR will be able to gather more reliable wage and salary data from SIREP and, as discussed above, more reliable cash forecasts from PACCs, ultimately triggering more accurate PGMs by the secretariats.

M&E processes for compliance with procedures: The OTA workplan to strengthen the processing of invoices and cash management envisions incorporating an M&E component to monitor compliance with new procedures. In the past, SEFIN staff embedded in five institutions were responsible for checking F01 forms and invoices. They were recently removed, and it is uncertain whether they will be re-deployed or not. Given this removal, the TCP has proposed to work with SEFIN’s Transparency Unit and the Internal Audit Office (Oficina Nacional de Desarrollo Integral de Control Interno – ONADICI) to monitor compliance. The OTA resident advisor is working with ONADICI to develop procedures for the internal audit unit of line ministries to monitor and report on compliance with the accrual of expenditures. At the time of writing this interim report, M&E processes were only being conceptualised. The evaluation team will identify implementation and impacts of the processes at endline.

10.4 Audit of arrears

A final area of work to cover under Question 7 is the audit of arrears. The MoU between the GoH and the IMF anticipated that the GoH would complete an audit of public sector arrears, with a view to clearing the arrears by end of June 2015, as one of its structural benchmarks. The deadline was pushed to December 2015 and then reset to June 2016 following a late 2015 review of the Stand-by Arrangement (SBA). One of the TCP objectives was to conduct this audit of payment arrears, for which MCA-H initially contracted the local Honduran affiliate of the firm Grant Thornton. The purpose of the audit was to verify the validity of outstanding payments to vendors by the central government, ENEE, and Hondutel. MCC/MCA-H terminated Grant Thornton's contract after the firm was disbarred by the World Bank for falsifying audit findings.

Deloitte was awarded the re-tendered contract. The exercise undertaken by Deloitte was not formally an audit but a review of agreed-upon procedures and a determination of which sampled arrears were valid and should be paid. The sample size of arrears to analyze was downsized from around HNL 10.3 billion in the original ToR, from a population that excluded Hondutel, to around HNL 5.4 billion of a population that included Hondutel. The scope was narrower than it would be for a financial audit that would have had to comply with full international standards. The evaluation team does not know why or how the sample was downsized.

Deloitte's review found that of the total amount analyzed, HNL 3.0 billion (56 percent) were valid arrears that should be paid, HNL 1.0 (19 percent) were not valid, and the validity of HNL 1.4 billion (26 percent) could not be determined based on the information provided. The highest percentages of invalid cases were in ENEE and Hondutel with 50 percent and 15 percent, respectively. The institutions with the largest proportion of cases with missing information were ENEE (74 percent), SESAL (14 percent) and Hondutel (9 percent). MCA-H has been pushing SEFIN to investigate whether valid items had been paid. In response, SEFIN had reportedly settled several of ENEE's generated arrears and seemed committed to settle all cases deemed valid. However, although the final version of the report was submitted in December 2016, many valid cases had not been paid at the time of data collection in August 2017. At the time the evaluation team was in Honduras, there was talk about outsourcing further audit-type work to follow up on those cases for which there was not enough information. At endline, the evaluation team will assess how the Government has acted upon these two types of cases. To the extent possible, the team will analyze whether TCP activities to improve the payment of invoices and cash management are contributing to arrears reduction.

Since baseline, OTA and MCA-H have compiled a database of payments made since 2013 that are due by more than 1, 30, 90, 180, and 365 days and submitted a report to SEFIN with recommendations. The database only records nominal values and does not seem to analyze how the share of due payments over the total committed budget, or over GDP, evolves with time.

Preliminary PEFA results indicate that PI.22 (Expenditure Arrears) evolved negatively between the PEFA 2013 and 2016. While the share of arrears over committed expenditures has been reduced, the availability of data to facilitate arrears monitoring has worsened.

10.5 Challenges and limitations

TCP efforts to reduce arrears and improve cash management is now highly coherent and touches on several issues that, if tackled jointly, can have a positive impact on cash forecasting, the quota setting process, and payment prioritization, and ultimately reduce payment delays. However, the main challenge will be to bring to the table institutions with very different work practices and agendas, from TGR to ONCAE to key secretariats.

The TCP is now headed in the right direction and TCP activities in the technical areas covered by evaluation Question 8 have undergone a reconceptualization around the PACC as the common denominator, but there is very little time remaining in the TCP. At the time of in-country interim data collection, most TA support was still in inception stages. It is questionable how far into implementation TCP will be able to push given that the TCP will end in 2019. Successful implementation will depend on institutions developing accurate and meaningful PACCs and on the TGR issuing appropriate spending authorizations. This process will likely evolve over multiple years, which means measures must be taken to ensure its sustainability after the TCP ends. At the time of data collection, OTA consultants were still developing their work plans for the final year of the TCP.

10.6 Conclusions

Delays in payments to vendors are partly the product of a cycle whereby institutions do not always properly plan their monthly expenditures. In response to that lack of planning, the TGR imposes insufficient monthly spending limits to institutions and institutions frequently respond by finding creative ways to continue to procure the goods and services they need in excess of those limits. While institutions are able to obtain these items, they do not always have the funds from the TGR to pay for them, so they delay payment to vendors. The cycle is exacerbated by initial budgets that are often below what will eventually be spent and modifications to the overall budget during the course of the year, both of which undermine institutions' expenditure planning. TCP recognizes that in order to improve timely payments to vendors, this cycle must be disrupted. Recognizing that procurement is a subset of this problem that starts with expenditure planning, the TCP has identified the PACC as the entry point for addressing these challenges. As a result, the TCP merged its budgeting work with procurement planning with the goal of producing more accurate monthly predictions of procurement needs, which in turn should lead to improved cash management. Furthermore, with TCP support, SEFIN has been working to close the loopholes that allow institutions to procure goods and services without financial commitments. On the payroll side, the current strengthening and partial automation of SIREP, together with the new platform being established to improve the payment prioritization process at TGR, may also deliver improvements in cash management efficiency. If successful, the approach could be an important contributor factor to treasury management reforms; however, these efforts remain dependent on the reactions and buy-in among government institutions, and there is very limited time remaining in the TCP to see these reforms come to fruition.

11. REVENUE FORECASTING

Q8: Does the accuracy of revenue forecasting increase? Why or why not?

11.1 The intervention

At baseline, this evaluation question was assessed under the Budget Formulation theme, which included a subset of activities related to improving budget analysis, including budget forecasting and establishing adequate controls. In particular, technical assistance on revenue forecasting was evaluated. At the time of writing the baseline report, the research team did not anticipate major changes in the revenue forecasting methodologies as most of the planned work had already been completed.

Accurate revenue forecasting is a fundamental factor for effective public financial management. Revenue forecasts define the resource envelope available and provide the basis for effective medium-term planning. They serve as the principal resource constraint in a top-down budget preparation process, using the consolidated revenue forecasts across government as an input to the Medium Term Macroeconomic and Fiscal Framework (MTMFF). Later on in the budget process, revenue forecasts facilitate the allocation of expenditures across institutions for different uses. For consistency with the revised program logic and work plans, all revenue forecasting support activities under TCP are considered as an input to the emerging Medium Term Expenditure Framework (MTEF).

Intermittent consultant Jean Tesche led revenue forecasting technical assistance through eight in-country missions over a period of two years. The last inputs took place in November 2016, shortly after baseline. Technical support has been provided mainly to the Directorate of Macro-Fiscal Policy (Dirección de Política Macrofiscal – DPMF) and the General Directorate of the Budget (Dirección General de Presupuesto – DGP) with a view to assisting forecasting units in developing forecast procedures and capacity building on forecasting techniques, as well as to strengthening and clarifying the institutional structure for forecasting revenues. Efforts have focused on (1) the macrofiscal forecasts at DPMF that draw on SIAFI data, (2) a microsimulation model that looks at how changes in policies affect revenues, and (3) improving intra-governmental coordination around the consensus forecast. The consultancy prioritized identifying weaknesses in methodologies and SEFIN’s technical capacities and providing training and raising awareness of techniques that could be used to improve them.

11.2 Evaluation methodology

The evaluation focuses on two departments within SEFIN: DPMF and DGP. The analysis contained in this section is based on a document review and face-to-face interviews with staff members of the two government departments. The evaluation team reviewed the progress reports produced by both the dedicated consultant and the TCP resident advisor. Nine persons were interviewed for this section of the report. The SI team reviewed any follow up that took place after baseline. In accordance with the current TCP work plan, revenue forecasting no longer features in the program as the technical assistance activities are considered completed. To the extent possible, data collected as part of recent PEFA assessments is used to monitor improvements in revenue forecasting. As noted in the methodology section and again in Question 8, the 2012 PEFA does not provide a valid baseline. At the time of writing this report, the 2016 PEFA was not yet publicly available.

11.3 Revenue Forecasting

Following the split of SEFIN's Planning and Evaluation Management Unit (Unidad de Planeamiento y Evaluación de Gestión – UPEG), into three separate units during 2015, DPMF became the directorate responsible for coordinating the preparation of revenue forecasts (consensus forecast) and was the main counterpart of the TCP consultancy. DGP has lesser involvement in revenue forecasting, although it is responsible for the revenue forecast in the SIAFI system. Very limited direct support was provided to the former Executive Department of Revenue (Dirección Ejecutiva de Ingresos – DEI), now reinstated as the Revenue Administration Service (Servicio de Administración de Rentas – SAR). In the following sections, we examine limited changes to SIAFI forecasts, potential incorporation of microsimulation models, and limits to developing a consensus forecast.

11.3.1 SIAFI forecasts

The econometric formulas in the SIAFI revenue-forecasting module were revised and analysed under TCP support. Following the exercise, more historical years were added to the regressions (from 8 to 16 years). There has been no further support to DGP regarding revenue forecasts since baseline. The Directorate of Revenue of DGP works mainly with DPMF on the forecasts. DGP and DPMF convene to prepare preliminary forecasts in May each year. Since the establishment of the new SAR, however, limited joint work has taken place, as the SAR is still in the process of organizing itself internally. The evaluation team confirmed that changes to the forecasting module were agreed to by SEFIN. However, the main programmer in UDEM (the Unit responsible for re-writing the forecasting equations on SIAFI) left SEFIN, and the expansion of the time series had not yet been implemented on the system. At endline, the SI team will assess whether the re-programming has been finally rolled out.

11.3.2 Microsimulation model

After baseline, the TCP continued to work with DPMF in 2016 on an Excel-based microsimulation model for income tax on legal persons. Microsimulation models are used to estimate the effect of changes in tax policy on revenue, and they are based on calculating tax from the tax returns of individual taxpayers or transactions and then aggregating the results. The current version of the model/tax calculator uses the tax database for 2014. It is now possible to change the structure of the tax system, including all rates, allowances, deductions, and credits that are included on the tax declaration. The model uses results using 2014 and 2015 data and produces forecasts for 2016 and beyond using estimated nominal GDP growth and calibrating the results to actual results. Not all exemptions are reported on the tax form, so they are not yet part of the model. The model contains a tax calculator that can apply all the tax rules to the tax information of each tax return and then aggregate the tax liabilities across all the returns applicable to that period.

The evaluation team confirmed that the microsimulation model supported by TCP is not yet in use. DPMF found that data predicted by the model differed substantially from DEI data. DPMF expected to receive tax returns from DEI to calibrate the model and assess the source of these divergences. However, with the dismantling of the DEI, data has not been received by DPMF by SAR, the new tax administration. Therefore, it has not been possible to reconcile any differences. At endline, the evaluation team will assess whether any further calibration has taken place and model take-up by DPMF.

11.3.3 Consensus forecast

At baseline, there was no formal forum to discuss revenue forecasts across government. The approach taken by the technical assistance team was to initially explain the methods and options to government in incorporating longer time series and developing microsimulation models. Right after baseline, the TCP consultant met with DPMF, DGP, and SAR to talk about formalizing a consensus forecast as part of the MTMFF exercise. After some discussion, all parties agreed that input from each department was needed for a good forecast. Although a specific committee or working group on revenue forecasts has still not been established, coordination on fiscal forecasts has been strengthened with the passing of the Fiscal Responsibility Law (FRL). In its Article 6, the FRL mandates the establishment of an MTMFF Interinstitutional Committee made up of SEFIN, the Secretariat of General Government Coordination (Secretaría de Coordinación General del Gobierno -- SCGG), and the Central Bank of Honduras (Banco Central de Honduras - BCH). As revenue forecasts are a key input into the MTMFF and the MTEF, cross-government coordination arrangements for fiscal forecasts are discussed in more detail under Question 10.

A relevant PEFA indicator in these areas (sections 1.3.1 to 1.3.3 above) is PI.19 – macroeconomic and fiscal forecasting, of particular relevance is its second dimension on fiscal forecasts. However, this PEFA indicator itself changed significantly with the new PEFA methodology. While the focus of the previous indicator (PI.14) was on outcomes (i.e. comparing forecasts against outcomes), the revised 2016 indicator (second dimension) focuses more on function by assessing whether entities collecting most revenues use a comprehensive, structured and systematic

approach for assessing and prioritizing compliance risks for all categories of revenue. As a result, the two indicators are no longer comparable.

11.4 Challenges and limitations

TCP activities in the very specific technical area covered by Question 9 have been minimal. It would not be realistic to expect significant institutional changes, capacity building, and broader impact. The main challenge with regards to strengthening fiscal forecasts will be to give some continuity and follow up to the initiatives described in this section. This may be done through the still-to-be-recruited local MTEF consultant. At the time of data collection, candidates for the role were being interviewed. More on this is discussed under Evaluation Question 10.

11.5 Conclusions

Revenue forecasts constitute the backbone of the top-down pillar in the MTEF exercise.⁴¹ As of data collection, there had been minimal changes to revenue forecasting despite termination of technical assistance in November 2016. Efforts to add additional time series data to the model did not move forward after UDEM's programmer left. In addition, while the consultant promoted microsimulation models, this methodology is not being used. Efforts to promote consensus on revenue forecasting have also not born fruit, although this might be advanced under other MTMFF and the MTEF efforts. At endline, any further work conducted (or the impact of past technical assistance) in this area will be assessed under the MTEF work stream, which now features as one of the two core components in the streamlined TCP 1.1 Activity (Strengthening MTEF).

12. BUDGETING

Q9: Does the accuracy of budgeting increase in partner institutions? Why or why not?

⁴¹ A clearly set top-down medium-term macroeconomic and fiscal framework (MTMFF), which should be prepared by SEFIN, with medium-term fiscal targets and aggregate expenditure ceilings (resource envelope).

12.1 Introduction

Since early 2015, various initiatives have supported the establishment of preliminary elements of a Medium-Term Expenditure Framework (MTEF) within the GoH. The IMF's technical assistance regional center for Central America, Panama and Dominican Republic (Centro de Asistencia Técnica de Centroamérica, Panamá y República Dominicana - CAPTAC-DR) provided some ad-hoc trainings and support for producing an MTEF implementation manual through an intermittent consultant prior to most TCP work. Furthermore, the Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding (MoU) 2014-17, signed between the GoH and the IMF, recognized that strengthening fiscal responsibility was a key priority and that a first step in that direction would be to develop a medium-term macroeconomic and fiscal framework (MTMFF). An MTEF is based on three core pillars:

Pillar 1. A clearly set top-down MTMFF, which should be prepared by SEFIN, with medium-term fiscal targets and aggregate expenditure ceilings, or resource envelope.⁴²

Pillar 2. Bottom-up multi-year cost estimates of expenditure presented by GoH institutions. If possible, these should be based on budget programs with a focus on program performance, and they should be adjustable based on proposed policy changes.

Pillar 3. An institutional decision-making process, reconciling top-down ceilings and bottom-up budget requirements.

12.2 The intervention

At baseline data collection, the TCP included several distinct budget related sub-activities that were primarily implemented by OTA. Since baseline, OTA's workplan has been streamlined and more focused on the objective of "Strengthening the MTEF." TCP efforts are intended to increase the accuracy of budgeting, reduce expenditures that exceed the original budget, and reduce mid-year budget modifications that entail inefficient reallocations of funds.

Prior to baseline data collection, the TCP provided a resident consultant who supported Pillar 1 activities. Since the termination of that consultancy, Pillar 1 functions have been fully managed by SEFIN's DPMF. As of interim data collection, the TCP has primarily focused on Pillar 2 through the promotion of baseline budgets in collaboration with SEFIN's DGP. Pillar 3 is only emerging and has not yet been a part of the TCP; however, as of interim data collection, MCA-H was recruiting a long-term intermittent MTEF advisor, who will be responsible for supporting the overall coordination of the MTEF. Within OTA's revised work program, technical assistance on Fiscal Impact Analysis (FIA) has now also been framed as an input to the MTEF, and is therefore also

⁴² The MTMFF, often referred to as the macro fiscal framework, is a financial programming framework that ensures consistency between four inter-dependent sectors of the economy: Real Sector, Fiscal Sector, External Sector, and Monetary Sector, drawing on statistics from across Government.

covered under this evaluation question. The future MTEF advisor will also work with OTA advisors to facilitate the integration of FIA into the MTEF process.

TCP technical assistance and training provided to the CBC is also relevant to this question. Strengthened congressional oversight can be another driving force to improve the accuracy of budgets. TCP efforts intended to improve congressional budget oversight capacity, improve congressional budget discipline by developing safeguards to ensure planned deficit targets are not breached, and provide better analysis and transparency regarding the cost implications of congressional mandates. Technical assistance was discontinued in November 2016, as most activities had either been completed or were not receiving enough traction. Work by Congress on budget reporting is covered separately under evaluation question 10.

12.3 Evaluation methodology

The analysis contained in this section is based on document reviews and face-to-face interviews. The research team held interviews with personnel at DGP, DPMF, Police Directorate of Telematics (DPT) at the National Police of Honduras, SCGG, and the CBC. In addition, we conducted interviews with budget personnel from three case study institutions SESAL, SEDUC, and INSEP. The evaluation team reviewed the baseline reports of these institutions and progress reports produced by TCP consultants. In total, 26 persons were interviewed for this section of the report. Finally, we compare PEFA data from 2012 and 2016, although as noted in the methodology section, 2012 offers a problematic baseline given the fiscal challenges experienced by the country at that time.

12.4 Strengthening the MTEF

Despite progress since 2015 in promoting a MTEF, it is still in its nascent stages. Within SEFIN, MTEF efforts are led by two key directorates, DGP and DPMF. DPMF takes the lead on the preparation of the MTMFF (Pillar 1). DGP, which has been traditionally responsible for the expenditure ceiling-setting process across government institutions, is driving the development of Pillar 2 and supporting institutions with baseline budgets. While not well integrated into the TCP efforts, the SCGG also plays a key role in MTEF efforts. Presidential executive decree PCM-001-2014 established authority within the Secretariat to incorporate departments that are necessary to conduct its functions, including a department of Budget and Public Credit. While the full scope of this decree is not yet clear, it is certain that SCGG, together with SEFIN and the institutions, will all play a role in setting up the reconciliation of the top-down and bottom elements of the MTEF (Pillar 3).

12.4.1 Top-down MTMFF (Pillar 1)

An MTMFF is now formally recognized in new legislation. The 2005 Organic Budget Law (OBL) contemplates three-year medium-term financial programming and multi-annual budgeting

consistent with an MTEF. The OBL's accompanying regulations stipulated that SEFIN would approve budget formulation methodologies and guidelines as part of the technical norms set up by the GoH.⁴³ While the OBL hinted at some MTMFF features, its language was not adequately prescriptive and left room for ambiguity. The 2014 GoH-IMF MoU highlighted strengthening fiscal responsibility as a key priority and called for the passage of a Fiscal Responsibility Law (FRL).

In alignment with the IMF program, TCP consultants provided advice and contributed to several drafts of an FRL bill. The FRL was passed in April 2016, and while it does not mention the MTEF, it does call for a MTMFF with a clear fiscal anchor and fiscal policy targets (structural benchmarks). Articles 3, 5, 8 and 10, require the GoH to prepare a MTMFF covering four years (the immediate fiscal year and three outer years). The most recent framework spans 2018-2021. DPMF is the department responsible for coordinating the preparation and dissemination of the document. The FRL dictates the macroeconomic parameters to be considered; it also defines fiscal rules on fiscal deficits, nominal recurrent expenditure ceilings (including salaries), and floating debt. It establishes budgetary ceilings for the non-financial public sector, including central government and decentralized institutions, as well as threshold levels of internal/external indebtedness. The FRL dictates very clearly the rules governing the determination of an aggregate resource envelope, which acts as the first input to the MTMFF.

PEFA indicator reflects progress. The new PEFA indicator PI.14, Macroeconomic and Fiscal Forecasting, includes three dimensions: macroeconomic forecasts, fiscal forecasts, and macrofiscal sensitivity analysis. PI.14 serves as a good indicator for assessing the extent to which an MTMFF is in place. This indicator, as it is defined, did not feature in the 2011 PEFA framework. In any case, the approval of the recent 2018-21 MTMFF as a separate document and its formal recognition in the FRL, suggest that this PI.14 should score highly in the 2016 PEFA exercise that is awaiting publication.

The TCP contributed to Pillar 1 advances. Advances in Pillar 1 and the passage of the FRL cannot be primarily attributable to the TCP, but TCP did make two important contributions in the process: a TCP advisor helped produce a 2016-2019 MTMFF in 2015, and TCP advisors provided comments on the FRL.

12.4.2 Bottom-up costing of policies – Baseline Budgets (Pillar 2)

Baseline budgeting has been piloted and scaled up to 44 institutions. In Honduras, institutional budgets have traditionally been based on the previous year and are incremental. Expenditure baselines, or baseline budgets (understood as baseline budgets unadjusted for planned policy changes), would not necessarily reflect the financial resources needed for planned public investment and public service delivery.

⁴³ The Organic Budget Law (OBL, Ley Orgánica de Presupuesto) Decreto No. 83-200. Título II (Del Subsistema de Presupuesto), Capítulo I (De las Normas Comunes), Article 9 (Etapas del Proceso Presupuestario); Reglamento de Ejecución General de la Ley Orgánica del Presupuesto Acuerdo No. 0419 of June 2005, Título II (Del Subsistema de Presupuesto), Article 4 (Técnicas Presupuestarias).

With TCP support and training, SEFIN successfully piloted baseline budgets in 2015 for the 2016 budget. At baseline, interviewees felt that the methodologies were well understood within DGP but not as well understood in the pilot institutions. Since baseline, further training has occurred in the institutions and baseline budget exercises have been expanded to all institutions. To support the training, a Manual on Expenditure Forecasting: Budget Formulation with Baselines (*Manual sobre Pronósticos de Gastos: Desarrollo de Presupuesto con Línea de Base*) and a methodological guide, Guide for the Elaboration of Budget Worksheets with Baseline Expenditures (*Guía para la Elaboración de las Hojas de Trabajo del Presupuesto con Línea de Base*) have been developed by SEFIN with OTA support. Interviewees felt that development of these tools was an important means to ensure continuity ahead of the general election and a potential change of government or secretary.

Training on baseline budgets was provided to 44 institutions for use in the 2017 budget preparation. For the first time, SEFIN mandated all institutions upload their baseline budgets as a precondition for setting 2017 budget ceilings on SIAFI. Ideally, baseline budgets use key drivers to project future expenditures; however, given the greater complexity of incorporating these drivers, SEFIN also allowed institutions to use a simplified methodology based solely on inflation as a driver. Although most government institutions opted for the simplified methodology, 20 institutions (producing 33 budget programs) developed their baselines using the advanced methodology of key demand drivers. SEFIN regarded the exercise as successful and as a productive first iteration in the budget cycle.

At the time of writing this report, however, there was still no formal process in place to guarantee that SEFIN would use submitted baselines in the budget ceiling-setting process. SEFIN aims to keep strengthening the processes, bringing them forward in the budget calendar, and allowing for more transparent feedback loops SEFIN-institutions on baselines and ceilings. New processes have been hitherto disseminated at the most senior technical level within institutions, but not to politicians. At the time of data collection, interviewees reported that the official formalization of the processes with government secretaries would take place as part of the next budgeting process. Combining this exercise with the broader Medium-Term Expenditure Framework will give it more weight and coherence.

Experiences in GoH institutions have been mixed. As noted above, we focused on baseline budgeting experiences in SESAL, SEDUC, and INSEP. None of the three institutions were considered exemplary cases. SEFIN intended to work with SESAL around several demand drivers (e.g., numbers of older adults, minor children, pregnant women, and the rest of the population); however, SESAL structures its budgets around programs (e.g., primary health, secondary health, etc.) or spending units (e.g., hospitals) rather than by the type of beneficiary. Additionally, health costs can often be financed from different sources (e.g., government, donors, fees for services), which makes the analysis by demand drivers all the more complicated. As a result, SESAL ended up adopting the simplified methodology although at the time of data collection SESAL authorities pledged to provide the necessary information for the more advanced methodology during the 2018 budget cycle.

Although SEDUC participated in the pilot trainings, it did not receive dedicated training during the 2017 budget cycle. Interviewees at SEDUC perceived the methodologies applied for the 2017 cycle to be different from the methodologies demonstrated during training. SEDUC staffers understood baseline budgeting as an exercise where they had to record expenditures for all actual public services delivered by the institution, without any policy changes. However, some staff argued that the exercise was undermined by SEFIN's requirements. For the 2017 budget, SEFIN only allowed SEDUC to introduce baseline spending for 85 percent of its actual expenditures in 2016. SEDUC felt that the new processes replicated what traditionally occurs with SEDUC's budget, that is, 85 percent of actual budget is approved and the remaining 15 percent is allocated at the end of the year through inter-institutional budget modifications. As a result, SEDUC staffers felt that the fact that baselines did not capture their actual budgets (100 percent) undermined the value of the baseline budgeting exercise.

At INSEP, 2017 baseline budgets were presented for both recurrent expenditures and the public investment plan. The public investment plan is prepared for a period of four years and is updated every year. Investment expenditures for the baseline exercise were entered as they appeared in the investment plan disbursements. The simplified inflation-based methodology was applied to recurrent expenditures only. The institution is interested in reducing any differences between baseline budgets and actual budget ceilings, with a view to improving the accuracy of their budgets. It should be noted that the main differences between budget ceilings and baselines allegedly arises from public investment. INSEP staff regarded medium-term budgeting positively and did not view it as a mere requirement. INSEP established medium-term inflation criteria, medium-term wage control, and other parameters that were then used by spending units to plan their medium-term projects better.

The DGP has been a reform champion, leading the baseline budgeting process; however, there is still much work to be done. While the TCP has been supporting all these activities, efforts to implement baseline budgeting have been, by and large, led by DGP, who has demonstrated good vision and leadership in all methodological aspects. To capitalize on the existing gains, the DGP solicited the hiring of a local MTEF consultant through the TCP to work intermittently for the remainder of the program. At the time of interim data collection, candidates for the role were being interviewed. The IMF peer reviewed the various tools and instruments being put in place in the context of a Planning-Budgeting mission. The recommendations are not public, yet DGP reports a commitment to addressing them with support from the future resident MTEF expert and OTA advisors. The consultant will also be expected to encourage the sharing of experiences and best practices among institutions.

The roll out of a major reform of this calibre is a medium- to long-term undertaking and incremental in nature, as only a series of gradual (implementable) processes can be tested and introduced in each budget cycle. Additional functionality could be gained by strengthening the budgeting of the so-called rigid costs (*costos rígidos*) in the baseline methodologies. SEFIN-DGP defines rigid costs as costs that emanate from laws (non-discretionary expenditures). To date, baseline expenditures have been conceived as the costs necessary for the provision of public services, without distinguishing between discretionary and non-discretionary expenditures. In the future, DGP would like to incorporate rigid cost considerations into baseline budgeting. Further potential

improvements to the budgeting process discussed include the annualization of one-time expenditures and incorporation of efficiency improvements in the methodologies.

PEFA indicators suggest an improvement: Some typical elements of an MTEF appear in PEFA indicator 2011-PI-16 Medium-Term Perspective in Expenditure Budgeting, as well as in all its dimensions, including medium-term expenditure estimates, medium-term expenditure ceilings, alignment of strategic plans and medium-term budgets, and consistency of budgets with previous year's estimates. This indicator closely relates to former PEFA 2011-PI-12. Preliminary results of the PEFA 2016 exercise suggest that there have been improvements since the 2012 PEFA. For example, the third dimension of 2011-PI-16 measures the extent to which, "approved expenditure policy proposals align with costed ministry strategic plans or sector strategies." Strategic plans should identify resources required to achieve medium- to long- term objectives and planned outputs and outcomes. The plans should identify the cost implications of current policy commitments, including any funding gaps, as well as prioritize new expenditure policy proposals consistent with government policy objectives."⁴⁴ Therefore, the third dimension is a good proxy to consider the extent to which baseline budgets (cost implications of current policy commitments) are developed and aligned with the budget proposal. Given the preliminary stages in the roll out of baseline budget reforms in Honduras, the evaluation team expects this dimension of the indicator to score poorly in future PEFAs.

12.4.3 Top-down / bottom-up reconciliation (Pillar 3)

Baseline budgeting does not yet influence the budget process and there is no formal reconciliation. As the evaluation team observed at baseline, and despite progress made on the MTMFF and in baseline budgets, DGP continued to set expenditure ceilings for each government institution independent of baselines for the 2017 budget. Modern ministries/secretariats of finance tend to set the aggregate resource envelope right at the start of the budget calendar (around March in a calendar fiscal year). They then issue top-down expenditure ceilings with a written budget call circular shortly afterwards, instructing line ministries and agencies to start formulating their budgets and prepare their budget submissions on that basis. Even in a context where line ministry budget submissions are not trained in using baseline expenditure techniques (and are largely incremental), there is often a formal negotiation process (in the form of budget hearings or the like) that allows line ministries to discuss their bottom-up budgets with the central finance agency. Following this negotiation, final budget allocations are determined, which will eventually be presented to Congress.

In Honduras, however, there is currently no formal interaction in the budget process between SEFIN and the institutions whose budgets they control that would allow for a technical discussion of submissions based on baseline budgets as part of the expenditure ceiling-setting process. At this stage, institutions simply upload their annual operational plans and multiannual budgets onto SIAFI against set budget ceilings established by SEFIN. For the 2017 budget, institutions were asked to submit their baseline budgets; however, they were asked to provide these prior to the

⁴⁴ PEFA Secretariat (2016). PEFA: Framework for assessing public financial management. 49. Retrieved from: https://pefa.org/sites/default/files/PEFA_Framework_English.pdf

formal ceiling-setting process, and without a clear understanding as to how baseline budgets would inform the ceilings thereafter. The actual ceilings are entered onto the system well into the budget formulation process and there is no analysis of budget submissions undertaken either at SEFIN or SCGG. Once budget ceilings are set, there are no formal budget hearings between SEFIN/SCGG and the institutions to incorporate or discuss potential policy changes to baseline budgets and agree on final budget submissions. Institutions simply upload their final budgets onto SIAFI.

The 2005 OBL does not reference a reconciliation process. Honduras is in the process of reforming the OBL, and while the evaluation team understands that a new OBL is likely to require a MTEF, it is not clear if it will formalize a negotiation/reconciliation process between SEFIN and the institutions. It is the evaluation team's understanding that the OBL proposals went through several rounds of amendments and modifications with input from CAPTAC and TCP advisors. At the time of data collection, a version of the law was sitting with SCGG, ready to go to the Presidency, the Council of Ministers, and then to Congress for approval. It is unlikely that the new OBL will be signed into legislation under the current administration, and it is expected that the OBL will go to Congress for a vote after the November 2018 elections.

Coordination challenges remain between SEFIN-SCGG in the budgeting process and the wider MTEF. Institutional frictions exist between the SEFIN and SCGG as evidenced by the passing of Presidential Decree PCM-001-2014, and more recently, the back-and-forth amendments to the OBL between SEFIN and SCGG. It appears that MTEF-related clauses in the last round of OBL amendments may regard the framework as a budget allocation tool whereby SCGG would have a central role. Some interviewees familiar with the reforms worry that the revised OBL gives SCGG authority in areas that conflict with SEFIN's mandate.⁴⁵

SCGG's involvement in budgeting is driven by more than bureaucratic turf wars. The current administration has been promoting a results-based agenda, and SCGG has been tasked with developing a new medium-term strategic planning and budgeting framework. This framework is meant to link the budget to indicators and ensure consistency between national planning, strategic sectoral planning, and institutional planning and budgeting. SCGG is already piloting the framework with seven institutions. Some of the ideas put forward are groundbreaking and could have significant impact on budgeting procedures. As such, there is not only the need to ensure coordination between these two entities but to also reconcile two somewhat different objectives.

One of the priorities of the future TCP MTEF advisor under recruitment will be to support these institutional decision-making (reconciliation) processes, by helping to integrate the other two elements of the MTEF and by advising on the necessary trade-offs. In that respect, a key objective of the MTEF consultant will be to address coordination issues between SEFIN and SCGG, and to develop an MTEF road map. The SI team learned that SCGG would also be bringing in a consultant to support the MTEF process. The evaluation team understands that the consultant (funded by the European Union) will come from CAPTAC and was closely involved with the

⁴⁵ Some of the issues revolved around powers to allocate and modify budget ceilings from source 11 (National Treasury).

reforms at SEFIN in the past. This could help facilitate cooperation between the various stakeholders.

The establishment of an inter-institutional committee made up of SEFIN-SCGG-BCH, mandated by Article 6 of the FRL (Article 6) in the context of approving the MTMFF, offers another avenue for coordination. Beyond approving the MTMFF, the committee has already been used as a forum to discuss the emerging MTEF. A constructive dialogue between SCGG and SEFIN, supported by impartial consultancies on both sides, convened around the Committee, could yield significant progress to the MTEF.

The PEFA does not directly address Pillar 3. As mentioned in the previous sub-section, some MTEF elements are featured in the different dimensions of PEFA 2011-PI16: medium term perspective in expenditure budgeting, including medium-term expenditure estimates, medium-term expenditure ceilings, alignment of strategic plans and medium-term budgets, and consistency of budgets with previous years' estimates. The indicator maps back to PEFA PI.12 of the former (2011) framework. Preliminary 2016 PEFA results suggest that the indicator as a whole has followed an upward trajectory. However, there is no single dimension in the indicator that considers the reconciliation processes between top-down expenditure ceilings that emanate from an MTMFF and the bottom-up costing of policy proposals. The measurement guidance for PI.17 Budget Preparation Process (former PI.11), partly takes into account the effective participation of the central finance agency and line ministries in an integrated top-down and bottom-up budgeting process, in accordance with a predetermined budget preparation calendar. However, the actual dimensions of this indicator are silent about how the negotiation/reconciliation process should take place. Therefore, the PEFA does not directly assess progress on Pillar 3 of the MTEF.

12.4.4 Fiscal Impact Analysis

Fiscal Impact Analysis is a nascent input to the MTEF. There is not a specific evaluation question related to this reform area. However, technical assistance on Fiscal Impact Analysis (FIA) has been framed as an input to the MTEF within the existing work program for the remainder of TCP. Legislative or executive proposals that have revenue and/or expenditure implications will inevitably affect either the resource envelope (through fiscal receipts) or expenditures (through budget ceilings and competing budgetary allocations). Ultimately, in a functioning MTEF, FIA would be captured in any of the three MTEF pillars and potentially cover the same medium-term period as the framework. However, at this stage, FIA is not carried out in the context of baseline budgets and is not linked to information or analysis conducted by the Fiscal Contingency Unit.

Current FIA efforts do not yet have a strong legal foundation. As discussed at baseline, specific rules and procedures on FIA are not detailed in the OBL or its regulations. The evaluation team understands that FIA specifics were proposed in an article of the amended OBL. It remains to be seen if the article is kept, if and when the law is approved by Congress. FIA does not feature in the new FRL. Articles 36 and 38 of the existing OBL recognizes SEFIN's role in providing a technical opinion in some contexts of budget increases and modifications. While demand and preparation of FIA could be instigated and driven by Congress, TCP stakeholders doubt the

legislature, or the CBC will do so. Technical opinions from SEFIN are non-binding on Congress, who regards FIA to be more in SEFIN's remit than their own. Technical assistance to the CBC was discontinued in November 2016, as was direct support to Congress on FIA.

SEFIN takes the lead on FIA. Timid uptake by Congress has meant that, since baseline, TCP efforts to promote FIA have focused on SEFIN. Following SI's baseline data collection, 26 institutions and 135 staff participated in training on the strengthened FIA system. The new FIA includes both costing and policy impact tools. In March 2017, 35 SEFIN staff were trained to review and approve draft FIAs. FIA is seen as a key future input into the baseline budget exercise (and subsequently the MTEF) as well as a stand-alone exercise. In May 2017, the tools were socialized at the level of government secretaries.

The DGP is also leading a new inter-institutional working group on FIA. At the time of writing this report, TCP supported the authorities with a retrospective dummy FIA exercise on the 2015 Social Protection Act.⁴⁶ The law has three pillars, universalization of public health, pensions, and the Better Life cash transfer program. Formal requirements have not yet been issued or live exercises undertaken. An official circular was issued requiring institutions to submit FIA with new draft laws. It is expected that in early 2018 SEFIN will prepare guidelines for institutions if FIA is recognized under a new OBL. A manual has been shared with some institutions although not all. In this first phase, INSEP and SESAL were selected as pilot institutions based the number of legislative initiatives and initiatives with high potential fiscal impact. A FIA Help Desk will create a central database of standard costings applicable to all institutions. Project support has also prioritized involving SCGG, considering that many initiatives come from this secretariat as a result of powers granted by the Presidential Decree. The new MTEF advisor is expected to work with OTA advisors to help facilitate the integration of FIA into the MTEF process.

PEFA indicators are not yet able to evaluate progress on FIA. The first dimension of EFA indicator PI.15, Fiscal Strategy, fiscal impact of policy proposals, is a valid benchmark to complement progress on FIA reforms. However, this is a new indicator in the 2016 PEFA framework and it is not possible to evaluate direction of travel against the 2012 PEFA exercise. In any case, given the early stages of the FIA reforms, the SI team would not expect this indicator to score very high in the upcoming 2016 PEFA assessment.

12.5 Congressional oversight

Several improvements to the hearing process have been realized. A final potential driver of improvements to the budget process, supported by TCP, is congressional oversight. Congress and the CBC have several roles in the budgeting process, including holding budget *preparation* hearings and approving the annual budget. In addition, after SEFIN submits quarterly reports (see

⁴⁶ Although initial work was done using the Social Protection Act as a case study, the evaluation team understands that a decision was made after data collection to transition from case studies to finalizing FIA procedures and piloting the new process with actual draft legislation. See Decreto No. 56-2015: Ley Marco Del Sistema De Protección Social.

evaluation Question 10), the CBC invites government institutions between the months of May and December each year to a round of public budget *execution* hearings.

Following improvements to both types of budget hearings discussed in SI's baseline report, the TCP explored ways to encourage members of Congress to more fully participate in hearings and other aspects of the budget process. A summary of findings, corrective measures, and action points derived from the hearings has been published with the support of TCP. In September 2016, the TCP facilitated a budget process workshop for approximately 40 Honduran government officials, including the entire Budget Commission staff. The workshop focused on ways to better coordinate the budget processes within SCGG, SEFIN, SEDUC, SESAL and INSEP. A videotape of the proceedings is available on the CBC website. To streamline the budget approval process, non-budgetary General Provisions were deleted from the Annual Budget Law and transferred to the appropriate Organic Laws. In 2016, OTA consultants summarized CBC staff recommendations for OBL reform when and if a new OBL is passed.

TCP support to the CBC has been discontinued. TCP provided two years of intermittent technical support before phasing out its support in November 2016 due lack of political buy-in by Congress and the CBC and the limited staff capacity of the CBC.

Strengthened hearing processes are likely to be institutionalized. Interviews with CBC staffers and TCP consultants suggest that improvements in budget hearing processes have been well received and are likely to be sustained over time. At the time of interim data collection, notices of the August 2017 budget execution hearings were being sent to stakeholders. The noticing conformed to TCP-supported procedures and was sent without any external support. To expedite the process, the hearings were to take place at the sectoral level (Gabinetes Sectoriales) and not by institution. Formally, the hearings are not recognized under any legislation and CBC counts significantly on SEFIN's support to organize them. TCP participated in the most recent series of budget execution hearings; however, the latest round of budget preparation hearings occurred in the absence of technical assistance. The CBC has signalled that it is keen to adopt other congressional improvements suggested by TCP. Suggested improvements include introducing the summary document mentioned above and developing an M&E function to monitor improvements. It is unclear when the CBC plans to introduce these processes.

Despite procedural advances, the PEFA indicator of legislative scrutiny of budget has not changed. An appropriate indicator to complement the evaluation of TCP activities on congressional oversight is PEFA indicator PI.18, Legislative Scrutiny of Budgets (formerly PI.27 in the 2011 PEFA framework). Preliminary data from the PEFA 2016 exercise suggests scores for this indicator remained flat between the last two PEFA assessments (2012 and 2016).

12.6 Challenges and limitations

A significant share of TCP technical assistance has gone into developing the MTEF and strengthening congressional oversight. Over the medium-term, these reforms should contribute to improving budgeting accuracy. MTEF reform efforts started on a strong footing with local ownership and support from both the IMF and TCP, but many challenges remain. Some

challenges are primarily technical, such as defining adequate demand drivers for baseline budgets for all institutions. Central to the process is that every innovation has to be understood, tested, and accepted before it becomes practice. Reforming the budget process is inherently a medium- to long-term undertaking with opportunities to enact those reforms coming only once a year at the annual budget cycle. Another set of challenges concerns navigating the complex process of coordinating different government entities with different agendas and incentives. A key success factor for the emerging MTEF will be to ensure SEFIN and SCGG work jointly towards a common goal and on an agreed set of methodologies.

A recent IMF working paper introduced a new way of analyzing MTEFs by pointing out different stages of MTEF development.⁴⁷ The paper presented four stylized phases of MTEF (Pre, Elementary, Maturing, and Advanced). Each phase represents different levels of capability of the ministry of finance's central budget office and its work on macro-fiscal forecasting and analysis. It is fair to say that Honduras finds itself somewhere in the elementary stage, which is characterized by a basic medium-term expenditure planning framework that has some elements of top-down fiscal planning and bottom-up costing of policies, but whose expenditure ceilings are indicative, and the link between planning and resource allocation is tenuous. A key challenge to progress to the "maturing" stage of the MTEF, will be to strengthen processes and procedures that allow institutions to link plans and resource allocation more effectively. To reach this stage, government institutions must be prepared to work together.

It is not realistic to assume that a functioning MTEF will be in place by the end of TCP. If the reforms are to progress, major efforts, including further technical assistance and capacity development, will be required well after the intervention.

12.7 Conclusions

With TCP support, the GoH has realized substantial advances towards a MTEF and a more accurate and reliable budgeting process:

- SEFIN's DPMF now produces a MTMFF.
- SEFIN's DGP scaled up baseline budgeting to 44 institutions for the 2017 budget cycle.
- Progress has been made in building capacity for FIA.
- The CBC has improved its budget preparation and budget execution hearing processes.

The TCP, OTA, and other advisors have contributed to these advances through their initial support for the MTMFF, their work promoting baseline budgeting and FIA, and their collaboration with the CBC. IMF assisted the TCP in promoting legal reforms and the passage of the Fiscal Responsibility Law. Most importantly, SEFIN has embraced the TCP promoted reforms for improved baseline budgeting and FIA processes.

⁴⁷ Allen, R. et al. (2017). Medium-Term Budget Frameworks in Selected Sub-Saharan African Countries.

While these advances are important, MTEF efforts are still at what Allen et al. would characterize as the “elementary” stage.⁴⁸ Baseline budgeting is still not informing the final budgets, and there is no reconciliation process in place to ensure that it does so. In addition, FIA is not incorporated into the baseline budgeting process. There are several reasons for these limitations. First, changes to budgeting processes are inherently a medium- to long-term process as new innovations can only be tested once a year. Second, there are some legal limitations, as an MTEF is not yet included in any existing legislation and FIA does not have a strong legal foundation. While the OBL has been undergoing a revision process, a new OBL has not passed. Third, there is some uncertainty about the direction that budget reform will take and who will take the lead. SEFIN has traditionally been responsible for the budget and has been promoting the MTEF; however, SCGG has been asserting itself into the budget process and has been formally tasked by the president in ensuring a results-based budgeting process.

13. BUDGET REPORTING

Q10: Does the budget reporting and reporting of budget challenges improve in partner institutions? Why or why not?

13.1 The intervention

TCP efforts to improve budget reporting have fallen across two different activities, both managed by OTA. Consultants working with SEFIN had a sub-objective to strengthen budget execution controls that included activities of reviewing reporting and issuing recommendations. Consultants working with the CBC also sought to improve budget reporting to ensure that reports meet Congress’s needs. Since baseline, the main focus of the intervention has been to strengthen the format and quality of quarterly budget execution reports at SEFIN and their utilization at Congress. However, these reforms have now been put on hold and may only be reactivated as part of the MTEF work stream.

13.2 Evaluation methodology

In order to answer the evaluation question, the research team held interviews with personnel at DGP, SESAL, SEDUC, INSEP, and the CBC. The analysis contained in this section is based on a document review and on 17 face-to-face interviews with staff from these five departments. The evaluation team reviewed the quarterly budget execution reports of these institutions and progress reports produced by TCP consultants. To the extent possible and recognizing data

⁴⁸ *Ibid.*

limitations, data collected as part of recent PEFA assessments is used to monitor improvements in budget reporting and congressional budget oversight.

13.3 Budget execution reporting and oversight

Budget execution reports are mandated by law but are too long and present only headline financial and physical information. Chapter IV of the OBL covers the monitoring and evaluation of budget execution. According to Article 45, the evaluation of budget performance falls under the remit of DGP within SEFIN during the fiscal year and at year-end. Article 46 mandates the preparation of the corresponding financial reports that summarize both physical and financial execution information. The Law is complemented by the Regulation for the Execution of the Organic Budget Law (Reglamento de Ejecución General de la Ley Orgánica del Presupuesto). Article 12 (Evaluation of Budget Execution) stipulates that the monitoring and evaluation of budget performance should be conducted quarterly. Congress and the CBC have several roles in the budgeting process, including holding budget hearings and approving the annual budget. After SEFIN submits quarterly reports, CBC invites government institutions to a round of public hearings held between May and December each year. At the hearings, the CBC reports on the current year's budget execution or defends their budget for the coming year. Evaluation Question 10 focuses on budget execution.

The quarterly budget execution reports are usually about 20 pages and typically include basic factual information. The report is presented without analysis of the root causes of any budgetary deviances. For example, a report may reveal a given institution is overspending on salaries in a given quarter but not explain or discuss why. DGP can ask institutions to explain their spending, but institutions are often slow to respond, and there are no consequences for being late or not responding at all. The end result is that yes, reporting occurs, but neither SEFIN nor Congress receive actionable data to make informed decisions.

TCP proposed several amendments to the Quarterly Evaluation Reports (QERs). Since baseline data collection, OTA consultants proposed several format changes to the quarterly budget execution reports. The revisions suggested cutting the 20-page budget reports to two pages to make them more focused, readable, and actionable. The revised report template also allowed institutions to qualify the financial numbers with a narrative observation. The OTA team continued to work closely with SIAFI developers to automate this process. The expectation at baseline was that new formats would be used in Q3 2016 as a pilot. Once the authorities were comfortable with the formats, the next step would be to improve the observations that accompany the reports and develop a training program for analysts. At interim data collection, the evaluation team learned that SEFIN had indeed adopted the succinct QERs to be submitted to Congress. However, this process was not institutionalized and lost traction. While Congress received the reports, they were not being utilized in the way TCP had envisioned.

DGP continues to work on strengthening QER but with less support. At the time of interim data collection, DGP was in the process of adding physical information to the reports. Due to IT issues, QERs captured financial information only. The information contained in QERs is

generated from the SIAFI system, but the reports themselves are off-SIAFI. The institutions send their budget execution self-evaluations to SEFIN who uses the new templates to elaborate on the reports, after which SEFIN the QERs onto Congress. It should be noted that at the time of interim data collection, DGP have not yet started using QER reports to inform budget preparation and the related Baseline Budget exercise. While the TCP has committed to supporting the DGP in any further QER developments, particularly if it feeds into the emerging MTEF, the TCP has not been involved in any further take-up of QERs.

The relevant PEFA score remains flat. An appropriate indicator to complement the evaluation of TCP activities on budget execution reporting is PEFA indicator PI.28, In-year Budget Reports, and all its dimensions: coverage and comparability of reports; timing of in-year budget reports; and accuracy of in-year budget reports (formerly PI.24 in the 2011 PEFA framework). Given the assessment presented above, it is not surprising that preliminary data from the PEFA 2016 exercise indicates that the score of indicator has remained flat between the two last PEFA assessments (2012 and 2016).

13.4 Challenges and limitations

The main challenge observed in the roll out of strengthened budget execution reports has been one of coordination and alignment between SEFIN and Congress. This challenge was already identified at baseline and it seems to have continued. OTA consultants suggested amendments to QER, but Congress did not act on them; moreover, TCP has discontinued its support to Congress. The evaluation team does not expect significant impact on budget reporting driven by Congress, but there is a chance that the quarterly evaluation reports will be taken up again as part of the MTEF development. This possibility will be reported on at endline.

13.5 Conclusions

The TCP identified, designed, and supported a series of relevant and appropriate interventions to improve budget monitoring, reporting, and scrutiny. Good progress was made in improving the Quarterly Evaluation Reports submitted by institutions to SEFIN and eventually to Congress. The revisions dramatically shortened the QERs while also making them more useful in budget analysis, budget reporting, and the monitoring of budget execution challenges at the institutions. Nonetheless, Congressional interest has been minimal and the reports, while formally adopted, are reportedly not being used for oversight or to inform budget preparation.

14. USE OF PROCUREMENT ASSESSMENT RECOMMENDATIONS

Q11: Do procurement assessment recommendations lead to changes in practices?

- Do procurement assessments lead to relevant recommendations that could improve procurement?
- Are these recommendations implemented?

14.1 Procurement assessment intervention progress

One of the primary activities of the TCP's procurement intervention is promoting evaluations of procurement processes in GoH institutions. The TCP support aims to increase ONCAE's capacity to meet its legal mandate to "periodically evaluate norms and operational procedures in the procurement system to correct in a timely manner the functioning of the system."⁴⁹ The two resident procurement advisors (Jacinto Reyes and Luis Villalta) have provided technical assistance to develop and support the implementation of a methodology to evaluate the procurement processes of various government entities. In addition to technical assistance, the TCP has paid for the salaries and costs of the newly created Unit for Evaluation and Statistics for up to two years, in the case of some personnel, with the agreement that the GoH would ensure the unit's continuity.

The evaluation approach adopted by ONCAE aims to identify how institutions apply procurement norms and procedures, identify good and bad practices, establish potential causes, introduce improvements in the process, and train personnel from the institutions. It is important to note that these evaluations are not "audits," as audit authority is limited to the TSC. The evaluations are not focused on holding public officials accountable for past procurement irregularities; rather, they seek to improve procurement processes moving forward.

The Unit for Evaluation and Statistics originally consisted of four evaluators and two additional staff; however, two of the evaluators were no longer with the unit at the time of interim data collection. The two remaining evaluators were well regarded by other interviewees and recognized for their extensive experience in public procurement. As of this writing and as shown in the following table, the evaluation unit had completed 14 evaluations with 14 government institutions.

⁴⁹ Ley de Contratación del Estado (2002). Decreto No. 74-2001, Article 31(2). La Gaceta.

Table 20: Institutions evaluated by ONCAE and status

Institution	Audit focus	Date of report	Presentation at institution	Improvement Plan
FV	2015	May 2016	No	No
INSEP	2015	Dec. 2016	No	No
Empresa Nacional de Energía Eléctrica	2014-2015	Jan. 2017	Yes	No
Alcaldía Municipal del Distrito Central	2015	July 2016	Yes	Yes
Fondo Hondureño de Inversión Social	2015	March 2017	Yes	Yes
Secretaría de Agricultura y Ganadería y la Dirección de Ciencia y Tecnología Agropecuaria	2015	July 2016	Yes	Yes
SESAL	2015	March 2017	Yes	No
Servicio Autónomo Nacional de Acueductos y Alcantarillados	2015-2016	Jan. 2017	Yes	Yes
SEDUC	2015-Q1 2016	May 2017	Yes	Yes
Banco Central de Honduras	2016	July 2017	Yes	No
Alcaldía San Pedro Sula	2016	Oct. 2017	Yes	No
Alcaldía Puerto Cortes	2016	Oct. 2017	Yes	No
Empresa Nacional Portuaria	2016	Sept. 2017	Yes	No
Secretaria Seguridad	2016	July 2017	Yes	No

For each institution, the Unit for Evaluation and Statistics identifies the universe of procurements, including the type of procurement (e.g., private procurement, public procurement, minor purchases) over the evaluation period (e.g., calendar year 2015). They then derive a sample of procurements to evaluate and request relevant documentation. The methodology for reviewing the procurements and coding information has evolved over the course of implementation. The earlier evaluations were more general; for example, they would note that a given problem exists rather than document precisely the pervasiveness of the problem. In later reports, the number of quantitative indicators increases. For example, the later evaluations provide calculations of the average length of time from producing a bid document to signing a contract. The evaluation methodology also includes interviews with key individuals in the procurement process. In fact, both the evaluators and institutional informants report considerable dialogue, which they viewed as an important part of the process and one of the characteristics that distinguishes the evaluations from audits. Of the cases examined in detail, relevant fieldwork ranged from 22 days with FV to 40 days with INSEP.

Reports are developed with the support of the TCP technical advisors and when completed they are delivered to the head of the evaluated institution. The report is not a public report, and -- with the exception of MCC and MCA-H -- it is not shared beyond the institution. In most cases, a presentation is held with high-level officials from the institution -- ONCA, and SCGG -- to present the findings. In response, institutions are asked to provide an Improvement Plan with details of how they will address the findings and recommendations. As seen in the previous table, of the 14 institutions with completed reports, 12 had held presentations and 5 had produced an Improvement Plan. As of data collection, it appeared likely that in 2018, the evaluation unit would reevaluate the same institutions to determine if progress had been made; however, this decision had not yet been formalized.

14.2 Evaluation methodology

The evaluation team selected four institutions on which to focus interim data collection: SEDUC, SESAL, INSEP, and FV.⁵⁰ The first three were selected as evaluation priorities to explore across all TCP PFM efforts. FV was added because of the focus on roads, a key area of interest for the TCP. The evaluation team reviewed the four reports and the Improvement Plan in the case of SEDUC and conducted interviews with ONCAE staff, TCP consultants, and procurement personnel in the four institutions. As part of the larger evaluation, we also conducted focus groups with three groups of vendors who sell to SEDUC, SESAL, and INSEP.

Because INSEP, FV, and SESAL did not provide a formal institutional response to the report findings and recommendations, we have to largely rely on statements made in interviews to determine if recommendations have been accepted and/or implemented. While thorough interviews were conducted with INSEP and FV respondents, the evaluation team was only able to speak briefly with relevant personnel in SESAL, resulting in some limitations there. If ONCAE evaluators return to the same institutions and conduct an additional procurement audit, this will provide a far better mechanism to determine if recommendations have been carried out.

⁵⁰ Oficina Normativa de Contratación y Adquisiciones de Estado (March 2017). Informe de Evaluación de los Procesos Operativos de las Adquisiciones Gestionadas por la Secretaría de Salud en el Año 2015. See also Oficina Normativa de Contratación y Adquisiciones de Estado (Dec. 2016). Informe de Evaluación de los Procesos Operativos de las Adquisiciones Gestionadas por la Secretaría de Infraestructura y Servicios Públicos en el Año 2015. See also Oficina Normativa de Contratación y Adquisiciones de Estado (May 2016). Informe de Evaluación de los Procesos Operativos de las Adquisiciones Gestionadas por la Secretaría de Educación en el Año 2015 y Primer Trimestre de 2016. See also Oficina Normativa de Contratación y Adquisiciones de Estado (May 2016). Informe de Evaluación de los Procesos Operativos de las Adquisiciones Gestionadas por el Fondo Vial en el Año 2015.

14.3 Findings and recommendations by the ONCAE evaluation team

The ONCAE evaluators found many areas for improvement and several procurement irregularities across the four institutions examined. Some of the problems are specific to the institution; however, many were general procurement concerns. Table 19 lays out the general concerns that were identified across the four institutions, notes which institutions these findings pertain to, and discusses progress to date in addressing them. Institution specific findings and recommendations are included in Annex III.

In general, the recommendations follow very clearly from the findings. For example, if an institution is not including required documentation in procurement files, then the report refers the reader to the relevant law, regulation, or circular and recommends that the documentation be included. As such, in response to the sub-question above, we conclude that the reports do include recommendations that if implemented would lead to improvements in the procurement process.

Table 21: Common evaluation findings, progress, supporting factors, and limitations

Primary findings	INSEP	FV	SESAL	SEDUC	Progress, supporting factors, and limitations
<p>Procurement plans: Institutions do not properly follow their Annual Procurement Plans (Plan Anual de Compras y Contrataciones – PACC) or Annual Operational Plan (Plan Operativo Anual – POA) nor do they include evidence in procurement files that the procurement is part of the PACC.</p>	☑	☑	☑	☑	<p>General Budget Regulations (Disposiciones Generales del Presupuesto) required the PACCs prior to the TCP; however, with the drafting support of TCP consultants, the 2017 regulations have been revised and now include stronger language requiring the PACC, a due date to submit the PACC, a reference to ONCAE guidance, a grant of authority to ONCAE to evaluate execution of the PACC, and reference to administrative sanctions for failing to publish a PACC. TCP consultants are working with partner institutions to strengthen the link between the procurement-planning and budget-planning processes throughout the GoH. Specifically, the plan is to link HonduCompras, the procurement platform, with the SIAFI, the financial platform. ONCAE has upgraded its PACC template. It is now more detailed, and it includes formulas to assist in procurement scheduling. Nonetheless, ONCAE lacked the human resources to review these PACCs or provide feedback to institutions.</p> <p>Institutions report they are working to improve the PACC. However, they raised several concerns, including lack of capacity and unexpected changes to budgets. For example, the FV budget was cut by 25 percent in 2017 after the department suffered two smaller cuts in 2016. (See also Question 8 response) This budgetary uncertainty undermines procurement and budget planning. In summary, while there have been some improvements, capacity and financial constraints limit the likelihood that this problem will be fully resolved.</p>
<p>Structural/organizational problems: Three of the institutions were found to have organizational limitations. For example, in the case of FV, procurement responsibilities are divided across three different units (procurement, technical, and legal), creating inefficiencies in the process. In INSEP, the procurement unit only does small purchases, and the roads division and public</p>	☑	☑	☑		<p>FV and INSEP disagreed with recommendations to alter their structure. No changes reported. Change also does not seem likely at SESAL. Interviewed personnel were supportive of decentralizing procurement authority.</p>

Primary findings	INSEP	FV	SESAL	SEDUC	Progress, supporting factors, and limitations
works divisions conduct their own separate procurements. The health sector is undergoing a decentralization process, and the Budget Dispositions for 2015 required lower level units to procure their goods and services despite the fact that the procurement regulations do not allow public procurements to be delegated.					
Standardized documents: Institutions do not use required, standardized procurement documents developed by ONCAE based on the law and international best practices. For example, FV's internal regulations contradicted the procurement law and called for a simpler procurement process with less documentation. SESAL's altered documents excluded bid validity requirements, fines for late deliveries, and document requirements.	☑	☑	☑		FV respondents report that they have now adopted ONCAE's standardized documentation, although they are not in agreement with the change. INSEP also reports that it is now compliant with utilization of standardized documents. This was confirmed by a 2017 review of INSEP procurements conducted by the ONCAE advisors. ⁵¹ The evaluation was not able to obtain SESAL's response to the finding.
No methodology to determine shortlists in private procurements: Under Honduran law, procurements for goods and services under HNL 200,000 are considered a private procurement (licitación privada), for which the government institution is only required to obtain three quotes to purchase the good. This practice creates several problems, as officials might only reach out again and again to the same preferential bidders, thus limiting competition. Moreover, there have been several corruption scandals	☑	☑	☑	☑	None of the institutions had developed what could be considered a methodology to ensure that all prequalified firms are asked for quotes. In response to this common problem, ONCAE issued a circular in 2016 requiring institutions to post all private procurements to HonduCompras. This policy change could prevent the irregularities associated with private procurements. Interviewed institutions report respecting this circular, and cases were reported of firms using this mechanism and even winning with a fourth or fifth bid. Nonetheless, a review by ONCAE advisors of 50 procurements from late 2016 to early 2017 only found one private procurement that resulted in a fourth bid. ⁵³ Generally speaking, it appears that the mechanism has not been used as frequently as hoped.

⁵¹ Villalta Morales, Luis Adolfo (May 2017). Informe de Actividades: Mayo 2017. Report No. 19.

⁵³ Villalta Morales, Luis Adolfo (May 2017). Informe de Actividades: Mayo 2017. Report No. 19.

Primary findings	INSEP	FV	SESAL	SEDUC	Progress, supporting factors, and limitations
where the process was manipulated to ensure a preferred firm wins the award. ⁵²					It is not clear why, although there is some evidence to suggest that businesses are respecting the old rules of the game for fear of reprisals. To illustrate, one interviewed firm reported that their request to participate using this mechanism was not granted. When they complained, they were reportedly shut out of future procurements.
Possible illegal division of procurements (<i>fraccionamiento</i>): Even ignoring incentives for corruption, institutions tend to prefer private procurements over public ones, as private procurements take less time, are more flexible, and are easier for bidders. This preference creates a perverse incentive to divide potential public procurements into smaller procurements that qualify as private. ONCAE finds that INSEP and FV primarily use private procurements to conduct road maintenance. For example, road maintenance contracts consistently cost just under the ceiling of HNL 200,000 and more expensive public procurements tend to be far above the threshold. SEDUC primarily used private procurements to purchase books through its Educatodos program, and the evaluators found likely subdivision in oxygen, medical supplies, and minor purchases in SESAL.	☑	☑	☑	☑	In interviews, respondents at INSEP and FV pushed back against allegations of illegal division, contending that the costs are based on technical requirements. While it seems unlikely that the technical requirements of a job consistently amount to HNL 200,000, the system for road repair used by these institutions does favor numerous small maintenance jobs across a wide geographical area. It is not clear if this was done with the intention of avoiding the law or because it is the most effective way to maintain the country's roadways. When asked why the same firms were consistently asked for quotes over others, respondents argued that there are few firms that have the technical and financial capacity to perform the work. This is possible, but it would mean that there is a problem with the prequalification process, as there are a high number of firms that are prequalified to do this work. The evidence suggests that these institutions are at least designing their procurements to ensure that they are not public. It is not clear if this is simply to avoid the higher transaction costs involved in public procurements or to ensure that contracts can be steered for personal and political gain. Respondents at SESAL admit that potential illegal divisions were a problem in the past; however, they contend that this no longer occurs. In its Improvement Plan, SEDUC planned to emit a circular to prevent subdivisions.
Inadequate information available on HonduCompras: This problem was noticed across the institutions. Institutions omitted some procurements entirely and only uploaded partial	☑	☑	☑	☑	Despite the strong findings in INSEP, respondents from this institution rejected the finding and blamed the low utilization on outages of the HonduCompras system that did not allow them to upload information. ONCAE recognizes that there are frequent outages; however, it would

⁵² Sabet, Daniel et al.. (2017). Baseline Report: Honduras Threshold Country Program Impact. Social Impact..

Primary findings	INSEP	FV	SESAL	SEDUC	Progress, supporting factors, and limitations
<p>information or incorrect information on others. In INSEP, 36 of 51 processes (71 percent) were not on HonduCompras. No count was provided for FV. However, ostensibly because of an FV server outage most files were not uploaded. In some cases, such as SEDUC's Honduran Program for Community Education (Programa Hondureño de Educación Comunitaria – PROHECO), information was provided but not in time to be useful to bidders. In SESAL, 50 percent of processes evaluated were not published.</p>					<p>be surprising for outages to explain such a high proportion of unposted documentation compared with other institutions. Nonetheless, the current HonduCompras platform suffers from a number of weaknesses, including outages, and at the time of data collection, the TCP was in the process of procuring an updated version of the platform for ONCAE, which should address most of the current weaknesses.</p> <p>FV acknowledged the problem during 2015 and report that they are now uploading all procurements. SEDUC accepted the finding and issued a circular to clarify that all procurement processes need to be uploaded to HonduCompras in a timely fashion. The evaluation team did not obtain a response from SESAL.</p>
<p>Incorrect bid evaluation procedures: Procedural concerns in INSEP included an inadequate evaluation point system, a case where a winning bidder lacked evidence of experience, and the absence of evaluation committee member signatures. In FV, the major concern was that the head of the institution also led the evaluation committees, creating a conflict of interest. In SESAL, hospital evaluation committees are too large, and bidders provide a guarantee of the validity of the bid <i>after</i> they are given a purchase order. Evaluations throughout the institution lack an analysis of the proposals and criteria to justify decisions.</p>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<p>All three institutions reported improvements in their processes. For example, FV reports that it has restructured its evaluation committee and the head of the institution no longer participates in evaluations.</p>

Three of the institutions had institution-specific findings and recommendations worthy of wider discussion:

INSEP

- The evaluation found that INSEP was on average paying 11 percent of the construction contract value to the supervisory firm, which greatly exceeds industry guidance from the Interamerican Development Bank (IADB) and the Honduran Social Investment Fund (Fondo Hondureño de Inversión Social – FHIS). The ASJ report recommends reviewing these costs. Interviewed INSEP personnel rejected the recommendation contending that the costs are accurate and appropriate. It does not appear that a review was conducted to arrive at this conclusion.
- INSEP pays between HNL 4,300 and 4,900 for asphalt mix, while the Central District Municipal Mayorality (Alcaldía Municipal del Distrito Central – AMDC) pays only HNL 2,830 for the same asphalt from the same source. It did not appear that INSEP had conducted any market studies of the difference in the prices, and interviewees attributed the differences to transportation costs.

Road Fund (Fondo Vial – FV)

- The evaluation also raised concerns with the verification firm REGIOPLAN. As contemplated in its regulations, FV has contracted with REGIOPLAN to verify the work being done nationwide by FV's contractors and supervisors. In addition to this duplicating the function of FV, the procurement for this contract excluded international competition and only attracted a single bidder and resulted in a high cost. It also appeared that the firm was not carrying out some of its core functions. FV did not feel that it could address these issues.

SEDUC

- SEDUC experiences extended delays in contract signing. In one case, 413 days passed from the request of bids to the signing of the contract, with the majority of the time being between the evaluation of bids and signing. SEDUC accepted recommendations to shorten this time and its Improvement Plan reports assigned responsibility to senior leadership to make the process more efficient.
- SEDUC conducts Inverse Procurement Fairs, where small vendors at the local level can present their wares for purchase by SEDUC with a formal procurement. While this effort aims to encourage small business development, it is not consistent with the procurement law. SEDUC is investigating with ONCAE how to legalize this process.

14.4 Complementary actions taken by ONCAE and the TCP

The evaluations are one piece in a larger effort to improve government procurement. As illustrated in the table above, in a number of cases, ONCAE, with the support of TCP advisors, has taken steps to support the resolution of problems identified. These include:

- **Circular:** ONCAE's 2016 circular requiring institutions to post private bids to HonduCompras and to invite requesting firms to participate could increase competition and break the cycle of using private procurements to steer purchases to preferred vendors.
- **PACC:** Improvements to PACC templates and strengthening of language and requirements laid out in the budget guidance should improve procurement planning.
- **HonduCompras 2.0:** MCA-Honduras is procuring a new, integrated electronic government procurement (e-GP) information system to update HonduCompras. The new system will reduce or eliminate the current outages, improve ease of use, reduce time, and dramatically increase capabilities. PACC processes, tender documentation, tender questions and amendment processes, bid submission, bid opening, bid evaluation, award of contract, and invoicing will all be performed through the new system. The system will also host the e-catalogue and interface with SIAFI to ensure budget availability.

Complementary efforts not mentioned in the table above include:

- **Transfer of FV:** In June 2017, the President issued a decree intervening in the FV and transferring authority for the agency to MCA-H, now known as INVEST-Honduras. Media reports typically attributed the dissolution to evidence that FV had issued contracts to an organized crime group, and these same reports frequently cited a public report by the Construction Sector Transparency Initiative (CoST), which found poor compliance with public information requirements.⁵⁴ MCC interviewees also cite the procurement evaluation conducted by ONCAE as a major driver of the decision to dissolve FV. Since the transfer, ONCAE procurement advisors have provided technical support to INVEST-H to develop new procurement policies for future road construction and maintenance. As noted in the section on PPPs below, INVEST-H has also emerged as a key player in making up deficiencies in COALIANZA. The evolution of MCA-H into a government institution trusted to implement high priority initiatives marks an important long-term contribution of MCC to infrastructure governance in the country.
- **Training:** In response to inadequate capacity, TCP consultants have worked with ONCAE and four universities to develop and carry out a 180-hour course on public procurement. As of July 2017, 202 public employees, including procurement unit personnel and those who sit on evaluation committees, from across 57 institutions had participated in the course. This included fourteen personnel from INSEP, six from FV, five from SESAL, and seven from SEDUC.⁵⁵
- **Certification:** Given the host of irregularities encountered, low capacity, and a lack of accountability, the TCP and TCP-supported advisors are promoting the creation of CPCs. ONCAE would be responsible for accrediting CPCs, which would entail an extensive testing process based on material taught in the above-mentioned course. Institutions would be required to have CPCs approve PACCs, bidding documents, procurement resolutions and contracts, and contract modifications. At the time of data collection, a reform to the procurement regulations had been

⁵⁴ Villalta Morales, Luis Adolfo (May 2017). Informe de Actividades: Mayo 2017. Report No. 19. See also La Prensa (July 2017). Interventora del Fondo Vial asume con plenas facultades. Retrieved from: <https://www.laprensa.hn/honduras/1088677-410/interventora-fondo-vial-facultades-carreteras-cuenta-del-milenio>

⁵⁵ Villalta Morales, Luis Adolfo. Informe de Actividades: June 2017. Report No. 20.

developed and was under consideration. It is not clear if the CPC would be responsible for approving all procurements, and the timeline for rollout of this approach is also not clear.

- **Electronic Catalogue:** As reported in detail in the baseline report, ONCAE has developed and uses an e-catalogue to purchase goods commonly purchased across agencies. Since baseline, the e-catalogue has continued to expand, adding modules for automobile tires and medical supplies. The e-catalogue continues to be popular; however, numerous interview respondents, including vendors and public employees, noted concerns with the poor quality of many goods purchased through the e-catalogues. In addition, users report that the e-catalogue is often offline because of the weaknesses in the current version of HonduCompras.

14.5 Challenges and limitations

The spirit of the procurement evaluations is better described as a means to provide support to procurement personnel and institutions rather than an effort to hold them accountable. Accountability is viewed as the responsibility of the TSC. As noted above, reports are provided to the institutions' leadership; however, they are not made public, and at the time of data collection they were not being shared with the TSC. If procurement officials and institutional leaders view procurement reform as a priority, then the assessments offer an excellent potential catalyst for reform. If reform is not viewed as a priority or actively resisted by those who benefit from the status quo, then it will be less likely that the evaluations will have a positive impact.⁵⁶

In institutions like INSEP, where no presentation has occurred, no Improvement Plan has been developed, and interviewees reacted strongly against many of the evaluation's more salient findings, it is difficult to imagine substantial change. However, INSEP will be an interesting test case, as 14 INSEP personnel have participated in the procurement training program, more than any institution except SEDS and ONCAE. If the problem is one of capacity, then the assessments and the training should lead to substantial changes. If, however, the problem was a lack of accountability, then we would not expect substantial changes in INSEP. Numerous interviewees noted ONCAE's lack of authority to compel institutions to action or to hold them accountable. As it is currently understood, this authority is reserved for the TSC; however, interviewees generally feel that the TSC has not been able to ensure accountability in procurements.

The proposed CPC approach offers a compelling solution to procurement irregularities, as it combines both a focus on capacity, through rigorous accreditation, and a focus on accountability, by making CPCs legally responsible for the documents they sign off on. While the CPC proposal offers considerable potential, implementing and institutionalizing such a process will require several more years of focused efforts beyond the TCP. There are several potential donors that could give continuity to TCP efforts, and this will be essential if the CPC is to be effective.

⁵⁶ FV offers a clear exception to this, as the procurement assessment appears to have played a role in the dissolution of the agency.

14.6 Conclusion

In conclusion, the procurement evaluations -- and the procurement evaluators -- were well regarded and viewed positively by almost all interviewees. The reports include recommendations that if implemented would result in meaningful changes. We also see some positive steps in implementing these recommendations, including reported improvements in PACCs, increased use of standardized documents in FV and INSEP, a stated commitment to avoid subdividing procurements in SESAL and SEDUC, reported increased use of HonduCompras, and improved evaluation processes.

Significantly, evaluation recommendations are supported by a host of other complementary actions being taken by ONCAE with TCP support. These actions include regulatory reforms (through circulars, the budget guidelines, and proposed changes to procurement regulations), a robust training program, a forthcoming certification program, development of tools (e.g., improved PACC templates), forthcoming changes to HonduCompras, and the e-catalogue. The assessment findings also seem to have played a role in the dissolution of FV and the transfer of its functions to INVEST-H.

While there is clear progress on some recommendations, other recommendations seem unlikely to be implemented. In particular, interviewees tended to be defensive about allegations of possible procurement subdivisions and the extensive use of private procurements. Despite the potentially important exception of posting these procurements to HonduCompras, interviews did not suggest adoption of improved methodologies for selecting shortlists in private procurements or an increased number of public procurements.

Procurement reform in a context like Honduras must overcome the often quiet opposition from those that benefit from the status quo. It is not clear if identifying problems, providing tools, and training personnel on the correct way to conduct procurements will be sufficient to overcome the perverse incentives that drive procurement abuses in the absence of a more robust accountability mechanism. The certification program proposed by the ONCAE advisors offers a potential means to create accountability; however, to be effective, this initiative will take much more than the remaining time of the TCP to institutionalize.

15. BUSINESS CONFIDENCE IN PUBLIC PROCUREMENT

Q12: Does business confidence in public procurements and participation in procurements increase? Why or why not? What explains variation in perceptions of fairness of the procurement process?

This question will be addressed at endline based on the results of the vendor survey.

16. OPPORTUNITIES FOR AND PERCEPTIONS OF CORRUPTION

Q13: Do changes to systems and processes reduce opportunities for corruption and/or improve perceptions of corruption in PFM?

16.1 Introduction

The baseline report identified substantial concern over corruption among surveyed public employees, surveyed vendors, and interviewees. The perceptive aspect of this question will be addressed through a comparison of baseline and endline surveys. At this interim stage, we examine changes in *opportunities* for corruption.

16.2 PFM 1.1: Budget and Treasury Management

An opportunity for corruption occurs in the invoice payment process. Because vendors must wait much longer than the time contemplated by law for payment, there are strong incentives to attempt to use bribes to speed up the process. There is some evidence to suggest that this practice does in fact occur, as it was raised as a concern by vendors in focus groups. Following a baseline diagnostic supported by TCP on the weaknesses and challenges in the payment processes to vendors, the technical assistance team gained a better understanding of the issues to address and is now seeking to improve payment processes.⁵⁷ The consolidated work plan around procurements, which seeks to promote PACCs as effective cash and treasury planning tools and to merge the SIAFI and HonduCompras systems, is a step in the right direction. Improving the timeliness of payment to vendors would remove the cause of corruption in the invoicing process.

The wage bill is usually one of the biggest items of government expenditure. It is typically susceptible to weak controls and hence corruption. While most TCP efforts have focused on the cash management and payments related to third-party vendors, a national TCP consultant has been supporting SEFIN's Modernization Unit (Unidad de Modernización - UDEM) in improving the payroll system, SIREP. Despite major improvements in payroll processing with support from other donors, staff responsible for managing SIREP still have to revise wages and salaries by hand each month. TCP support seeks to enable automation and strengthened planning of the payroll, which should also constrain the opportunities for corruption in this budget line.

⁵⁷ Blackburn, Kay and Fleming, Lori (March 2016). Improving Vendor Payment Timelines. OTA.

16.3 PFM 1.2: Improving Procurement Capacity, Planning, and Controls

There are several opportunities for corruption in the procurement process that are explored in detail in the baseline report. As noted in the response to Question 11, procurement evaluations do not directly address issues of corruption; nonetheless, the ONCAE assessments, along with further investigation by TCP- supported advisors, have documented the unnatural prevalence of private procurements, particularly in road maintenance work contracted by INSEP and FV. Private procurements allow procurement officials to limit competition to three quotes. This allowance creates an easy opportunity to direct contracts to preferred bidders. As noted in various places in this report, the TCP-supported advisors and ONCAE have attempted to address this problem by issuing a circular mandating that all private procurements be posted to HonduCompras and requiring institutions to invite other interested bidders to participate. As noted in Question 11, there are cases where this policy change has resulted in additional bidders; however, such cases remain the exception rather than the norm. As of interim data collection, it was not yet clear if this strategy had reduced opportunities for corruption in a systematic way.

Several interviewed TCP stakeholders believe that the majority of irregularities in the procurement process occur because of ignorance among line-level procurement officials rather than because of corrupt motivations. This atmosphere creates an environment where irregularities are the norm, which facilitates corruption. If this perspective is correct, then the TCP's strategy of training procurement personnel through a 180-hour course should also reduce irregularities and subsequent opportunities for corruption.

With TCP support, ONCAE is also promoting the creation of Certified Public Purchasers, who will be responsible for approving bidding documents, procurement resolutions, and contracts. These professionals would then be held accountable for any irregularities in the procurements they sign off on. This will require legal changes, which were being drafted for consideration at the time of data collection. If adopted and effectively implemented, this could substantially reduce opportunities for corruption.

16.4 PFM 1.3 Improving capacity of the TSC

A TCP consultant is providing technical assistance to the TSC on audits to identify illegal enrichment, and this is expected to lead to stronger prosecutions in court, and a subsequent disincentive for future corruption. This work had not yet begun as of data collection and will be explored at endline.

The TCP's program logic does not provide a link between performance audits and desired reductions in corruption. While implementation of some performance audit recommendations could lead to a reduction in corruption, the audits are not designed to directly address corruption or result in charges of responsibilities (*pliegos de responsabilidades*) for detected irregularities. Like the procurement assessments, their performance audit approach is forward looking. While interviewed auditors stated that they found substantial evidence of corruption, this information was not included in performance audit reports. In theory, this evidence should be provided to inform future financial and legal audits; however,

it is not clear if this has occurred. As such, while the performance audit approach has its advantages, it does not represent an important tool in directly addressing corruption.

16.5 PFM 1.4 Grant facility for social accountability

ASJ's public reports identify a host of irregularities in procurement and hiring processes; however, no public officials have been held accountable for any of the irregularities identified in the reports. While such accountability was not the goal of the reports, its lack is still somewhat surprising given the alarming nature of some of the findings (see Annex IV). Nonetheless, as with ONCAE's procurement assessments and TSC's performance audits, the implementation of recommendations could result in a reduction of opportunities for corruption in procurement. For example, SEDS's poor asset management practices identified in the report facilitated the theft of resources. As of interim data collection, key items, such as police firearms, were being tracked with SEDS's new management information system.

In the area of human resources, ASJ reports document a failure to implement civil service rules, and there is strong evidence of clientelistic-based hiring practices, which some practitioners consider to be a form of corruption. This has resulted in ASJ and civil society involvement in overseeing some hiring processes in the SEDUC and SESAL. This represents a short-term reduction in opportunities for clientelistic hiring, which could lead to more long-term effects.

In a related vein, ASJ's TCP-supported work with SEDS complemented ASJ's participation on a special police commission, which, along with public pressure and presidential leadership, led to the passage of a new Police Career Personnel Law. Given that a lack of police professionalism and a lack of a professional career path are often cited as root causes of police corruption, the effective implementation of this law could lead to a reduction in corruption in SEDS.

16.6 Conclusion

Due to the illicit nature of corruption, it is difficult to know if corruption is increasing or decreasing in most contexts. Given this measurement challenge, this question asks about opportunities for corruption and perception of corruption, the latter of which will be addressed at endline. A focus on "opportunities for corruption" has its own methodological limitations, as corrupt actors might open new opportunities as old ones close.

Partially as a result of measurement challenges, it is difficult to know if the TCP is having an effect on corruption or even opportunities for corruption. It is important to note that none of the TCP interventions tackle corruption head on. The gathering of extensive evidence of irregularities in payment, procurement, and human resources is not aimed at holding officials accountable. These studies have, however, produced an extensive diagnostic of the problems and generated a host of valuable proposals to address them. The studies have also resulted in some short-term wins, including increased competition in some traditionally closed private procurements, civil society participation in hiring processes in SESAL and

SEDUC, and reduced opportunities for theft of goods in SEDS. Other proposals, such as the creation of Certified Public Purchasers, offer the potential for long-term impacts, however, these remain nascent reforms that will require support and oversight long past the close of the TCP.

17. USE OF PERFORMANCE AUDIT RECOMMENDATIONS (PFM 1.3)

Q14: Do performance audit recommendations lead to changes in practices?

- Do performance audits lead to relevant recommendations that could improve service delivery?
- Are these recommendations implemented?

17.1 Performance audit intervention

The TCP is supporting the TSC to develop their capacity to conduct performance audits, which are audits focused on the efficiency, effectiveness, and economy of public service delivery rather than legal and financial compliance. As of interim data collection, TCP support had consisted primarily of technical support from an international expert in performance auditing. This consultant was tasked with working with the TSC to plan, execute, and produce four Pilot Performance Audits and develop and update a performance audit manual according to the professional norms of International Standards of Supreme Audit Institutions (ISSAI). The consultancy ended in November 2016 with the conclusion of the pilots. In addition, the TCP provided the resources to conduct the audits, including laptops, printers, and travel expenses for TSC personnel. The TCP also provided sector specialists to support each pilot audit. As shown in the following table, the four pilot audits with DEI-DARA, FV, INA, and ENEE were all completed by the end of 2016.

Table 22: Institutions audited by the TSC

Institution	Audit focus	Date of report	Improvement Plan	TSC planned follow-up
Customs Agency - DEI-DARA	01/2013 - 06/2015	Mar. 2016	Yes	2017
Road Maintenance Fund - FV	01/2015 - 12/2015	Dec. 2016	Yes	2018
Agriculture Institute - INA	01/2014 - 12/2015	Dec. 2016	Yes	2018
Electrical Utility - ENEE	01/2014 - 08/2016	Dec. 2016	Yes	2018

Audit teams, including existing TSC auditors and some new staff, were trained in November 2015. Audits took place throughout 2016. No special unit was formed of performance auditors; instead, auditors spent three days a week on the performance audit. There were some challenges in the roll out, including inexperienced auditors, insufficient preparation time, difficulties in adopting the new methodology, and challenges in developing a report format. Nonetheless, on the whole, interviewed auditors were pleased with the overall experience, proud of the audit reports, and interested in participating in future performance audits. They appreciated the teamwork-based approach, the bigger picture focus, and the more positive and interactive relationship with audited counterparts.

Following the finalization of an audit report, institutions have 15 days to produce an Improvement Plan detailing how they will respond to the recommendations. Following another six-day notification period, leaders of institutions who fail to produce Improvement Plans can be required to appear in an audience before the TSC, which can result in fines ranging from HNL 5,000-1,000,000. The Improvement Plan is to include deadlines self-imposed by the institutions. After the deadline passes, TSC's four-person department responsible for follow-up is dispatched to verify compliance. Failure to comply can also result in an audience with the TSC and fines to the institution's leadership. At the time of data collection, none of the deadlines had yet passed. The TSC does not conduct follow-up activities prior to the deadline to ascertain if institutions are on track with implementing their Improvement Plan. While audit reports are made publicly available, Improvement Plans and subsequent follow-up documentation are not.

Despite positive feedback from participating auditors, no performance audits were conducted during 2017 following pilot audit conducted in 2016. As of interim data collection it was not clear to the evaluation team what would happen to performance auditing in the TSC. In December 2016, a new set of magistrates were appointed to lead the Tribunal Superior de Cuentas for the next seven years. While performance audits are mentioned in the TSC's new strategy, the presentation suggests a shift in focus. Interviews also suggested that performance auditing might be shifted to internal audit units within individual institutions with legal reforms being developed and proposed by the TSC's new leadership. Nonetheless, a new TCP performance audit consultant from the Government Accountability Office (GAO) began working with the TSC in October 2017 after SI conducted interviews. MCC reports that the new consultant has been well received and that there is renewed interest in the performance audits.

17.2 Evaluation methodology

For the evaluation, we examined all four pilots. The team reviewed the audit reports and conducted interviews with each of the four TSC audit teams. We requested Improvement Plans for all four institutions and requested interviews with representatives from the four institutions. Unfortunately, the team was not provided with any Improvement Plans and the team was only able to meet with a representative of FV. Absent complete information and absent TSC follow-up on the Improvement Plan, the evaluation team will not be able to provide a complete answer to evaluation Question 14 until endline. Fortunately, the reports include institutional responses to the findings that provide a sense of institutional reactions.

In the subsequent sections, we use the reports and interviews to outline high level findings and recommendations. Annex IV includes a summary of each audit's findings, recommendations, and

institutional response. Because the reports are extensive and include many findings and recommendations (e.g., the FV audit includes 55 findings), we present and follow-up on findings and recommendations that appear in summary report conclusions. While this offers an effective way to prioritize, at times core findings and conclusions that appear in the summary include new information not included in the body of the report.⁵⁸

In addition, given that the reports are publicly available, we conducted a review of *El Heraldo* and *La Prensa* newspapers to identify news reports that referenced or cited report findings.

17.3 DEI/DARA

Findings: DARA is the Honduran customs agency existing within the revenue service DEI at the time of the audit. The DEI was disbanded shortly after the audit, and DARA was transferred to SEFIN. The audit findings, along with TSC recommendations and the institutional response, are presented in Annex IV. The findings describe major problem areas, including a lack of standardized control processes to mitigate risks in customs, poor human resources regulations, and insufficient IT and physical infrastructure to support the agency's operations. These problems predate the audit; media reports of product smuggling, fiscal evasion, and trafficking are numerous.⁵⁹ The audit team identified some problematic practices that contribute to these irregularities. For example, the gauging officers check containers simultaneously and the counting of commodities is not done effectively. Examples poor human resources practices include a lack of documentation and lack of awareness of internal transfers.

Recommendations: The audit team recommendations follow naturally from the findings. For example, in response to the finding that there is insufficient equipment to conduct inspections during customs clearance, the TSC recommends providing sufficient personnel and equipment. The audit team did offer more specific recommendations, such as a human resource recommendation to not only formalize in writing all transfers of personnel between departments but also to develop a registry of personnel who move positions.

Potential impact: The implementation of the recommendations in control processes and human resources regulations could lead to moderate changes in public service delivery and improved control of corruption. Other recommendations will require greater short-term investment but could yield reduced costs for the government in the medium term.

Likely impact: DEI/DARA did not provide responses to the audit findings within the stipulated period in 2015, nor did they provide an Improvement Plan. TSC did a follow up to the recommendations in early

⁵⁸ For example, in the case of FV, the summary conclusions note FV generated 9,807 jobs of a target 12,000 and fostered the creation of 21 micro-businesses against a target of 26; however, this point is not made in the body of the report.

⁵⁹ El Heraldo (April 2014). Aduana de Puerto Cortés es el mayor nido de corrupción. Retrieved from: <https://www.elheraldo.hn/alfrente/698542-209/aduana-de-puerto-cort%C3%A9s-es-el-mayor-nido-de-corrupci%C3%B3n>

2017 and found that the vast majority of the recommendations had not been implemented (See Annex IV). While some of this failure to implement can be ascribed to the dissolution of the DEI, the lack of action on so many fronts is concerning.

17.4 Road Fund (Fondo Vial – FV)

Findings: Audit findings are presented in Annex IV along with recommendations and the institutional response. The findings paint a picture of the FV as an institution that is not achieving its mission and is not likely to do so in the future. The institution lacks basic performance indicators, does not have a clear inventory of the state of the network, and appears bound in a poor value for money contract with a verifying contractor.

Recommendations: Recommendations followed naturally from the findings, and the TSC audit team prioritized making realistic recommendations. For example, given the finding that the FV was not maintaining the roads in an acceptable condition, the audit team did not simply recommend that FV maintain the roads; instead, the team recommended establishing performance indicators for each management unit. Given the poor planning of maintenance projects, the audit team recommended an analysis of planned versus executed projects. Given the major concerns with the verification company's contract, the team recommended that FV conduct a cost-benefit study of this contract.

Potential impact: These recommendations are realistic, and therefore their implementation is more likely. The recommendations are also less ambitious than the situation may require, and their implementation will most likely produce moderate changes in service quality and costs as opposed to a dramatic transformation of the institution. Nonetheless, if FV ensured that the verification firm REGIOPLAN complied with the contract to ensure an updated inventory of the status of roads as recommended, FV could engage in better planning of maintenance activities, resulting in improved services. Similarly, recommendations to include back-up suppliers in bids could reduce delays and improve services. If a recommended cost-benefit analysis of the value added by the verification firm leads to non-renewal of the firm's contract, this could result in substantial savings.

Likely impact: The institutional response did not suggest meaningful changes were likely. Interviewees provided explanations and justifications for the various findings and enumerated the barriers to implementing recommendations. For example, while there appeared to be a recognition that the verification firm was not a good value for money, interviewees noted that the contracting of such a firm is required in the FV's founding legislation. This issue is somewhat moot considering that as of interim data collection, Fondo Vial had been closed by presidential decree and its responsibilities passed on to Invest-H. MCC interviewees contend that TCP-supported reports played a major role in this decision to close FV. INVEST-H's involvement in reforming FV's functions could result in costs savings and service quality improvement. This will be explored further at endline.

17.5 ENEE

Findings: The audit report identified several major concerns with ENEE, and they are summarized in Annex IV. The concerns included deficiencies in planning, problems in metering, a failure to reduce electricity losses, inadequate supervision of the electricity operator Honduras Energy Company (Empresa Energía Honduras – EEH), major delays and cost increases in generation projects, and procurement and contracting concerns, particularly with regard to the purchase of electricity from independent power producers.

Recommendations: Recommendations to ENEE are more ambitious and more closely derived from the findings than the recommendations made to FV. For example, for the finding that ENEE did not carry out planned investments, the recommendation is to invest the required funds. If implemented, many of the recommendations could lead to significant costs savings and improved services.

Potential impact: There are several recommendations oriented towards improving efforts to reduce electricity losses, which entail costs but result in no revenue. Other recommendations could result in significant savings, such as improving contracts and contract enforcement with the operator and independent power producers (IPPs). The audit found that ENEE does not buy from the source of electricity with the lowest costs after purchasing contractually stipulated minimums from IPPs. Furthermore, the audit also found that ENEE has over-contracted for electricity beyond demand.

Likely impact: The ENEE did not provide responses to most of the audit findings within the stipulated period of time. The institution produced an Improvement Plan, but it was not provided to the evaluation team, nor was the evaluation team able to interview ENEE personnel. Therefore, we are unable to draw conclusions at interim and will revisit progress at endline.

17.6 INA

Findings: As above, audit findings, recommendations, and institutional responses are detailed in Annex IV. The audit finds major problems in the issuance of property titles to owners due to outdated inventories and records, inconsistencies in the values of agrarian debt, deviation of funds from projects to other purposes, absence of some job profiles, and a lack of performance evaluations. These problems are longstanding and predate the audit.

Recommendations: The audit team recommendations are clearly connected to audit findings. They focus on existing responsibilities of personnel and at times fail to explore other actions needed to support recommendation execution. For example, the team found that inventories of rural, private, national, and communal property are not registered or updated. The corresponding recommendation is for the rural register manager to update the inventory. No further actions that may support the execution of this recommendation were noted.

Potential impact: The implementation of the recommendations regarding the issue of property titles could lead to high-level changes in service delivery. The recommendations in the agrarian debt area

could lead to improved control of corruption, and the recommendations in the enterprise conversion could lead to cost savings. All these recommendations require implementation of a major financial and human resource investment.

Likely impact: INA responses to the audit findings published in the report acknowledge the constraints to implementing the recommendations, and interviews during interim data collection suggest that INA is not likely to improve in the short or medium term. For example, a major budget increase would be needed to update the inventory of rural property and to determine the actual outstanding agrarian debt. However, during the audit period the INA had such limited resources that part of their project funds were deviated to pay salaries.

17.7 Challenges and limitations

Limitations to the theory of change: The theory of change behind procurement audits is that audit findings and recommendations will produce new information and incentives to implement the recommendations, which will result in implementation and subsequently improved public services and reduced costs. In the best-case scenario, (a) the audits will uncover information that is unknown to agency leadership, (b) the incentives to implement recommendations will outweigh incentives not to, and (c) the agency leadership will have the ability to implement the recommendation. In many cases, however, the problems are already known to the agency head. For example, in the case of ENEE, it is likely that the agency leadership knew about limitations to metering and delays in constructing a new hydroelectric plant. While there are incentives to implement TSC recommendations and a risk of administrative sanction for not doing so, there are also incentives that likely favor the status quo. Moreover, leaders might not have the ability to implement changes; for example, many recommendations have substantial budget implications. In his review of 23,203 recommendations over a seven-year period using TSC data, Ramírez Irías found that 46 percent of recommendations were not acted upon.⁶⁰ As such, audit reports might not be sufficient on their own to produce major changes and likely will require complementary action.

Lack of complementary efforts: Unlike the procurement evaluations, the performance audits are not connected to other reform efforts. For example, in the procurement evaluations, ONCAE recognized that there were perverse incentives for procurement officials to conduct private procurements and took steps to address the problem throughout the government. No such complementary efforts support the TSC audits.

Follow-up process could be stronger: As noted above, the TSC does have a follow-up process in place. Institutions must produce Improvement Plans and then TSC personnel check to see if the plan has

⁶⁰ Ramírez Irías, Lester (2017). Veeduría Ciudadana al Tribunal Superior de Cuentas. Asociación para una Sociedad más Justa. Retrieved from: <http://asjhonduras.com/webhnn/veeduria-social-al-tribunal-superior-cuentas-honduras/>

been implemented by the agreed upon deadline. However, Irias considers TSC's recommendation follow-up to be the weak leg of the TSC, stating, "Practically, [the TSC] has marginalized this task to a reduced group of auditors that do not have the legal or technical tools or the economic resources to do their work."⁶¹ There are clear limits to the follow-up that a team of four can do across all TSC audits. Furthermore, 98 percent of the unit's 2016 budget went to salaries, leaving only 2 percent for supplies and travel expenses. Some interviewees argued that the same auditors that participated in the original audit should be the ones that conduct the follow-up, as they will be in better position to assess if changes have been made. In addition, unlike the ASJ follow-up process described below, there is no interim monitoring of implementation efforts to ensure that institutions are on track to successfully carry out their Improvement Plan. Finally, while audit reports are publicly available, follow-up and the results of follow-up are not public.

Limited public response: As noted at baseline, Honduras's media and civil society groups do not view audit reports as a resource in reporting and advocacy, despite the fact that they are publicly available documents. A review of online media sources *El Herald* and *La Prensa* from the completion of the report to November 2017 produced only one reference to any of the four performance audits.⁶²

Correcting problems in the future rather than holding authorities accountable for the past: The performance audit methodology promoted by the TCP consultant does not permit audits to issue charges of responsibilities (*pliegos de responsabilidades*) if they detect irregularities. Institutional authorities can be held to account for failing to implement recommendations; however, unlike traditional audits, the performance audits do not assign responsibility for irregularities detected in the audit. The philosophy behind the approach is to correct problems in the future, not to hold public officials accountable for actions in the past. While this approach has its advantages, advocates of an accountability approach contend that the fear of sanction for an irregularity is a strong incentive for future change, adding that removing that sanction undermines incentives for change.

Performance audits of infrastructure works could include improved tools: In other jurisdictions, performance audits of construction projects often entail laboratory tests of construction materials.⁶³ For the pilots, however, the TSC lacked such tools and resources. In the case of FV, while supervisory firms are required to conduct tests of construction materials, neither the verification firm, FV, nor the TSC had the capacity to conduct laboratory tests of construction materials.

Unclear future: As noted above, no performance audits were conducted in 2017, and the future of the program remains uncertain. The deployment of a former GAO auditor in October 2017 could inject new life into performance audits in the TSC.

⁶¹ *Ibid.* 30.

⁶² *La Prensa* (July 2017). Casa de máquinas de El Cajón en inminente riesgo de inundarse. Retrieved from: [http://www.laprensa.hn/honduras/1090174-410/el-cajon-inundarse-enee-hidroelectricahonduras-represa-](http://www.laprensa.hn/honduras/1090174-410/el-cajon-inundarse-enee-hidroelectricahonduras-represa)

⁶³ Olken, Benjamin A. (2007). Monitoring Corruption: Evidence from a Field Experiment in Indonesia. *Journal of Political Economy*. Vol. 115 (2).

17.8 Conclusion

Performance audits of DARA, FV, ENEE, and INA have identified many important findings and concerns affecting the performance of these institutions. These results are available to the public, representing an advance transparency. However, as of interim data collection, there had been only very limited advances in implementing recommendations in DARA and FV, and the evaluation team was unable to verify if any progress had occurred in ENEE and INA. While there could be consequences for failing to implement TSC recommendations, a recent analysis found that almost half of TSC recommendations are not implemented. Unlike the procurement evaluations, the performance audits are not connected to other reform efforts. This is to say that they are not supported by other complementary efforts to foster institutional change. TSC has a follow-up process in place, but follow-up efforts are poorly staffed, poorly resourced, do not include the original auditors that are familiar with the problem, and occur long after the audit is completed. The public nature of the audits could create incentives to implement the reforms; however, follow-up results are not publicly available, and a review of online media sources yielded only one media reference to any of the four performance audits. Finally, the fate of performance auditing in the TSC is unclear. No performance audits were conducted in 2017, and the future of the program remains uncertain.

18. CIVIL SOCIETY OVERSIGHT

Q15: Does civil society oversight and recommendations lead to changes in targeted institutions?

18.1 The intervention

Through the TCP, four civil society organizations were awarded grants to foster social accountability. As laid out in the evaluation design report, the evaluation focuses on the main grant, which was awarded to the ASJ to conduct annual institutional assessments.

In October 2014, the administration of Juan Orlando Hernández signed a Collaboration Agreement (Convenio de Colaboración) with ASJ (the local chapter of Transparency International) for ASJ to undertake a social audit of the secretariats of Health (SESAL), Education (SEDUC), and Security (SEDS) focused in the areas of (1) procurement, (2) transparency in human resource (HR) management, and (3) accountability and integrity.⁶⁴ The agreement did not, however, include a mechanism to fund the activities, and, to its credit, the TCP stepped in to fill this financial gap.

⁶⁴ While the agreement refers to accountability and integrity, this was replaced with “reliability of results” in subsequent documents.

In its original grant agreement as part of the TCP, ASJ committed to producing annual reports of the three institutions referred to above plus INSEP and the tax administration, then known as the DEI and now known as the Revenue Administration Service (Servicio de Administración de Rentas – SAR). ASJ was to produce a report each year for three years, assisting in the development of an “Improvement Plan” (Plan de Mejora) for each institution and monitoring the implementation of the plans. The initiative proved to be a greater undertaking than anticipated. ASJ capacity was stretched to the point that necessitated agency cooperation. This contingency resulted in delays, and ASJ and the TCP had to revise the grant agreement. The current agreement extends the period of performance for close to an additional year. In most cases, the current agreement replaces the second year report with a less intensive “Report on Advances of Implemented Improvements.” In the case of INSEP and SAR, only a baseline and Report on Advances will be produced. In addition to its work with SESAL, SEDUC, SEDS, INSEP, and SAR, ASJ also committed to conducting similar research focused on transparency and integrity with studies on ONCAE, ONADICI, and the TSC. Deliverables for all institutions are summarized in the following table.

Table 23: ASJ primary outputs

Institution	Baseline report	Monitoring and advances report	Update to baseline report
SEDS	2015	<i>2017</i>	<i>2018 Q1</i>
SEDUC	2015	<i>2017</i>	<i>2018 Q1</i>
SESAL	2016	<i>2017</i>	<i>2018 Q2</i>
INSEP	<i>2017</i>	<i>2018</i>	n/a
SAR	<i>2017</i>	<i>2018</i>	n/a
ONCAE	2016	<i>2017</i>	<i>2018</i>
ONADICI	2016	<i>2017</i>	<i>2018</i>

Source: Grant Agreement between MCA-Honduras and ASJ (Aug. 2017).

Note: Items in italics were yet to be completed at the time of data collection.

18.2 Evaluation methodology

The evaluation focuses on the issues of procurement and human resources in four major institutions, SEDS, SEDUC, SESAL, and INSEP. The following analysis is based on document reviews and key informant interviews. The evaluation team reviewed the baseline reports of the four institutions, monitoring matrices produced by ASJ and reports on implementation advances for SEDS and SEDUC. This information was complemented by interviews with ASJ researchers and points of contact in each of the four institutions. In total, 21 persons were interviewed for this portion of the report. In the analysis that follows we examine each institution in turn, looking first at changes in procurement and then in human

resources.⁶⁵ We document the findings of the report, recommendations, actions to be taken based on Improvement Plans, advances made based on ASJ documentation, follow-up reports, and interviews in detail in Annex IV. It is important to note that actions in institutions' Improvement Plans do not always line up with baseline report recommendations. Furthermore, many of the recommendations that appear in follow-up documentation differ somewhat from those in the baseline reports. Generally speaking, the spirit of the recommendations is maintained, and we focus on the final recommendations rather than the originals.

18.3 Security Secretariat (SEDS)

The SEDS was the first report completed by ASJ. It was produced with funding from USAID rather than the TCP. TCP has supported follow-up and a follow-up report. The baseline report was completed in 2015, a report on implementation advances was conducted in 2016 and was in draft form as of interim data collection. Implementation matrices are updated on a regular basis. Of the four institutions, most interview respondents felt that SEDS was the most responsive to ASJ's reports and recommendations. SEDS is somewhat unique in its relationship to ASJ in that the ASJ played a large role in the reform of the Honduran police department (outside of the TCP). In 2016 the President issued an executive order establishing a Special Commission on the Depuration and Transformation of the National Police (Comisión Especial para la Depuración y Transformación de la Policía Nacional), and ASJ representatives served on this commission. ASJ personnel were also contracted to provide technical support to HR initiatives. As a result, particularly in the area of HR, it is difficult to distinguish the effect of TCP-funded activities and other ASJ-SEDS cooperation.

18.3.1 SEDS Procurement

In their 2015 report, ASJ explored two procurements in depth, the purchase of bulletproof vehicles and the rehabilitation of police posts.⁶⁶ Based on the findings, the report included eight recommendations. In its Improvement Plan, SEDS did not accept three of the recommendations that primarily dealt with civil society oversight. Actions corresponding to the five remaining recommendations were agreed to and incorporated into the Improvement Plan. These recommendations are presented in Annex IV. ASJ's follow-up study in late 2016 concluded that SEDS had carried out 55 percent of the planned actions in procurement; however, ASJ notes that of the four institutions, SEDS's Improvement Plan was the most ambitious.⁶⁷ Since the release of the follow-up study, there were further advances and the evaluation team used interviews and ASJ's August 2017 tracker to understand the status at the time of data collection.⁶⁸

⁶⁵ The evaluation does not include ASJ's third focus on measurement of results.

⁶⁶ Asociación para una Sociedad más Justa (2015). Informe de Línea de Base de la Secretaría de Seguridad. Retrieved from: <http://asjhonduras.com/ti-asj/resultados-secretaria-de-seguridad/>

⁶⁷ Asociación para una Sociedad más Justa (2017). Borrador: Informe de avances de mejoras implementadas: Secretaría de Seguridad.

⁶⁸ Asociación para una Sociedad más Justa (Aug. 2017). Matriz de Mejoras Implementadas: Agosto 2017.

- Advances include: (1) development of a robust and technologically supported asset management system, (2) creation of a centralized procurement unit, (3) training for procurement personnel, and (4) posting procurements to HonduCompras.
- Shortcomings include: (1) a lack of market studies, (2) a lack of internal audits, and (3) insufficient use of percentage and point based evaluations.

Underlying these achievements has been a new HNL 75 million Enterprise Resource Planning (ERP) software, known in SEDS as an Integral Management System (Sistema Integral de Gestión – SIG). While SEDS had planned to purchase the SIG for some time, as noted in the baseline report, the ASJ report provided further impetus for the purchase.

In addition to the advances noted in the table above, the SIG promoted improved procurement planning. While not noted in ASJ's 2015 report or in the follow-up documents, prior to 2017, interviewees report that the institution did not have a PACC. A PACC was produced for 2017 and was been modified throughout the year. The 2018 budget uses the SIG to link the budget, PACC, and timelines.

As noted above, the internal audit unit is not conducting procurement audits. Internal audit units (Comités de Control Interno - COCOIN) were created in Honduran government institutions in 2014, and their regulatory agency, the National Office for the Integral Development of Internal Control (Oficina Nacional de Desarrollo Integral de Control Interno – ONADICI), is still in the process of defining the units' roles. In response to the lack of internal audits, ASJ is working with ONADICI to develop a guide to facilitate COCOIN procurement audits.

18.3.2 SEDS Human Resources

The ASJ team conducted an analysis of the laws governing HR management in the police and the Secretariat, reviewed HR management documentation for completeness, audited a sample of hiring personnel files for completeness (115 files in 2013 and 115 in 2014), and audited a sample of the same size of discharged personnel files for completeness. ASJ's baseline report included 10 recommendations, of which five were accepted by SEDS and included in the Improvement Plan. These recommendations are presented in Annex IV. ASJ's follow-up study concluded that SEDS had carried out eight of thirteen actions in human resources. Since that study, SEDS has continued to make advances and those advances are noted in the "Status" column of Table 32 in Annex IV.

- Advances include: (1) Passage of the Organic National Police Law and an entirely new Police Career Personnel Law and (2) installation of the SIG and HR-related modules allowing for improved personnel management and payroll processes.
- While the passage of new legislation provides a framework for personnel management from the beginning to the end of their employment as well as a new department to oversee vetting and evaluation, these modifications will not go into effect until the new law goes into effect in 2018. Although legislative change represents a major accomplishment, the true challenge will be in implementation.

18.4 Education Secretariat (SEDUC)

ASJ completed its report on SEDUC in 2015. The TCP funded this report and its subsequent follow-up. SEDUC produced an Improvement Plan by the end of 2015 that included most of ASJ's recommendations, plus some actions not clearly tied to the ASJ assessment findings. ASJ monitored SEDUC's improvement plan between January and June 2016 and presented a public presentation of its Report on Advances of Implemented Improvements in early 2017.

18.4.1 SEDUC Procurement

In its 2015 report, ASJ examined nine procurements: five procurements for computers and software, and four for textbooks and other materials.⁶⁹ Based on that examination, ASJ made 14 recommendations, eight of which were not accepted by the institution. The remaining six recommendations, details of which are provided in Annex IV, were incorporated into the SEDUC improvement plan. According to an ASJ's follow-up study, SEDUC had carried out 36 percent of the recommended actions by late 2016.⁷⁰ SEDUC's progress since then is shown in the "Status" column of Table 33 in Annex IV. The updated status is based on information collected through interviews and ASJ's August 2017 tracker.

- Advances include: (1) efforts to improve SEDUC personnel procurement capacity, (2) development of a procurement manual for processes carried out by SEDUC, (3) improvement of systems for distribution and storage of assets, and (4) development of a policy for allowing for accountability and citizen participation in procurement at central and non-central levels.
- Shortcomings include: (1) limited progress in developing new or improved evaluation tools for selecting vendors and (2) insufficient posting to HonduCompras.

18.4.2 SEDUC Human Resources

ASJ compared the onboarding and removal process of 352 SEDUC personnel (teachers and department directors) between 2011 and 2014 in three country departments, Choluteca, Ocotepeque, and Francisco Morazán. Based on the findings, ASJ made 10 recommendations. SEDUC incorporated six of those recommendations, detailed in Annex III, into an Improvement Plan. SEDUC rejected the remaining four recommendations whose primary focus was using the corresponding regulatory framework for managing human resources. SEDUC's progress since then is shown in the "Status" column of Table 34 in Annex IV. The updated status is based on information collected through interviews and ASJ's August 2017 tracker.

⁶⁹ Asociación para una Sociedad más Justa (2015). Informe de Línea de Base de la Secretaría de Educación. Retrieved from: <http://asjhonduras.com/ti-asj/resultados-secretaria-de-educacion-2/secretaria-de-seguridad-informes-de-avances-2/>

⁷⁰ Asociación para una Sociedad más Justa (2017). Informe de Avances de Mejoras Implementadas: Secretaría de Educación. Retrieved from: <http://asjhonduras.com/ti-asj/resultados-secretaria-de-educacion-2/informe-de-avances/>

- Advances include: (1) the development of two competitive hiring processes: one for department directors and one for department secretaries, (2) active participation of civil society in both hiring processes, and (3) uploading of information onto the transparency website.
- Shortcomings include: (1) failure to creation of a new teacher management system and (2) SEDUC increased civil society participation in interim teacher hiring processes which led to civil society groups pointing out issues of credibility and transparency which led to the repeated suspension of the process before it could be finalized.

18.5 Infrastructure and Public Works Secretariat (INSEP)

Unlike the other three institutions examined above, ASJ had only produced a draft baseline report of INSEP as of data collection. While the draft report had been complete for some time at the time of data collection, it had not been made public, so as not to play a role in the upcoming November 2018 elections. GoH leaders had reportedly promised ASJ a robust action plan to address the deficiencies identified in the report in exchange for this delay; however, an Improvement Plan had not yet been developed at the time of data collection. Furthermore, INSEP personnel interviewed about both procurement and human resources appeared unwilling to acknowledge deficiencies in their processes and contested much of the findings. As noted elsewhere in this report, most of INSEP's functions were expected to be transferred to INVEST-H. The ASJ report's findings and recommendations are discussed below in the absence of an improvement plan and follow-up study. We also discuss possible changes to the procurement and human resources processes are based on interviewee responses.

18.5.1 INSEP Procurement

The ASJ evaluation team explored a sample of nine purposively selected procurements out of a much larger universe of 783 procurements processed over a three-year period (2013-2015). The sample was stratified to include three private procurements, three public procurements, and three public procurements with World Bank funds. Using a scoring methodology across nine criteria, including previous requirements, procurement procedures, contracting, delivery of the contracted works, internal auditing, administrative sanctions, and citizen participation, the ASJ team calculated an average score of 25 percent across the nine criteria. Interviewed INSEP personnel disagreed strongly with the scoring methodology. INSEP scored zeros on the last three of these criteria, bringing down their overall score. From INSEP's perspective, not every procurement should involve an internal audit, administrative sanctions, and citizen participation.

ASJ's review found several irregularities in INSEP processes (summarized in Annex IV). Many of the findings were consistent with the ONCAE evaluation, including limitations of procurement planning and the PACC, concerns with private procurements, possible subdivision of contracts, failure to post to HonduCompras, and inadequacies in the evaluation process. ASJ's findings differed from ONCAE's in that ASJ found evidence of political- and patronage- project prioritization, raised concerns over the lack of internal audits and citizen participation/oversight, and identified a large number of contractors not

prequalified and not registered with ONCAE. This last finding was surprisingly not identified in the ONCAE report.

Based on these findings, ASJ recommended that INSEP formalize a technical approach to determining infrastructure projects, establish a mechanism to systematically evaluate bids, conduct internal audits and strengthen internal controls, conduct an annual prequalification, digitize all documentation, post to HonduCompras, seek training, and ensure mechanisms for public participation.

At the time of data collection, there was no official response from INSEP to the findings, and INSEP had not developed an Improvement Plan. As noted above in the response to evaluation Question 11, interviewees mentioned some minor improvements to the procurement processes, including providing separate commissions for bid opening and evaluation, working with ONCAE to standardize documents, and posting private procurements to HonduCompras. There was also some recognition of the utility of ASJ's work, as illustrated by one interviewee who remarked, "ASJ woke us up."

However, the more predominant sentiment among INSEP interviewees was that the report overstated the problems and did not offer an accurate depiction of procurement in the agency. One interviewee went so far as to characterize the report as subjective and false. As discussed above in the Question 11 response, respondents pushed back or provided justifications for findings related to the PACC and rejected allegations of acting to avoid public procurements and subdividing procurements. The respondents expressed frustration with HonduCompras' limitations with respect to allegations of a lack of transparency. As evidence of their commitment to transparency, they pointed out that in 2014 INSEP created the System for Information and Follow-up of Public Works and Supervision Contracts (Sistema de Información y Seguimiento de Obras y Contratos de Supervisión – SISOCS). The SISOCS does in fact offer an extensive user-friendly web-based database with large amounts of detailed information on contracts. The information is impressive and a major step forward for transparency, but it does not contain the detail on the procurement process, including actual documentation, that HonduCompras requires. Although facts do not generally support this defensive posture, the negative response by officials responsible for procurement suggests that major changes to procurement in INSEP will require strong external pressure.

18.5.2 INSEP Human Resources

ASJ's study of human resource management at INSEP focused on (a) human resource management planning through a review of HR documents and policies, (b) personnel hiring through a review of 370 hires from 2013 through 2015, (c) termination of personnel through a review of 345 terminations from the same period, (d) administrative control of personnel through spot checks to see if employees were working where they were supposed to be working.

The study reported on numerous HR concerns (summarized in Annex IV). Consistent with findings in SI's baseline report, AS reported that hiring at INSEP is politically driven and not merit-based or consistent with civil service rules. The laws are skirted by hiring even white-collar workers as "day laborers" but later allowing them all the rights of permanent employees. With changes in the party in power, there have been unjustified firings of employees. When fired personnel have contested their firing, the courts have

ordered them reinstated and paid back wages. The situation appears to be aggravated by a powerful union that protects irregularities.

Recommendations in the report include conducting an institutional diagnostic study aimed at determining the institution's true staffing needs, developing a strategic plan for human resource management, restructuring the institution based on the results of the study, developing internal regulations and procedures, adopting technologies and mechanisms to allow for better control of personnel, eliminating the practice of contracting employees as "day laborers," and using competitive processes for hiring.

As with procurement, human resource personnel were not receptive to the report findings and expressed several frustrations with the recommendations. First, they felt that they have made several advances in human resource management that were not reflected in the report, such as new HR documents laying out position terms of references. ASJ acknowledges this but notes that it does not affect the scoring as these changes were incorporated after the period under review in the report. Second, there was a general sense that INSEP should only be held to account for items within their manageable interest and not for problems that originate in past administrations. For example, while HR interviewees acknowledged the problem of hiring staff as day laborers, they considered the practice an inheritance from the past that they were trying to correct. They recognized that workers had been improperly fired in the past and that this has been a burden on the organization; however, they contended that firings in the current administration – despite the limitations discovered by ASJ -- had not been successfully challenged in the courts. Respondents also noted that the union makes it very difficult for them to make changes. Interviewees painted a picture of an administration being criticized for the problems in HR rather than being praised for trying to fix them. While there is likely some truth in this perception, there was also an unwillingness to admit fundamental problems or acknowledge the political influence in the organization. As above, the responses suggest that the report recommendations by themselves will not lead to major changes without strong external pressure.

18.6 Health Secretariat (SESAL)

SESAL's report was completed by ASJ in 2016. SESAL produced an Improvement Plan incorporating most of ASJ's recommendations, but also included other areas that SESAL considered needed improvements. As of data collection, ASJ had produced a draft report covering improvements implemented between October 2016 and March 2017; however, there had not yet been a public presentation of the results.

18.6.1 SESAL Procurement

The ASJ evaluation team explored only national and international public procurements and direct purchases for medicines, surgical supplies, and insecticides. The team examined a sample of 15 out of 25 of these procurements awarded from 2012-2015. Five procurements were completed individually by SESAL, three procurements involved SESAL and a fiduciary bank, and seven procurements involved SESAL, a fiduciary bank, and the United Nations Office for Project Services (UNOPS). Using a scoring methodology across nine criteria, the ASJ team calculated an average score of 18 percent compliance

with ASJ criteria for the processes completed exclusively by SESAL. When the procurement entailed partnership with a fiduciary bank, this score increased to 31 percent compliance. When UNOPS was involved, the score increased to 55 percent compliance in 2014, which suggests significant improvement occurred with external involvement. Nonetheless, several irregularities were noted in all three scenarios, including (a) limitations of procurement planning, (b) inadequacies in the evaluation process, (c) lack of internal auditing, and (d) lack of sanctions.

Based on the findings, the report included 17 recommendations. Actions corresponding to nine of the recommendations were agreed to and incorporated into an Improvement Plan. Details of the Improvement Plan and the rejected recommendations are presented in Table 25 in Annex II. ASJ's most recent follow-up study (still in draft form at the time of data collection) found that SESAL had carried out 39 percent of the planned actions. SESAL's progress since then is shown in the "Status" column of [Table 37](#) in Annex IV. The updated status is based on information collected through interviews and ASJ's August 2017 tracker.

- Advances include: (1) efforts in compiling pricing information for main products and its vendors, (2) some progress in implementing international regulations for storage and distribution of assets, and (3) approval of a policy for accountability and citizen participation in procurement at central and non-central levels.
- Shortcomings include: (1) few personnel from procurement units or in evaluation committees have been trained so far, (2) limited progress in developing new or improved evaluation tools for each selection process of vendors, and (3) lack of an evaluation report of the agreement between UNOPS and the fiduciary bank.

18.6.2 SESAL Human Resources

ASJ focused on (a) human resource management planning through a review of HR documents and policies, (b) personnel hiring through a review of 357 hires from 2014 to 2015, and (c) termination of personnel through a review of 211 terminations from the same period. Based on the findings, the report included 10 recommendations. SESAL developed an Improvement Plan that incorporated action plans for four of the recommendations. The plan was approved, and the results are presented in Annex IV. Six of the recommendations, principally dealing with regulatory framework and civil society oversight, were not accepted by the institution. ASJ's most recent follow-up study (draft version still) concluded that SESAL had carried out 27.5 percent of the planned actions. Since then there have been some further advances and interviews at data collection and ASJ's August 2017 tracker were used to develop the "Status" column in [Table 38](#) in Annex IV.

- Advances include: (1) a draft document defining an internal regulation and human resources procedure and (2) an updated census of SESAL's personnel.
- Shortcomings include limitations in the implementation of a merit-based public hiring process.

18.7 Challenges

Changes to the original approach: As noted above, the intervention had to be scaled back and no rigorous second study will be conducted with INSEP or SAR.

Concerns with the process: Some interviewees in targeted institutions raised concerns about the process. There were objections to various aspects of some indicators (e.g., internal auditing, sanctioning, and citizen participation), including the weight given to these indicators in scoring, the lack of an opportunity for the institution to include a statement of differences to the findings in the report, and natural limitations in considering new documents and data during the revision process. This last problem was also identified as a challenge in SI's baseline report.

Dependence on political leadership support: ASJ's success has depended on support from the President and from individual ministers. Under the administration's original education minister in SEDUC, for example, there was a strong reaction against the report, which resulted in a modest Improvement Plan not closely tied to the findings and reluctant change (e.g., acquiescence to civil society observation of hiring processes but efforts to limit their role). ASJ reports that cooperation has improved under the administration's second minister, who was appointed in early 2017. Opposition has been the strongest within INSEP. In this case, INSEP' foot-dragging delayed the baseline report. When data collection did take place, ASJ researchers felt physically threatened, and INSEP personnel interviewed for this evaluation reacted strongly against the findings. As of data collection, ASJ had agreed to delay public release of the report and INSEP had not yet developed an action plan. Strong external pressure will be required for the report to have a major impact.

Concern over sustainability: ASJ's work has resulted in concrete improvements in the targeted institutions; however, these improvements could be easily rolled back at the conclusion of the TCP. For example, SEDS has new legislation; however, the real challenge will be in implementation. SESAL and SEDUC hiring processes have benefited from civil society oversight; however, in the absence of wider civil service reform, new ministers could easily return to previous approaches to hiring. In order to be effective, civil society oversight needs to be sustained over many years and a much longer period than the time remaining for the TCP. As one interviewee noted, "The thing that is very clear to all of us here is that these are still very weak institutions and any positive changes is still very fragile and that it is a long-term process to strengthen these institutions... We shouldn't get overly excited about a one year or year and half change or overly depressed that there wasn't a change in a year." The respondent added that to success would require a persistent and consistent 10-year initiative. As such, ASJ will need to continue to garner the same level of political support and to find additional external resources.

18.8 Conclusion

ASJ's oversight of government institutions is an innovative example of civil society oversight. Their research methodology is sound; their reporting is well presented; and their researchers are well regarded by interviewees. The organization can point to several improvements in targeted institutions. With strong

presidential backing, SEDS has been consistently the most receptive to ASJ's work. SEDS's Improvement Plan was the most ambitious; they have engaged ASJ to provide technical assistance and oversight in other areas; and they have made the most radical changes over the course of the intervention. This includes legal reforms, procurement and successful application of an ERP, and substantial improvements in recording keeping for both asset management and human resources. Although it is difficult to parse out the effects of TCP funding compared with other initiatives, the TCP activities deserve part of the credit for these advances.

Results have been less dramatic in SEDUC and SESAL; however, both institutions have opened up their hiring processes to civil society oversight and improved processes and documentation. It is perhaps too early to expect advances in INSEP; however, the evaluation team observed strong resistance to the findings among operational staff, raising some concerns about the likely impact of the initiative on this institution.

The likely keys to ASJ's success include (1) direct presidential support, (2) the relatively high-profile, public nature of the reports, (3) complementarity of other efforts (e.g. ASJ's participation in the police reform commission, the TCP's work with ONCAE), and (4) a monthly follow-up process coupled with more detailed follow up reports. Despite this success, ASJ and the TCP have confronted and continue to confront several challenges. The approach and deliverables have needed to be altered to make the effort more manageable, and ASJ has struggled with overcoming institutions' concerns with the methodology (e.g., considering new documentation as part of the revision process). In addition, the success of the initiative has depended on presidential political support and TCP financial support. As the administration of Juan Orlando Hernandez comes to a close and as the TCP winds down, there are concerns about the sustainability of the initiative.

19. PERCEPTIONS OF HUMAN RESOURCES PRACTICES AND PROCUREMENT

Q16: Are there improvements in public employees' perceptions of human resources practices and procurement practices in targeted institutions?

This question will be answered at endline with the results of the public employees' survey.

20. DEVELOPING AND STRUCTURING PPPS

Q18: Are there improvements in the efficiency and effectiveness of the process for developing and structuring PPPs?⁷¹

20.1 Introduction

Questions 17 through 22 focus on the PPP aspects of the TCP. As at baseline, we divide the procurement process into four parts: (1) identification and selection, (2) development and structuring, (3) procurement, and (4) management of a PPP. In this question, we focus on the first two parts, and consequently we present Question 18, on identification and selection, before Question 17, on procurement. Question 19 focuses on contract management, and Questions 20 through 22 deal with topics that overlap across these four phases, including capacity and coordination (Question 20), corruption (Question 21), and transparency (Question 22). There is inevitably some overlap and repetition across these questions.

In Question 18, we examine project identification, project evaluation and selection, project development, legal, technical and financial analysis, and final bid structuring prior to launch of the tender. An effective development and structuring process will result in bids that are attractive for potential investors while still providing good value for money to the country and a reasonable distribution of risk. An efficient development and structuring process will achieve these goals with minimum wasted effort and cost.

20.2 Intervention

The TCP-supported advisors have provided extensive technical assistance with the process of developing and structuring PPPs. Much of this work has been done through financial advisors working with the UCF. Financial advisors helped UCF define its role as the “fiscal watchdog” of the PPP process; they also assisted in developing financial review guidelines. In addition, the TCP and MCA-H (renamed as INVEST-H), filled capacity gaps among PPP institutions by helping restructure the CA-4 Highway PPP and taking over development of El Tablón. TCP and MCA-H provided only limited support to COALIANZA, as COALIANZA, the primary institution responsible for developing PPPs, was not receptive to TCP and MCA-H assistance.

⁷¹ We have altered the original question ordering and present Question 18 prior to Question 17 because it is more natural to discuss structuring before discussing procurement.

20.3 Evaluation methodology

To answer evaluation Questions 17 through 22, we focus on six PPP case studies that speak to the different phases of the PPP process, allowing us to observe if there is learning over time. As discussed in the methodology section, the cases are all major projects that benefit from TCP assistance; however, they are at diverse stages in the PPP process. The cases are introduced in Table 22. To answer this specific question, we focused on the cases of the CA-4 highway, El Tablón dam, and the Civic Center, which were in the development stage at the start of the TCP. As with other PPP questions, our responses are based on a review of consultant deliverables, project documentation, and interviews with stakeholders, including MCC and MCA-H personnel, TCP consultants and staff from UCF, SAPP, and INSEP. We were not able to conduct interviews with personnel from COALIANZA.

Table 24: Basic description of PPP cases

Concession	Summary	PPP phase at interim
Logistics Corridor	The Logistics Corridor connects Honduras's Caribbean port in Puerto Cortés with the capital, Tegucigalpa, and the CA-1 Highway, which runs along Central America's Pacific Coast. The 20-year concession issued to the Honduras Road Concessionaire S.A. de C.V. in 2012 the expansion of 88km of CA-1 to four lanes (from two to three), the rehabilitation of 161km of existing road, and maintenance of another 392km of the highway. The concessionaire operates tolls along the corridor and is expected to invest USD 121 million in capital expenditure.	Contract management and project supervision
Tourist Corridor	The Tourist Corridor concession entails the construction, expansion, and maintenance of 122.6 km of road, including the portion of the CA-13 Highway that links San Pedro Sula to La Tela on the coast and the link between the CA-13 Highway and the CA-5 from La Barca. A USD 269 million investment in the PPP will be recovered through tolls. The contract was awarded in December 2012 to Consorcio Autopistas del Atlántico, composed of CI Grodco of Colombia, CI Grodco of Panamá, and Profesionales de la Construcción (PRODECON) of Honduras.	Contract management and project supervision
San Pedro Sula Century XXI	This project entails the design, construction, financing, management, maintenance, and transfer of road infrastructure works in San Pedro Sula. An estimated USD 88 million will be invested over the 20-year concession period by San SPS Consortium Siglo XXI. The Century XXI project was an unsolicited proposal (USP) with no meaningful competition in the	Contract management and project supervision

Concession	Summary	PPP phase at interim
	<p>procurement process. In order to pay the concessionaire, a municipal tax was instituted by the municipality on all vehicles registered in the SPS urban area. Fees vary according to the cubic capacity of the cars. There was surprisingly little opposition to the tax, although initially there was evidence that several residents avoided the tax by registering their vehicles in neighboring localities. This loophole has been closed.</p>	
<p>CA-4</p>	<p>The CA-4 project originally entailed rehabilitation, expansion, operation, and maintenance of 107 km of road along the CA-4, CA-10 and CA-11 highways with an estimated investment value of USD 270 million. The work included expanding the CA-4 near San Pedro Sula, and maintaining both the CA-4 in the northwest part of the country and the CA-11 highway that runs to the Copan Ruins along the Guatemala border. The initial procurement for this project did not attract bidders. When a second procurement seemed likely to fail, the project was passed to UCF to finalize. Under TCP guidance, the project was restructured from a minimum guaranteed income (ingreso mínimo alternativa gravable – IMAG) PPP, whereby the GoH would guarantee a minimum income to the concessionaire, to an “availability payment” PPP, whereby the GoH would pay the concessionaire for making the road “available.” The project was in the final stages of procurement at the time of interim data collection.</p>	<p>Procurement</p>
<p>Governmental Civic Center</p>	<p>Centro Civico is a US\$ 200 million project, with a 25-year concession following a two-year construction period, on the basis of which – in PPP parlance – is called a “facilities management” partnership. The purpose of this project is to provide a centralized spectrum of administrative services in a single place, for which Hondurans have in the past had to visit different locations. The contract was signed in February 2016 and construction work began in August 2016 once the site was made available.</p>	<p>Contract management and project supervision</p>

Concession	Summary	PPP phase at interim
EI Tablón	INVEST-H managed the procurement of the EI Tablón project on the Chamelecon River through the authority of a presidential decree after COALIANZA expressed reluctance to become involved due to concerns related to the project’s large public sector component. The project is expected to have numerous components, including electricity generation, irrigation and flood control, and the production of drinking water. The energy component is the first phase of the project. It was included to attract a private sector investor, who would serve as a 25 percent shareholder. The second phase includes an agriculture and flood control component that aims to recover around 35,000 hectares for sustainable agriculture, particularly in the Valle de Sula and Valle de Naca. These are some of the most fertile parts of Honduras, but much of their potential is unrealized because of flooding. The investment was estimated at USD 220-240 million. INVEST-H has prequalified five groups: Astaldi (Italy), Gella (Italy), Hidalgo y Hidalgo (Peru), and a consortium of Swiss and Israeli interests. The concession would run for 500 years.	Development

20.4 Summary baseline findings

SI’s baseline report found that the development and structuring process was neither effective nor efficient. The report characterized the process as:

- Primarily driven by political priorities, despite PPP regulations clearly specifying that all PPP projects should be the object of a full cost-benefit analysis.
- Highly unstructured, with key players such as INSEP or SAPP either excluded or incapable of providing a meaningful contribution due to limited technical capacity.
- Dependent on external advisers who, in some cases, provided only a “cut and paste” of international PPP contracts or models.
- Producing projects that were poorly structured with inappropriate risk distribution and absent necessary “value for money” or “affordability” analysis. Problems in the structuring included a lack of clarity about rights of way, responsibility for removal of landslide rubble allowance, inadequate or non-existent traffic analysis on which to base revenue calculations, a failure in certain cases to undertake stakeholder consultation (with consequent negative reactions from the local population), and insufficient concern for post-signature contract management.

The evaluation team contended that these weaknesses were exacerbated by the “tick the box” bid evaluation methodology. While a common practice in countries like Honduras where corruption and

capacity are concerns, this methodology does not allow bid evaluators to consider the trade-offs between performance quality and price.

20.5 Efficiency and effectiveness related changes since baseline

At the time of the interim evaluation, PPP development and structuring continued to suffer from many of the limitations observed at baseline, including perverse incentives and politicization in COALIANZA and inadequate engagement by SAPP and INSEP in the structuring process. Nonetheless, TCP advisors and INVEST-H have played important roles in supplementing limited PPP capacity. In addition, UCF's capacity to conduct financial analysis has increased.

Project selection does not follow a standard evaluation process and is still directed primarily by political pressure. Best practice dictates that projects are determined through a technical review process based on pre-established criteria (e.g., value for money). The baseline report found that projects moved forward as PPPs because they had been identified by Honduras' political leadership as a priority rather than as a result of a more technical evaluation. Although the guidelines currently being written by the TCP financial and implementation coaches will contain a section relating to the eligibility of PPP projects in the selection process, it appears that projects will continue to be selected primarily on a political basis. There appears to be no formal preliminary evaluation process, and there was no indication that COALIANZA was applying a more "scientific" approach to project selection.

COALIANZA remains the central and weak link in the PPP structuring process. PPP legislation in Honduras designates COALIANZA with the lead role in Honduras's PPP process. At baseline, we noted several deviations from best practice, including the following:

- COALIANZA is funded through a fee of two percent of the contract value for each signed PPP, which incentivizes signing PPP contracts rather than ensuring that they are a good value for money.
- COALIANZA is led by three commissioners who are political appointees and who appear to respond to political incentives in selecting projects, hiring staff, and making management decisions. According to interviewees, changes in commissioners have led to wholesale changes in the staff under their direction, regardless of technical qualifications.
- COALIANZA lacks internal technical capacity and relies instead on external transaction advisors, who have produced work of questionable quality. Contracting external advisors is normal in PPP programs; however, many interviewees were concerned that the advisors lacked expertise in their fields; project results would seem to confirm this concern. The lack of qualified advisors was reportedly due to the reluctance of the trustee bank of expending money that would be unrecoverable if the project failed to go ahead.

Comparing the present environment at COALIANZA to what existed at baseline, there is no evidence that the ill-advised practices employed by COALIANZA in the PPP structuring process have changed for the better. The funding mechanism has not changed, and the politicization remains a factor. In some ways, COALIANZA's approach to PPPs has worsened. For example, when called upon to prepare a

contract for the relatively small USD \$3 million 7.6 km La Lima Municipal Road Project, COALIANZA staff copied a 1000-page contract used for large highway projects. As a result, the contract for La Lima included clauses that bore no relevance to the reality of the municipal assignment. Furthermore, it does not appear that COALIANZA undertook a simple test to justify the minimum project size compared to associated transaction costs. At baseline, the TCP was continuing to engage COALIANZA, albeit with limited results. Since then, financial coaches working primarily with SEFIN have been drafting guidelines covering the different phases of the project cycle, including criteria for eligibility to structure a project as a PPP. The evaluation team is informed that COALIANZA has rejected these guidelines on the grounds that they will make the work more complicated and expensive. Interviewees also indicated that COALIANZA is unwilling to work closely with UCF to ensure that PPPs are well structured and financially viable.

A consequence of continued lack of faith in COALIANZA is that the institution is being bypassed in the PPP structuring process. Final structuring of the CA-4 highway project was turned over to SEFIN's UCF. The structuring of El Tablón was turned over to INVEST-H. Both projects, by law, were COALIANZA's responsibility. In July 2017, MCC formally advised the Honduran government that it would no longer provide technical support to COALIANZA. COALIANZA's capacity was further diminished in August 2017 when revenue shortfalls resulted in the institution laying off 34 employees.⁷² As of interim data collection, the institution's future was uncertain.

At the project development stage, the financial trust (fideicomiso) model remains inefficient and does not result in high quality PPPs. As noted at baseline, Honduran law requires Congressional approval of PPPs. At the conclusion of the Porfirio Lobo Sosa administration in 2013, fearing a loss of control of Congress, the administration pushed through approval of 25 to 29 projects by assigning them to financial trusts for development, even though the trusts have even less capacity than COALIANZA to structure the PPPs. The legacy of this decision continues at interim data collection.⁷³ There is some evidence derived from KII's and group interviews that they have been reluctant to spend the money needed to hire experienced international transaction advisors.

In the case of the Civic Center project, a trustee bank (Banco LAFISE) was brought in, but COALIANZA put together the PPP technical advisory team, comprising two advisors, one Guatemalan and one Honduran. At the time of the interim evaluation, the Civic Center was moving forward on schedule and remains a pertinent case study for endline evaluation.

⁷² El Heraldo (August 2017). "Barrida' de personal en Coalianza por falta de proyectos." . Retrieved from: <http://www.elheraldo.hn/pais/1098430-466/barrida-de-personal-en-coalianza-por-falta-de-proyectos>

⁷³ Examples and their trustee banks include the CA-4 Highway (Banco Continental), Islas de la Bahía (Banco Continental SA), Centro Cívico Gubernamental (Banco Lafise), Libramiento El Progreso (Banco FICOHSA), Libramiento Puerto Cortes (Banco FICOHSA), Registro de la Propiedad Vehicular (Banco Nacional de Desarrollo Agrícola - BANADESA), Sistema de Control Migratorio y Emisión de Pasaportes (Banco Atlantida), Sistema de Administración de la Propiedad (Banco Atlantida).

The TCP and INVEST-H have played a key role in filling capacity gaps among PPP institutions.

This is evident in both the case of the CA-4 Highway and El Tablón:

- CA-4:** COALIANZA made two attempts to tender the CA-4 highway maintenance and rehabilitation project. There were no bidders on the first tender; the same result is expected at the second tender. Under intense political pressure, the task of restructuring the project was passed to UCF, who was supported by TCP financial coaches and representatives from COALIANZA, UCF, and INSEP. The TCP coach recommended changing the basis of remuneration from a minimum guaranteed income (IMAG) to an “availability payment.”⁷⁴ The parties agreed to an availability payment of USD \$27 million, based on the assumption that the GoH would earn this amount and more in toll revenue. Not everyone was so optimistic. One knowledgeable stakeholder warned that toll revenues could be much lower than predicted.⁷⁵ In addition, CA-4 project managers are making some of the same mistakes developers made in the Logistics and Tourist corridors. For example, the project gave INSEP six months to provide right of way when past experience says a two-year deadline would be more realistic. While most interviewees were positive about the successful contracting of the project, time will tell if this project will be a good value for the GoH.
- El Tablón:** El Tablón, a hydro project concession on Rio Chamelecon, will provide irrigation, drinking water, flood control, and power generation. The energy component was the portion attractive to private sector investment, but because much of project is a pure public good, it was less appealing as a full PPP and less attractive to COALIANZA. As a result, the president issued a decree turning the project over to INVEST-H. INVEST-H has successfully structured the project and five companies or consortiums have been prequalified.
- With TCP support, UCF has increased its technical and institutional capacity to participate in the development and structuring process.** Based on Presidential Decree No. 115-2014, UCF is empowered to emit binding opinions at three stages in the procurement process: one at the identification stage, one prior to going to market, and one at contracting. As noted at baseline, the UCF used this authority to prevent the Civic Center PPP from going to market without an adequate fiscal risk assessment, which resulted in the first value for money study conducted on a Honduras PPP.⁷⁶ The TCP advisors have provided further training to the UCF on VFM studies. While interviewees suggest that UCF personnel still lack the necessary modeling skills to be able to fully apply the methodology, they have learned by experience in working on the CA-4

⁷⁴ Under an IMAG the concessionaire would collect the tolls and the government would guarantee paying the concessionaire if the tolls did not amount to a minimum quantity. Under an availability payment, the government will collect the tolls and pay a flat rate to the concessionaire for making the road “available.”

⁷⁵ This stakeholder notes that project assumes that the two CA-4 tollbooths will yield USD \$25 million annually; however, because other tollbooths have not generated this much revenue and because these new tollbooths will have even lower traffic volumes, the stakeholder estimates that the likely revenue will be USD \$13 million plus or minus USD \$2.6 million.

⁷⁶ Unidad de Contingencias Fiscales (Dec. 2015). Dictamen Preliminar sobre la Viabilidad del Proyecto Centro Cívico Gubernamental de Tegucigalpa. Secretaría de Finanzas. Retrieved from: <http://www.coalianza.net:81/mapas/pdf/01/20.%20Dictamen%20Preliminar%20Viabilidad%20del%20Proyecto%20CCG%20de%20Tegucigalpa.pdf>

restructuring. With the support of TCP advisors, at the time of data collection, UCF was close to completing its guidelines for fiscal contingency analysis, which will lay out the process for analyzing potential PPPs on the basis of their future fiscal liabilities, both direct and contingent.

INSEP and SAPP continue to play a very weak role in the developing and structuring phase of PPPs. As noted above, when the structuring of the CA-4 highway passed to UCF, INSEP participated in the working group. This is the exception rather than the norm, however. SAPP remains excluded from the PPP project structuring stage. While the law does not explicitly exclude SAPP from participating at an earlier stage, the law is clearly focused on SAPP's role after the contract is signed. Stakeholder interviews revealed that SAPP does not feel empowered to involve themselves in the earlier stages; thus, SAPP continues to wait until contracts are signed to play its part. As noted at baseline, this weakness in the PPP approach, particularly in the management phase, remained unchanged at interim data collection.

20.6 Conclusion

With TCP support there have clearly been some improvements in the effectiveness of the PPP structuring process. CA-4, El Tablón, and the Civic Center have all moved forward to the procurement stage. Furthermore, UCF has developed capacity to fulfill its role of limiting fiscal risk to the GoH. However, with the important exception of UCF, TCP and INVEST-H interventions are best characterized as a stop-gap measure used to mitigate weaknesses in the existing institutions, particularly COALIANZA. As of interim data collection, COALIANZA continued to suffer from problems of perverse incentives from its funding mechanism, politicization, and dependence on external advisors. The institution suffered a dramatic loss in staff, and MCC has notified the government that it would no longer work with the institution. All these factors leave the fate of COALIANZA uncertain. In addition, INSEP and SAPP are still not involved in the structuring process to a significant extent, although INSEP did play a role, with TCP support, in restructuring the CA-4 tender.

21. PPP PROCUREMENT

Q17: Does the PPP procurement process adhere to best practice?⁷⁷This question focuses on the procurement stage of the PPP process, which includes prequalification, evaluation, final contract negotiations, and financial close.

21.1 Intervention

The TCP had attempted to support COALIANZA on the procurement stage of the PPP process, including offering to conduct an analysis of what went wrong with the initial canceled CA-4 procurement. Ultimately, there was insufficient openness to technical support in COALIANZA. The TCP did, however, play a role in supporting the revised CA-4 procurement. Additionally, TCP-contracted consultants have contributed position papers, suggested procedures, and technical support affecting the procurement process.

21.2 Evaluation methodology

To answer this question, we focused on the two cases that went through the procurement stage during the life of the TCP -- the CA-4 highway and the Civic Center. As with other PPP questions, the discussion is based on a review of consultant deliverables, project documentation, and interviews with stakeholders, including MCC and MCA-Honduras personnel, TCP consultants and staff from UCF, SAPP, and INSEP. We were not able to conduct interviews with personnel from COALIANZA.

21.3 Prequalification

Best practice: The prequalification process is a critical part of the procurement process and should be designed to ensure the following:

- The participation of the best and most experienced groups in the field
- Adequate provision for both quantitative (e.g., financial) and qualitative (e.g., level of experience, successful projects completed) analysis of the groups
- The maintenance of “competitive tension,” without necessarily overloading the process by arbitrarily placing the hurdle to participation too low.

⁷⁷ We have altered the original question ordering laid out in the evaluation design report. The original order of the questions focused on procurement and then structuring. Because it is more natural to discuss structuring prior to procurement, we discuss Question 18 before Question 17.

- As appropriate, adequate participation by national (as opposed to only international) firms.
- If considered appropriate, a mechanism for cutting the number of prequalified companies down to a manageable shortlist of the most qualified firms. The modalities of such a mechanism must be made clear to all participants from the outset.

At this stage, all preliminary formalities and administrative procedures should be complete or at least fully catered for. Completed tasks include acquisition of land titles or building authorizations to ensure minimal delay to private sector construction starts. The private sector’s perception of the complexity and delays associated with such formalities will be the kind of risk that the private sector may, or may not, be prepared to accept.

Actual practice: As noted at baseline, Honduras uses a “tick-the-box” approach to prequalification, whereby firms are judged against a set of criteria that they either meet or do not meet. Differences among firms for each criterion are not considered important, only that they meet the minimum qualification. The lack of scales or qualitative criteria contradicts international best practice and is contrary to the advice of TCP consultants.⁷⁸ No change has been made to establish a more nuanced prequalification process.

In addition, the baseline reported noted the GoH has not acquired land titles or authorizations prior to PPP contracting, leading to substantial delays in project construction. For example, construction of the Logistics Corridor was to be completed by April 2016. However, as of data collection in August 2017, construction was not complete partially due to delays in obtaining land rights. There has been no improvement in this aspect of the process. Similarly, as discussed in the previous section, the CA-4 Highway procurement did not resolve land acquisitions ahead of procurement and assumed that the GoH could provide right-of-way in an unrealistically short time period.

21.4 Evaluation and final negotiation

Best practice: International best practice requires the release of tender documents with clear specifications, opportunities for potential bidders to raise and have questions answered, and adequate time to prepare bids. Best practice requires the establishment of an impartial and adequately qualified evaluation committee, which first conducts a review of the technical proposals and then conducts a review of financial bids of satisfactory technical proposals. Ideally, there should be at least three bids to ensure adequate competitive tension. Proposals should be evaluated under a set of quantitative and qualitative criteria and scored based on these criteria. Through this process a Preferred Bidder or Bidders should be identified with whom to finalize the details of the future contract.

The level of direct communication between the public sector and bidders should be significantly greater compared with more traditional tender procedures. The use of a “Competitive Dialogue” is increasingly

⁷⁸ PPP Knowledge Lab (2017). PPP Reference Guide. The World Bank. Retrieved from: <https://pppknowledgelab.org/guide/sections/1>. See also European PPP Expertise Centre (April 2016). The EPEC PPP Guide. European Investment Bank. Retrieved from: <http://www.eib.org/epec/g2g/>

considered best practice, as it offers an opportunity for communication between the public sector and the preferred bidder. This is advantageous given the complexity of the contract, which typically requires discussion rather than a mere exchange of written documentation.

It should be noted that identification of a preferred bidder reduces the competitive tension and could lead to price increases in the closing stages. To avoid a situation in which the preferred bidder seeks to use its position to raise the price of the contract, strict, clear rules should be agreed to at the outset. The rules should address, for example, a maximum timetable, the size and maker of negotiating teams, and clear procedural boundaries for discussion. Additionally, the public sector can protect itself in a preferred bidder situation by asking the second-place bidder to maintain his or her bid, just in case the final negotiation with the Preferred Bidder fails.

Actual practice: As noted at baseline, both the SPS Century 21 PPP and the initial CA-4 Highway tender allocated insufficient time for bid preparation. This practice appears to have improved with the most recent CA-4 Highway tender. Nonetheless, this most recent procurement failed to generate sufficient competitive tension, as it attracted only one bidder. (Fortunately, the proposal came in under the indicated annual availability payment ceiling.) Nothing in the PPP regulations rules out the award of a contract when there is only a single bidder, and the contract was, at the time of interim data collection, expected to be signed shortly.

Once prequalified, firms in the road case study PPPs bid only on price. This limits the discretion of evaluation committees and does not allow committees to consider trade-offs between potential quality and price. Instead, it assumes that all pre-qualified firms will be equally effective in producing the goods or services. Furthermore, contracts have generally been awarded without the benefit of a “competitive dialogue,” or any form of negotiation between the contracting agency and potential concessionaires, to better understand project needs and challenges. In the case of highways, this may not be as critical, as INSEP has set the standard of delivery in accordance with Central American technical road construction criteria. It should be noted, however, that a number of the major obstacles that concessionaires and GoH stakeholders have encountered with exiting road PPPs have been related to issues which were not of a purely technical, such as timely delivery of land title to the concessionaire.

A competitive dialogue and greater evaluation committee discretion is more important for more complex projects. In the case of the Civic Center, the two bidding consortia were required to present their projects to the evaluation committee, which is a step closer towards more of a competitive dialogue. The evaluation committee for the Civic Center was also more diverse than it had been in the past, as it included participation from COALIANZA, SEFIN, and Banco LAFISE.

Because bids in Honduras are not required to demonstrate fully underwritten financial offers, a common limitation, it is still possible to have modifications after contract signing at financial close. Such renegotiations have been a problem in Honduran PPPs. This is most evident in the case of the Tourist Corridor, where the IMAG was increased considerably at financial close and guaranteed prior to the completion of public works, removing the incentive to complete the works in a timely fashion.⁷⁹ As

⁷⁹ Vivallos, Leonel (June 2017). Borrador: Informe Alianzas Público Privadas en Honduras.

discussed in the next question response, as of interim data collection, the IMAG had subsequently been triggered. In theory, UCF financial analyses should help minimize the risk of this problem. As CA-4 moves to contract signing and financial close, we will explore if the GoH avoids modifications.

21.5 Conclusion

In contrast to international best practice, the PPP tendering process used in the case studies examined here excessively limits the discretion of evaluation committees. At the prequalification stage, committee members only note if a potential concessionaire meets a criterion or not. At the bid stage, only the bid amount is used to determine award. These practices are contrary to those prescribed for international best practice. As is, the process does not allow for an evaluation of the comparative strengths and weaknesses of potential bidders and/or their technical and financial proposals. Furthermore, there is typically no competitive dialogue to address final issues and ensure clarity between project sponsors and a preferred bidder. In the recent case of the Civic Center, however, the two bidding consortia were required to present their projects to the evaluation committee, which represents movement toward the ideal of a competitive dialogue. The evaluation committee for the Civic Center was also more diverse than had been in the past. While the more diverse nature of the Civic Center committee suggests some improvement in the tendering process, it is not clear if the move to diversity resulted from an overall desire to improve the process or whether it just happened to be more diverse with SEFIN as the sponsoring institution. In general, the tender process does not appreciate the complex, long-term contractual relations, for which the public sector must be appropriately prepared and the private sector effectively evaluated and selected.

22. MANAGING PPPS

Q19: Are there improvements in the efficiency and effectiveness of the process for managing PPP?

22.1 Introduction

Successful management of PPPs begins with a well-developed contract that clearly defines roles and responsibilities and seeks to identify future eventualities and provide guidance as to how a wide range of circumstances and situations should be addressed and resolved. Nonetheless, there is only so much that can be included or anticipated in a contract, and global experience of PPPs shows that only through competent and coherent project management after contract signature can the full benefits of the PPP

modality be realized.⁸⁰ We understand effective contract management as continuing to provide good value for money to the country with a reasonable distribution of risk. This includes the identification and successful resolution of contractual problems. An efficient contract management process will achieve these goals with minimum wasted effort and cost. Effective and efficient contract management requires establishing institutional arrangements for maintaining a proactive dialogue, escalating processes for dispute resolution, and maintaining a “incident register” to keep track of deficiencies, among others. Poor contract management can ultimately lead to high costs for the government, project delays, and even termination of the contract.

22.2 The intervention

The efforts of the TCP consultants have been directed towards both better design of new PPP contracts and support for resolving problems on existing contracts. In particular, the long term Road Concession Advisor has provided INSEP and other stakeholders with advice and technical assistance on matters arising out of the major highway PPP contracts. Each month the advisor produces several briefs detailing contractual challenges and recommendations for resolution. While the SAPP has not been a major beneficiary of the TCP, the advisor developed a 2015 detailed diagnostic on SAPP monitoring of PPP.⁸¹ The diagnostic spelled out the various functions relating to contract management and supervision at different stages of the project and provided a series of recommendations. The TCP planned to assist INSEP in developing and funding a PPP unit within the institution; however, as discussed below, this effort has confronted several obstacles. Much of the work with PPP stakeholders has entailed promoting a paradigmatic shift from traditional contract management to managing a PPP-style contractual relationship.

22.3 Evaluation methodology

To answer this question, we explore GoH contract management across four case studies: the Logistics Corridor, the Tourist Corridor, San Pedro Sula Century XXI, and the Civic Center. As with other PPP questions, our responses are based on a review of consultant deliverables, project documentation, and interviews with stakeholders, including MCC and MCA-Honduras personnel, TCP consultants, and staff from SAPP and INSEP.

⁸⁰ See, for example: PPP Knowledge Lab (2017). PPP Reference Guide. See also European PPP Expertise Centre (April 2016). The EPEC PPP Guide.

⁸¹ Vivallos, Leonel M. (Oct. 2015). Informe de Diagnóstico: Superintendencia de Alianza Público-Privada.

22.4 Summary of baseline findings

At baseline, our assessment of contract management of the Logistics Corridor, Tourist Corridor, and Century XXI projects, revealed significant weaknesses inherited from the structuring phase. These included poor project analysis, poor risk distribution, overly optimistic traffic forecasts, and unrealistic deadlines for delivery of land to the concessionaire. These problems were exacerbated by the non-participation of SAPP and INSEP at the structuring stage. We also found significant obstacles to effective contract management, including SAPP overreliance on supervising contractors, very low capacity at INSEP, and non-involvement of COALIANZA in the management process despite their institutional memory. Representatives of the private sector concessionaires expressed forcefully their view that INSEP and SAPP did not understand the different and more complex relationship involved in PPP contract management.

22.5 Efficiency and effectiveness related changes since baseline

Case study concessions continue to face management challenges. In the paragraphs below, we discuss some of management challenges that have affected case study PPPs.

- Tourist Corridor:** A majority of the revenue for the concessionaire was expected to come from a tollbooth in San Miguel along the route connecting the Touristic Corridor to the Logistics Corridor. Residents opposed the tollbooth, which was to be located on a stretch of road that had not been newly refurbished, and in July 2016 protesters burned the tollbooths.⁸² The tollbooth opened again in October 2016; however, it reported a high non-payment rate.⁸³ This factor led to a delay in revenue collection and triggered the IMAG, requiring the GoH to pay the concessionaire for revenue shortfall. It is estimated that this will amount to a USD 25.2 million liability by March 2018.⁸⁴ (As noted in the previous question, the size and timing of the IMAG was the result of a contract modification at financial close.) Some interviewees blamed the concessionaire for not doing enough to socialize the project with the residents in the area through consultations, awareness building, and information gathering. However, socialization should have also been led by COALIANZA and INSEP at the design phase. Failure to develop support for the project has resulted in the GoH assuming financial responsibility for the shortfall.
- Logistics Corridor:** As expected at baseline, delays over routing and acquisition of rights-of-way did not permit the concessionaire to complete construction works by the planned April 2016 deadline. As of data collection in August 2017, construction was still ongoing although reported

⁸² La Prensa (July 2016). “Queman casetas de paeje en carretera hacia El Progreso, Yoro.” Retrieved from: <https://www.laprensa.hn/honduras/977664-410/queman-casetas-de-peaje-en-carretera-hacia-el-progreso-yoro>

⁸³ La Prensa (Oct. 2016). Insep socializa pago de peajes de San Manuel. Retrieved from: <http://www.laprensa.hn/honduras/1013537-410/insep-socializa-pago-de-peajes-de-san-manuel>

⁸⁴ Vivallos, Leonel (June 2017). Borrador: Informe Alianzas Público Privadas en Honduras.

to be 91 percent complete. Nonetheless, tollbooths were collecting revenue and traffic volume was higher than expected. As such, it is not expected that the IMAG will be triggered. The contract guaranteed the concessionaire access to the Dry Canal (Canal Seco) route, which was the responsibility of the government to construct. While this project was contractually to be completed by September 2014, as of data collection in August 2017, it was still not finished. The road concession advisor estimates that this delay could lead to a total government liability of approximately USD 5.5 million.⁸⁵ The advisor recommended addressing this issue as part of a contract modification; however, this recommendation was not taken up.

- **Century XXI:** Despite a level of uncertainty at baseline, interviewees reported satisfaction with construction progress and the supervision of the contract. The construction had been delayed following criminal allegations against a key member of the consortium and there was a potential conflict of interest with the supervisory firm. Still uncertain was the revenue that could be expected from a license registration tax. A loophole that might have caused San Pedro Sula residents to register their car in a neighboring jurisdiction was closed; however, it is believed that the estimated revenue figures were overestimated by around 20 to 25 percent. At the time of data collection, SAPP was undertaking an analysis of how to address the problem.
- **Civic Center:** This contract is still in its early stages of construction, and we were not made aware of any particular problems on the horizon. The coordinator of the project admitted that getting all permits and licenses in order had been a major challenge, but the paperwork had been delivered to the private sector concessionaire. It is our understanding that this project has been reinforced by the appointment of a technical and a legal adviser under the aegis of the TCP, which will no doubt strengthen the abilities of the Technical Committee supervising this project.

The effectiveness and efficiency of contract management is still largely hampered by the fact that not all relevant parties are involved in the contract design phase. Many of the problems at the management stage are inherited from the structuring process. As discussed in the previous question response, inadequate involvement of the SAPP and INSEP at the structuring phase -- to anticipate future contract management problems -- has likely led to some of the contracting problems with existing contracts. As SAPP and INSEP develop additional contract management experience, the failure to ensure that their experience feeds back into the structuring process will likely cause problems on future contracts.

Given the legal and regulatory context, SAPP's role remains largely unchanged from baseline. In contrast with a large body of international best practice, the Honduran system (along with the Peruvian system) entrusts the management and monitoring of the signed PPP contract to SAPP, which is the institution specifically set up for this purpose. In turn, SAPP works through third-party contract supervisors who are hired by COALIANZA and paid for by the private sector concessionaire. As pointed out at baseline, it is problematic for the supervisor firm that the SAPP is not involved at the contracting stage. With the exception of the 2015 diagnostic and recommendations mentioned above, TCP support for

⁸⁵ Vivallos, Leonel (Sept. 2017). Contrato de Concesión: Corredor Logístico Goascorán-Villa San Antonio, y Tegucigalpa-San Pedro Sula – Puerto Cortés.

SAPP has been limited. One indication of progress at SAPP has been the development and roll out of its online informatics system, which increases transparency by hosting all of a regulator's available documents, including monthly supervisory reports for each concession, in real-time on the web. SAPP management will turn over in 2018, and it is not clear what impact the change in leadership will have.⁸⁶

TCP advisors have provided support for improvements in INSEP's management capacity; however, severe limitations remain. The TCP-supported advisor has provided technical support to INSEP in addressing problems with the concessionaires. The support includes a series of reports on various contractual challenges. While INSEP reportedly appreciates the support of the advisory, it was not clear to the evaluation team if the institution consistently follows the consultant's advice.

It appears that INSEP now plays a larger part in the post-contract management technical committees than it did at baseline. Each road PPP has a technical committee that INSEP chairs. Committee members include supervisory contractor and SAPP. TCP advisors have urged key PPP players to work together on the Technical Committee established for each project (whether PPP or not).

One of the main objectives of the TCP's work with INSEP has been to help the institution establish a PPP Concession Unit within the institution. This continues to be an elusive milestone, however. INSEP reports that this unit was created in April 2017 with a staff of five; however, this was not confirmed by other stakeholders and we were unable to verify its responsibilities or activities. The TCP had included funds to pay the salary of a PPP Unit director in the short-term with the commitment that the GoH would take responsibility for the position in the medium- and long-term. A candidate was evaluated and chosen by an independent committee that included representatives from INSEP; however, INSEP leadership ultimately rejected the committee's final choice.

INSEP continues to request TCP assistance in managing PPPs; however, the institution's foot-dragging and failure to establish and consolidate a unit several years into the TCP is concerning. Given INSEP reluctance, some stakeholders favor transferring management of existing PPP contracts to INVEST-H.

UCF continues to play little to no role in the post-contract management process. Given the UCF's responsibility for monitoring direct and contingent fiscal liabilities, this unit should be involved in any contract modifications. For example, in the case of the Uruguayan PPP program, any modification in the contract involving a change in payments to the concessionaire must be approved in advance by the PPP Unit in the Ministry of Economy and Finance, the equivalent of UCF.

22.6 Conclusion

As of interim data collection, we continue to observe contract management challenges related to rights of way, government delays, and social protest that have resulted in increased costs to the GoH and

⁸⁶ It should also be pointed out that most of the main PPP projects remain at the construction stage, meaning that SAPP has only limited experience of management of the operational phase. In the case of the highways, the real test for SAPP will be to see the extent to which the concessionaire respects the technical quality criteria over time.

undermined the VFM of PPPs. Many of these problems are rooted in how the projects were originally structured and procured. Unfortunately, as discussed in the previous question response, it appears that despite TCP technical assistance, the CA-4 is likely to make some of these same contracting mistakes, including setting unrealistic deadlines to resolve right of way issues and overoptimistic revenue estimations.

Some improvements are evident in contract management, including the establishment of project technical committees lead by INSEP, and SAPP's roll out of an online informatics system. In addition, construction on the SPS Century XXI and Civic Center projects appears to be progressing. Nonetheless, the failure on the part of the INSEP to establish and consolidate a PPP Concession Unit despite TCP financial and technical support remains a major concern.

23. PPP CAPACITY AND COORDINATION

Q20: To what extent does the project facilitate greater capacity and coordination for PPPs within GoH?

23.1 Introduction

Each potential PPP includes a set of stakeholders whose skills, knowledge, or buy-in can be leveraged to improve the quality of PPP design, procurement, and management. For example, involvement of the finance ministry can prevent the government from assuming excessive fiscal risk. Involvement of commissioning ministries or local governments in PPPs can add valuable local or technical knowledge. Even the public has an important role to play. Excluding or ignoring affected communities and the larger public can cause problems, as evidenced by burnt tollbooths. Leveraging these skills, knowledge, and buy-ins necessitates that key stakeholder institutions have the opportunity and the capacity to contribute and requires effective and efficient mechanisms for coordination.

23.2 The intervention

As discussed in the previous questions, TCP capacity building support primarily takes the form of technical assistance with institutions and key individuals. The various TCP consultants, in their respective area of specialization, have produced a significant number of position papers, recommendations, and guidance documents relating to the PPP project cycle, value for money, fiscal liabilities, institutional arrangements, project management, etc., for key institutional stakeholders, including UCF, INSEP, COALIANZA, and, SAPP since the start of the TCP.

While not originally part of the project, the TCP now includes the Northern Triangle PPP training program, a 9-module, 200-hour course, implemented in five one-week (40-hour) sessions over nine months. The first sessions took place in April and August 2017, covering Modules 0-2. Forty-nine participants from six public institutions attended the trainings. A condensed version of the training (40 hours total) is offered to private sector actors once per year in the fall. In addition to building capacity, technical assistance and training have brought stakeholders together to improve coordination.

23.3 Evaluation methodology

As with other PPP questions, our responses are based on a review of consultant deliverables, project documentation, and interviews with stakeholders, including MCC and MCA-Honduras personnel, TCP consultants, and staff from UCF, SAPP and INSEP. As noted above, we were unable to interview anyone from COALIANZA. To assess the TCP-supported training, the evaluation team reviewed training materials, observed one of the training sessions, conducted a focus group with participants and interviewed the instructors. Because of the overlap between these questions and other PPP questions, we frequently reference evidence provided in other questions to limit repetition.

23.4 Capacity and coordination

The PPP Northern Triangle training program is relevant, of high quality, and could build personal relationships to facilitate coordination. The training program that the TCP has organized in Tegucigalpa has brought together, as of interim data collection, 49 participants from six different public-sector institutions (UCF, SAPP, COALIANZA, INSEP, ENEE, and the Central American Bank for Economic Integration (CABEI)). Participants in the program appear to be motivated to attend and learn. The quality of the instruction was high and the process, based on progressive stages for which participants must qualify, appears to be well implemented. The training employed participatory and group activities and participants received daily homework. While the participants sat in groups based on their institution, activities sought to mix them up to build relationships among the different actors and increase chances for better coordination and cooperation in the future.

Although our assessment of the course is generally very positive, we observe five concerns. First, although participants were motivated and excited about the course, several noted that it was difficult to take a full week off from their public-sector duties. Second, it was generally agreed that it would have been preferable to take the course at the beginning of the TCP, thereby providing a foundation for future inter-institutional collaboration. Third, while the curriculum has been developed and validated by six multilateral organizations worldwide, the official test for the early modules is only available in English. As such, the TCP does not have a good method to assess the extent to which learning is occurring. Fourth, it remains to be seen if participants develop a sufficient grasp of the material to put their learning into practice. Some interviewees noted that capacity and knowledge appear to be lower in Honduras than in

Guatemala and El Salvador, where a similar training is taking place. Fifth, participants have different skill levels at the start of the course, which creates a challenge for instructors and participants.

Capacity appears to have declined at COALIANZA. As noted previously:

- Thirty-four staff were let go in August 2017 because of a lack of revenue.
- Politicization and clientelism is reported to have undermined capacity development. The organization is run by three politically appointed commissioners, who have reportedly selected their own subordinates and encourage limited coordination between their respective staff.
- There are continued indications of low capacity, such as the use of a major PPP contract as a template for a small PPP with many non-applicable clauses.

The institution no longer receives any TCP technical assistance, limiting the prospect for any future improvement. While COALIANZA staff does participate in the training program, interviewees report that the COALIANZA participants do not appear to be career PPP professionals. With the decline in personnel and status, some stakeholders question the future of the institution.

COALIANZA continues to be an obstacle to greater coordination. The legal responsibility for ensuring an adequate level of inter-institutional coordination falls explicitly on COALIANZA. Article 54 of the PPP Law names COALIANZA as the coordinator, advisor, and inspector of the PPP contracting process and specifically states that it is to coordinate with other institutions in Honduras's public administration. Nonetheless, as noted in previous question responses, COALIANZA is a poor team player. The institution has declined to use financial guidelines developed by a TCP advisor and SEFIN, has not adequately involved other institutions in the structuring stage, and has generally been unreceptive to TCP consultants. The institution also confronts internal, horizontal coordination, with separate silos reporting to each of the three commissioners despite overlapping functions. As a result, MCC has formally notified the GoH that it will no longer provide support to COALIANZA.

UCF is the only key PPP institution that has been clearly receptive to TCP support and increased its capacity over the course of the TCP. UCF has worked closely with the TCP Financial Advisers to establish appropriate guidelines for project evaluation, value for money calculation, identification and evaluation of fiscal liabilities, and project structuring. Recent regulatory changes have further entrusted UCF with the responsibility for approval of PPP projects at three critical points along the project cycle, namely initial selection, going to market, and contract signature. Nonetheless, the powers granted to UCF and its increasing capacity to use them will need to resist pressures from other parts of the Honduran administration that might be more interested in seeing a project break ground than in avoiding fiscal contingencies several years into the future.

INSEP's capacity remains low with limited advances in coordination. As noted in previous responses:

- INSEP reports that five personnel staff a new PPP Concession Unit, but the unit does not appear to be formalized, and INSEP has failed to hire a director for the unit despite TCP financial support.

- While INSEP has been provided with consistent technical advisory services through the road concessions consultant since 2015, it is not clear that the institution consistently follows the consultant's advice or has taken advantage of his expertise to build internal capacity.
- There have been some efforts at improved coordination, including participation on a UCF- and TCP-convened working group for the CA-4 restructuring and leading technical committees for road-based PPPs.

SAPP capacity and coordination also remains suboptimal: Despite some direct contact with the road concession advisor in earlier years of the TCP, which included a major position paper on the role and responsibilities required by PPP contract management, SAPP does not appear to have received subsequent direct TA as part of the TCP. The institution remains small with only six auditors. As a result of this understaffing, their ability to manage complex projects is limited. SAPP has benefited from a director who previously served as a commissioner of COALIANZA, which has contributed to a higher level of technical expertise and institutional memory. The director is expected to be replaced next year, and some concern was expressed about what will happen after his departure.

As noted previously, SAPP does not get involved in the project design stage, since its terms of reference specify that it will monitor and supervise signed PPP contracts. It does participate with INSEP and supervisory contractors on PPP technical committees during the contract management phase.

23.5 Conclusion

As noted throughout the PPP section of this report, capacity and coordination remain low. The PPP training program is without question a step in the right direction and appears to be well taught and well received. Nonetheless, the training comes late in the TCP, representing a missed opportunity to use the training to build inter-institutional coordination and dialogue at an early stage of the TCP. While INSEP and COALIANZA personnel have attended the trainings and accepted some support from the TCP, COALIANZA to a large extent, and INSEP to a lesser extent, have failed to take proper advantage of TCP resources and technical support. At the most basic level, COALIANZA has not adopted a more collaborative approach and INSEP has not developed a PPP unit, a key TCP milestone. Only the UCF appears to have taken advantage of the TCP to increase its capacity to analyze and mitigate the fiscal risks of PPP projects.

24. CORRUPTION AND PERCEPTIONS OF CORRUPTION IN PPPS

Q21: Do the systems put in place by the project reduce opportunities for corruption or improve perceptions regarding corruption?

24.1 Introduction

As with any high cost long-term contract, there are strong incentives for corruption in PPPs. Opportunities for corruption can occur throughout the PPP process, during identification, structuring, procurement, or during contract management.

24.2 The Intervention

According to the program logic, the TCP aims to reduce opportunities corruption in PPPs through support for the UCF. The theory of change posits that by conducting a high quality financial analysis of projects at the structuring, tendering, and signing phases, the GoH can increase the probability that contracts will result in good value for money with reduced possibility for corruption in the contracting process.

The TCP sought to reduce corruption in the business permitting process through its support for FIDE. The FIDE contract was cancelled in October 2016 for falling short of its intended objectives. The evaluation team did not explore FIDE.

24.3 Corruption

At baseline, there was the perception of corruption in the case of Century XXI among some interviewees. The evaluation did not determine if corruption had, in fact, occurred in existing PPPs. Unsolicited proposals like Century XXI are susceptible to corruption. While an unsolicited proposal project in Honduras's PPP system is open to other bidders in theory, in the case of Century XXI, the minimum bidding period set by COALIANZA was too short to allow additional bidders to prepare competitive proposals. As a result, the Century XXI consortium that proposed the project was the only bidder. The fact that COALIANZA did little to question the financial model and revenue figures provided by this sole bidder could be a product of inexperience and sloppiness, but it created a perception among some interviewees that the project was a "done deal" from the start.

External review by the UCF at distinct points in the PPP process likely does reduce the opportunities for corruption; however, such a reduction is not an expressed goal of UCF's activities. Instead, UCF focuses

on analyzing the fiscal risks associated with a project. That being said, UCF's review would be sensitive to projects based on unsound financial assumptions that would be more likely to occur in projects with a high degree of corruption, i.e., projects advanced through the PPP process by way of corrupted practices at COALIANZA or some other institution. However, if a corrupted project were adequate from a fiscal risk point of view, then the UCF would not be aware of any other corruption or have reason to prevent the project from going forward. In general, corruption does not appear to be a major focus of TCP activities.

In theory, the Honduran PPP process, which was established prior to the TCP, was designed to limit the opportunities for corruption. Firms are prequalified based on a "tick-the-box approach," whether they have or do not have desired or required characteristics. The bidding process is then based solely on the lowest cost, for example the price of tolls to be charged. No "competitive dialogue," or discussions between the bidders and the evaluation committee are permitted. It is argued that the simplicity of the approach and the lack of discretion afforded evaluation committee members limits the opportunities for corruption. While this is a common approach, there is very little research that supports its assumptions. It does not preclude the possibility of corruption, as vendors or officials seeking personal benefits can find creative ways to influence the process. As discussed in Question 18 on procurement, the method comes with a major trade off of preventing evaluation committees from incorporating more nuanced factors in their decision-making.

24.4 Conclusion

According to the program logic, the TCP aims to reduce opportunities corruption in PPPs through support for the UCF, which conducts financial reviews of PPPs at three distinct points in the process. While external review by the UCF might catch gross instances of corruption through its financial reviews, identification of corruption is not an expressed goal of UCF's activities. The TCP has also sought to reduce corruption in the business permitting process through its support for FIDE. The contract was cancelled in October 2016 for falling short of its intended objectives and was not explored by the evaluation team.

25. TRANSPARENCY OF PPPS

Q22: Does the project result in greater transparency and awareness of PPP procedures for government, private sector, and civil society groups?

25.1 The intervention

While the objective of PPP activities as stated in the Threshold agreement with the GoH is to strengthen the efficiency and transparency of PPPs, outside of the TCP’s cancelled work with FIDE, transparency is not a stated short- or medium-term outcome in the TCP’s revised project logic. In fact, TCP activities are not focused on ensuring public access to information outside of existing practices. While TCP advisors have produced a wealth of documentation on the PPP process, to the knowledge of the evaluation team these documents are not public.

While FIDE was unable to complete *MiEmpresaEnLinea*, a proposed online platform for business-related permitting, FIDE did make advances in the area of transparency. As reported in the baseline report, with TCP support, FIDE produced the website *EmprendeGuía*,⁸⁷ which provides detailed information on procedures and requirements related to starting a business, taxes, operational permits, social security, and importing and exporting.

25.2 Transparency in Honduran PPPs

As the PPP program has evolved, the information publicly available has expanded. The COALIANZA and SAPP websites now carry extensive information on various projects.

In the case of COALIANZA, the Logistic Corridor project documentation, for example, includes a basic description of the project with maps, photographs, and investment amounts, as well as the date the tender began, the date of award, the identity of the winner and a link to the winner’s webpage.⁸⁸ The documentation also provides links to key documents, including the public tender opening, the bid documents, the text of prequalifying letters from interested parties, the minutes of the evaluation committee on price, the text of the award, the complete contract (running to some 400 pages), and Congress’ original approval and subsequent modification of the contract.

The recently updated SAPP website now carries extensive documents relating to the management phase of this contract. For each contract, the information is divided into a summary tab with details on the contract and a documents tab with modifications to the contract, the text of the agreement signed with the supervisory agency, a plan of works relating to this contract, and monthly reports from the supervisory firm and from SAPP.⁸⁹

Similar online information can be found for other projects. Documentation for the Civic Center PPP includes cost benefit studies, UCF’s value for money analysis, a “strategic analysis” covering government institutions, and a “concept document” for the project. While it is not clear how much the public uses this

⁸⁷ FIDE (n.d.). *EmprendeGuía*. Retrieved from: <https://honduras.eregulations.org/>

⁸⁸ COALIANZA (n.d.). Proyecto Corredor Logístico.

⁸⁹ See, for example: SAPP (n.d.). Ficha Técnica: Corredor Logístico. Retrieved from: <http://sapp.gob.hn/services/infraestructura/corredor-logistico/>. See also SAPP (n.d.). Documentos: Corredor Logístico. Retrieved from: <http://sapp.gob.hn/documentos-corredor-logistico/>

information, the information available on government websites has further been consolidated by CoST (Construction Sector Transparency Initiative (Iniciativa de Transparencia en el Sector de la Construcción)).

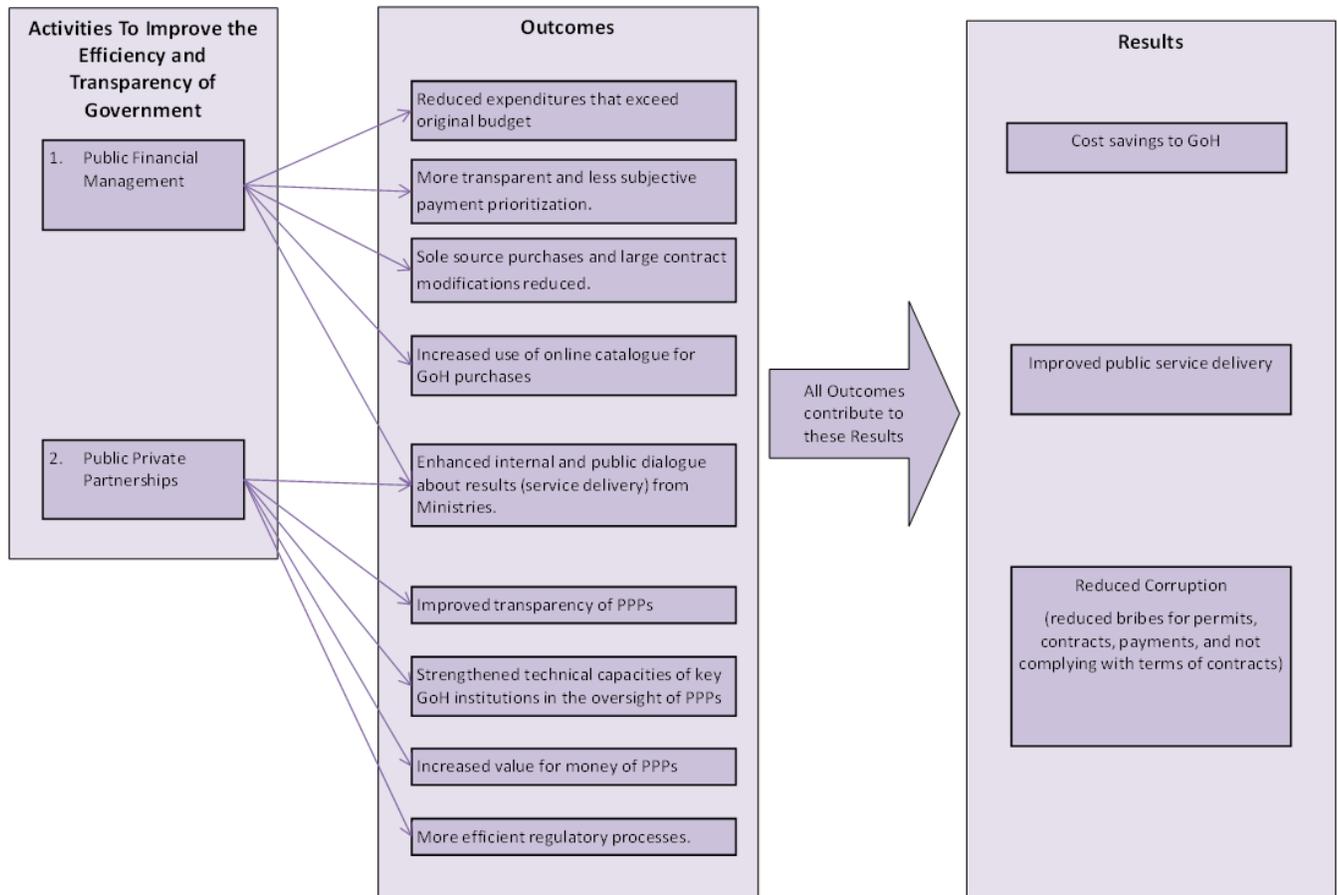
25.3 Conclusion

Information about the PPP process is being made available both at the tendering stage (COALIANZA) and at the post-signature contract management stages (SAPP). The volume of the information available has increased between the baseline and the interim evaluations. Expanded availability of relevant information is due to increased transparency (e.g., the roll out of SAPP's website), as well as the generation of additional documentation (e.g., the value for money study of the Civic Center). One important caveat to this conclusion is that with the exception of the value for money study, we were unable to find UCF's fiscal risk assessments. It does not appear that the TCP has played a direct role in the increase in publicly available information.

ANNEX I: TCP ORIGINAL AND UPDATED PROGRAM LOGIC

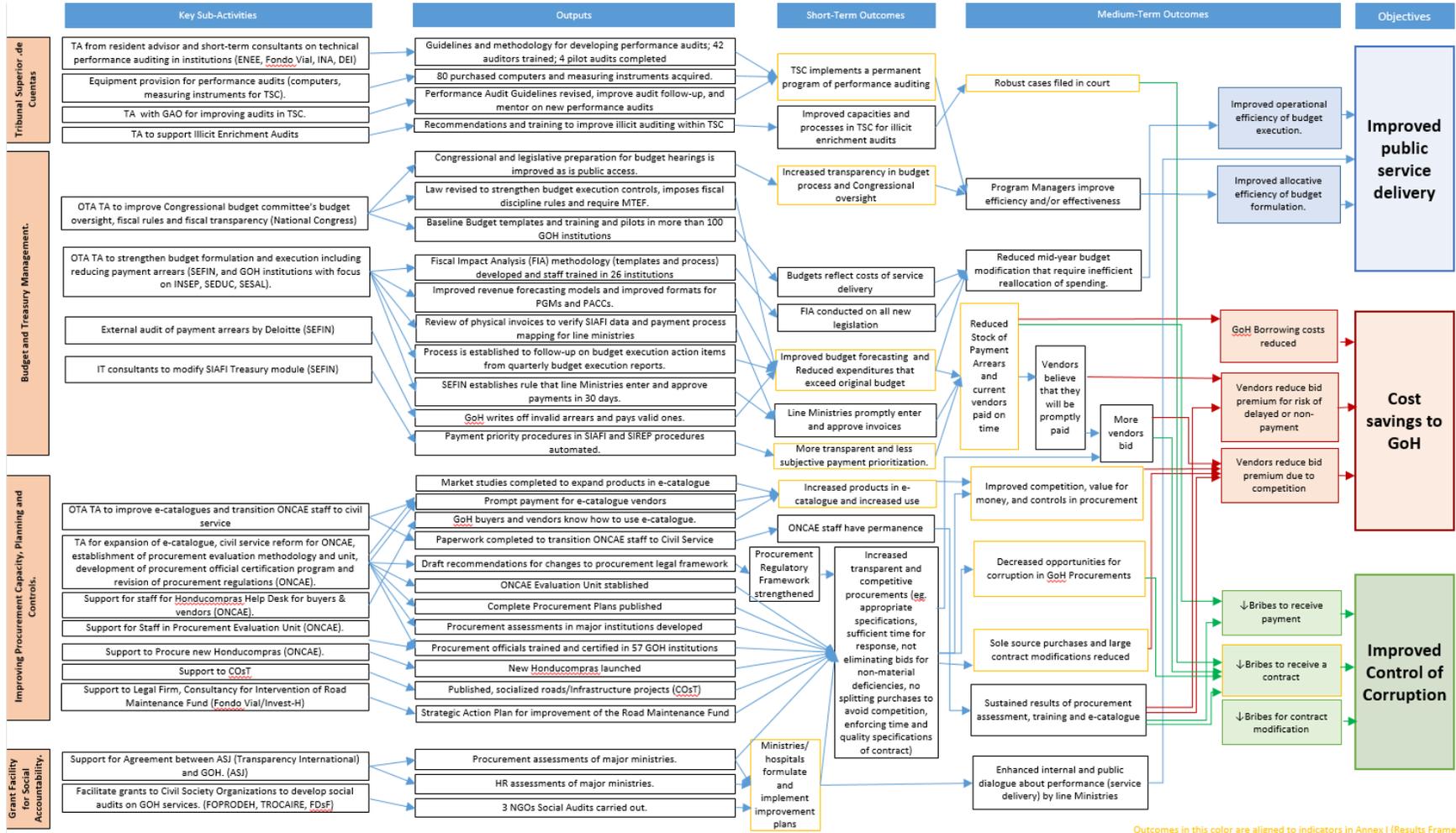
The TCP has evolved over time. In this section, we include both MCC's original program logic and the revised program logic as of January 2017. We then examine each of the components of the TCP, present the language used in the original Threshold agreement, the summary information provided in the updated workplan issued in January 2017, and note any changes to the TCP overtime. We also provide summaries of each of the technical assistance-based consultancies.

Figure 18: Initial Project Logic (April 2013)



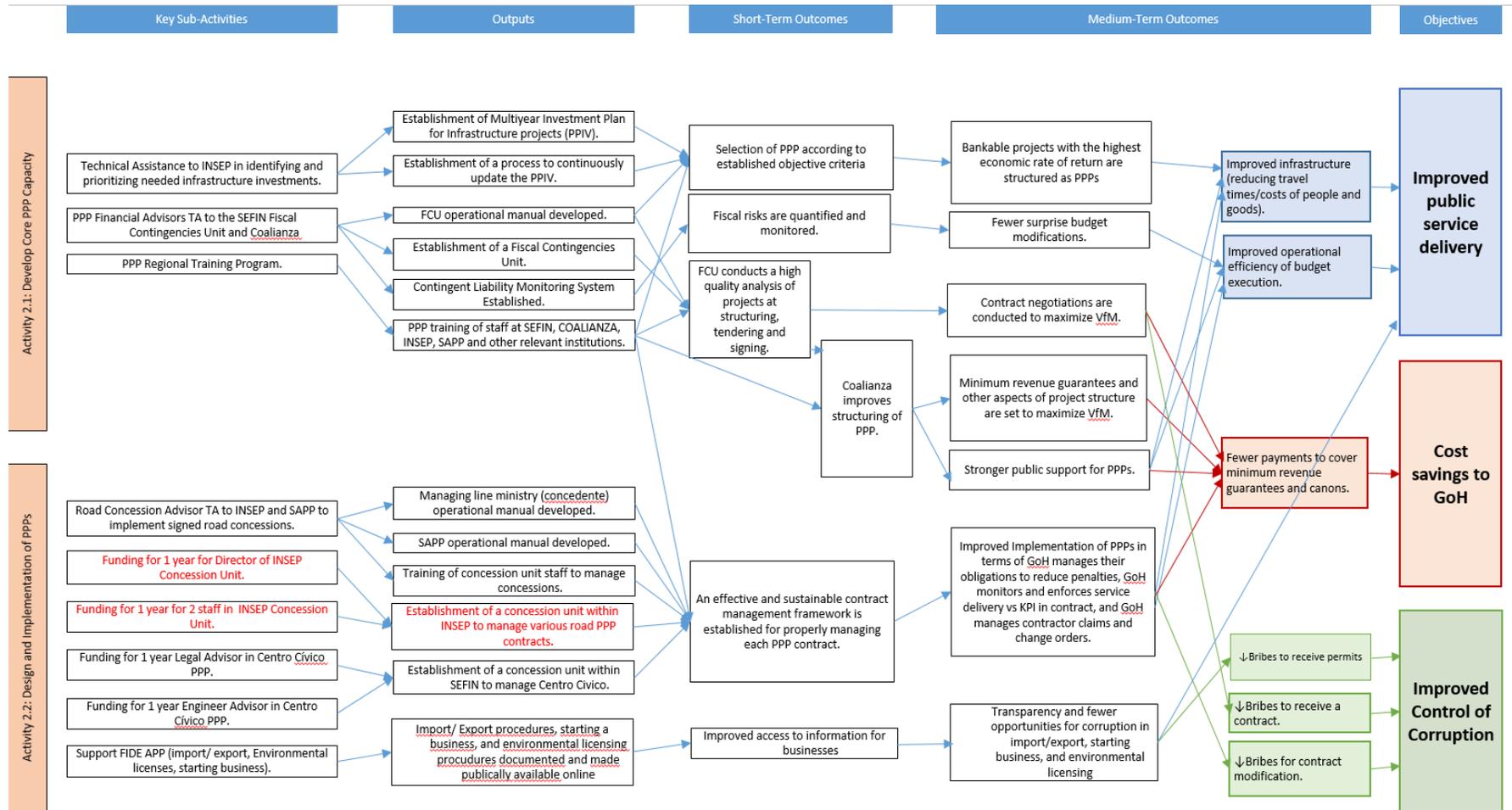
Source: Millennium Challenge Corporation (April 2013). Draft Honduras Threshold Monitoring and Evaluation Plan.

Figure 4: PFM Project Logic (Nov. 2017)



Source: Millennium Challenge Corporation (Nov. 2017). Draft Program Logic. Note: Outcomes in yellow are aligned to indicators in the Annex I of the Threshold agreement.

Figure 5: PPP Project Logic (Nov. 2017)



Source: Millennium Challenge Corporation (Nov. 2017). Draft Program Logic. Note: Items in red are expected to be removed from the final program logic.

ANNEX II: PROCUREMENT ASSESSMENT FINDINGS AND RECOMMENDATIONS (Q11)

INSEP

Table 25: Findings and recommendations from INSEP procurement evaluation

Focus	Finding	Recommendation
General	No prequalification done since 2014.	Conduct prequalification annually.
	Not all information posted to HonduCompras as required by law.	Develop a strategy to ensure that all information is uploaded to HonduCompras.
	Procurement records do not link specific procurements to the PACC.	Include all procurement processes in the PACC.
	No methodology to determine short-lists of providers for private procurements.	Use random methods to develop short-lists for private procurements.
	No evidence in the procurement files that bidders are provided with the bid opening act nor that losing bidders are notified.	Communicate with all participants.
	Cost of supervision averages 11 percent. This is higher than recommended by the IADB and the FHIS guidelines.	Take FHIS's resolution into consideration and negotiate costs.
	Not using the standard specifications form approved by ONCAE.	Use the approved specifications form.
	The points for the sub-criteria, which are used in the evaluation process, are not defined.	Include the points for subcriteria.
Public Works Department	No evidence of negotiation in specific contract.	Negotiate.
	Short bidding periods, no question period, no email to submit questions.	Include.
	Modification of payment schedule at the time of contract signing in a specific procurement.	Follow the conditions in the bidding documents.
	Winning bid does not provide evidence of experience in a specific procurement.	Include information.
	In several procurements, only one person signed evaluation committee decisions, and	Implement a verification system for all documentation.

Focus	Finding	Recommendation
	there should be at least three signatures for all committee members.	
	Original bidding documents not included in the procurement file.	Include original bidding documents.
Roads Department	Bid documents not published in Diario Oficial La Gaceta for all public procurements.	Publish.
	Of 25 processes, 12 (48 percent) not published on HonduCompras.	Publish on HonduCompras.
	INSEP pays between HNL 4,300 and 4,900 for asphalt mix, for which the AMDC pays only HNL 2,830, from the same asphalt from the same source.	Conduct market study to determine appropriate prices.
	Two bids awarded after the bid validity had expired.	Complete on time.
	Not using ONCAE standardized documents in public procurements.	Use standardized documents.
	Insufficient documentation in the procurement files.	Implement a verification system.
	Purchasing tires from one vendor only.	Conduct a market study and combine into one procurement.
General Administrative and Transport Departments	Files do not have an invitation letter on minor purchases.	Use an invitation letter.
	Of 51 procurements, 36 (71 percent) were not on HonduCompras.	Post to HonduCompras.
	Possible illegal subdivision of procurements for air conditioning maintenance every two months.	Combine procurements and make public.
	In air conditioning maintenance contract, file does not demonstrate evidence of competition.	Follow laws for direct purchases.
	Evidence of subdivision of contracts for many small purchases.	Combine into one procurement.

Road Fund (Fondo Vial - FV)

Table 26: Findings and recommendations from FV procurement evaluation

Finding	Recommendation
Does not follow proper procedure in evaluating public procurements.	Follow cited legal articles to evaluate properly.
No methodology for the selection of short-lists in private procurements.	Define a methodology for shortlists and follow circular on posting to HonduCompras.
FV's regulation defining its evaluation committee contradicts the procurement law and should not allow the director of the institution to participate on the committee and sign contracts.	Nullify the regulation and follow indicated section of the law.
Inadequate document storage facilities.	Develop a strategy for document storage and management.
Inefficient processes for public procurement involving 67 lots and more than 1,000 bids.	Modify the methodology.
No process for documenting and formalizing reception and opening bids.	Develop a system of controls.
There is no official list of prequalified firms.	Obtain a list from INSEP.
The technical and legal offices are the leads on procurement rather than the procurement unit.	Strengthen procurement unit.
Incomplete procurement files.	Include all required information.
At times, modified standardized documents are used.	Use the mandatory forms.
Does not offer notifications to all bidders.	Send notifications to all bidders.
Insufficient internet connection to use HonduCompras.	Ensure internet access for key personnel.
No database of prices for different sectors or road sections.	Request from the Verification Firm.
Specifications do not account for distances traveled with asphalt mix that must be maintained at a certain temperature range.	Ensure accurate specifications.
Many shortcomings with the contractor and Verification Firm REGIOPLAN.	Review the terms of contract.

SESAL

Table 27: Findings and recommendations from SESAL procurement evaluation

Finding	Recommendation
No methodology for the selection of short-lists in private procurements. Only one bid received for some private procurements and the bid was adjudicated to that single offerer.	Reduce employee discretion on how to create shortlists to increase levels of competitiveness, define a methodology for shortlists and keep a copy with each file, follow circular on posting in HonduCompras, ensure that there are enough bids to secure competitive prices.
Cases of procurement officials inviting potential bidders that do not supply the products needed to create an appearance that they have sought three quotes. Only the intended winner presents an offer and consequently wins the bid.	Invite potential bidders that distribute the products laid out in the specifications, ensure a price comparison and more competitiveness, do market research on which vendors supply which goods, for even greater competition consider a public international tender.
The procurement unit included the specific brand of the product to be purchased rather than the general specifications of the product needed.	The law establishes that procurement documents should only detail technical specifications and should not reference any particular brand or model.
Not all processes are published on the HonduCompras site. There are signed contracts in the files whose content is different from what is published in the bidding documents on HonduCompras.	Use the contract format included in the official bidding document as established by law.
Opening documents and evaluation reports have the same date and time, in conflict with the correct process.	Conduct openings and evaluations separately and sequentially.
There is often no evidence in the contracting files that the process is included in the POA, although there is evidence of inclusion in the PACC.	Plan all procurements of the year. Organize, execute, supervise and control every process to satisfy needs in a timely manner and in the conditions of cost and quality. There should be evidence that the procurement is in both the POA and PACC.
Standard ONCAE bidding document templates have been altered.	Use the format emitted by ONCAE and only make changes in the specified sections where allowed.
There is no evidence that the legal department assesses the documents as complying with procurement and other applicable laws.	Develop the assessment to determine legal compliance.
There is no control of the reception of bids before the activity of reception and opening. There is no evidence indicating that a copy of the opening act was given to bidders.	Implement a control of received bids that details the date and time in which they were received, name and signature of delivery person and employee receiving. Provide a copy of the act of reception to all bidders and leave a copy in the file.

Finding	Recommendation
<p>The model of record used by hospitals nationwide in the opening of bids activity does not contain the minimum information that is required by law. In the opening of bids, the evaluation committee disqualifies the bids above budget at the wrong time and without conducting a proper analysis.</p>	<p>Use a model that complies with the required criteria according to the law. Bidders can only be disqualified after the opening act and after supplying support documentation with explanation.</p>
<p>When evaluating hospitals, evaluation committees do not comply with the law in several areas. Committees have too many people and bidders provide the guarantee of bid validity <i>after</i> they are issued a purchase order.</p>	<p>The make-up of the committee should consist of three to five people, according to the law. The guarantee should be enclosed with the bid; failure to deliver the guarantee can result in disqualification. The guarantee cannot be accepted after the deadline for presentation of bids.</p>
<p>In private bids, the evaluation committee disqualifies bidders during the bid opening.</p>	<p>The committee cannot disqualify a bidder during the evaluation activity.</p>
<p>The term of the offer maintenance guarantee in hospital procurement is one year.</p>	<p>The term should include an additional 30 days from the expiration of the bid.</p>
<p>The evaluation and recommendations report by the committee does not contain an analysis of the bids and the criteria used in selection.</p>	<p>Use a model that includes detailed explanations of the process and evaluation criteria.</p>
<p>There was no evidence of support documents to determine the capacity of bidders.</p>	<p>Include in the files all the required documentation subject to evaluation.</p>
<p>Little clarity exists in the timely presentation of guarantees of offer maintenance, fulfillment, and quality.</p>	<p>Train the appropriate personnel involved in hospital procurements.</p>
<p>There is evidence that bids are illegally subdivided.</p>	<p>The law prohibits subdividing contracts to avoid public tenders. SESAL should plan procurements, unify quantities, organize teams to carry out the PACC, and supervise PACC implementation, modifying when necessary.</p>
<p>Only the Procurement Direction at Central Level is authorized to do public bids.</p>	<p>Allow hospitals to do the corresponding bidding processes for purchase of medicines and supplies. Once the committee has decided on the winner, the Minister should approve the process.</p>
<p>The dates programmed and the budgeted values for certain items in the PACC are identical to the amounts paid.</p>	<p>Develop and update an annual PACC. Use it as a monitoring instrument and conduct periodic analyses of planned versus actuals to improve planning.</p>

SEDUC

Table 28: Findings and recommendations from SEDUC procurement evaluation

Finding	Recommendation
No methodology to determine short-lists of providers for direct purchases (three quotes). The same vendors frequently win procurements.	Develop methodology. Reduce employee discretion on how to create short-lists to increase levels of competitiveness.
Extended delays found. In one case 413 days passed from the request of bids to the signing of the contract; 315 days passed between the evaluation report and the signing of the contract.	Identify the causes of the delay to apply corrective actions for future processes.
There is no evidence in some procurement files that the processes were included in the POA and PACC.	Include in every file the evidence that the procurement is included in the PACC as established in the law and therefore every process responds to the POA and is included in the approved institutional budget.
PROHECO does not publish processes in real time on the HonduCompras site. In the main procurement unit, none of the sampled procurements were published.	Publish in real time all procurements on the HonduCompras site as mandated by law to increase bidders and obtain competitive prices.
It is probable that there is fractioning of contracts in printing processes managed by the program Educatodos.	Do only one public procurement for printing with partial deliveries.
The open bid method was not used in the processes that exceed the threshold of the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR).	Apply the corresponding contracting method for the programmed amounts according to the appropriate legal disposition.
The school construction unit, General Directorate of School Construction and Real Estate (DIGECEBI) did not elaborate a request for quotation for minor purchases that should contain the requirements and conditions for the presentation and evaluation of bids.	Use a request for quotation that contains the information required by law for an objective evaluation ensuring satisfaction of all criteria (date and time limit, description, quantities, conditions, term, evaluation criteria, form of payment, etc.).
A contracting method called “inverse fairs” was used to encourage small businesses; however, this is not consistent with the law.	Request ONCAE to elaborate regulations for inverse bids, consistent with national procurement law and supplement laws.
There was no evidence of a reception document and an opening of bids document for the processes executed by the DIGECEBI.	Elaborate a reception document and an opening of bids document for all processes involving quotations to verify how many and which bidders delivered their bids on time.
Some procurements from PROHECO and EDUCATODOS do not specify a correlative	Assign a correlative number to each process.

Finding	Recommendation
number for the process and the files do not include the Budget assigned for the purchase.	

ANNEX III: TSC AUDIT CONCLUSIONS, RECOMMENDATIONS AND INSTITUTIONAL RESPONSE (Q14)

DEI/DARA

Table 29: DEI/DARA audit conclusions, recommendations, and institutional response

Conclusions	Recommendation	Institutional response
Control processes		
There is no evidence that the alerts in the Customs Risk Module through the Unique Customs Declaration are supervised; the gauges are not supervised.	Establish a procedure to monitor the alerts as part of the inspection of the commodities that enter the country.	There was not a response from DEI/DARA addressing each conclusion, but in the 2017 follow-up by TSC, there has been a partial execution of this recommendation.
The gauging officers check containers simultaneously and counting of commodities is not done effectively.	Optimize procedures for customs clearance, supervising seals, and appropriate inspection of commodities.	This recommendation has not been executed as of the 2017 follow-up done by TSC.
Insufficient equipment to conduct inspections during customs clearance.	Provide customs nationwide and other users in the customs process with sufficient personnel and equipment to support their activities.	This recommendation has not been executed as of the 2017 follow-up done by TSC.
Human resources		
DEI doesn't have a human resources employee handbook to describe positions, classifications and job descriptions.	Elaborate, approve and implement an HR Employee Handbook for DARA according to the real needs and current structure of the agency.	This recommendation has not been executed as of the 2017 follow-up done by TSC.
DEI has a draft version of a Regulation for Incentives and Employee Performance without	DEI should immediately approve the Regulation for Incentives	This recommendation has not been executed as of the 2017 follow-up done by TSC.

Conclusions	Recommendation	Institutional response
<p>approval, therefore the procedures to evaluate employee performance are not clearly established.</p>	<p>and Employee Performance, apply it and socialize it.</p>	
<p>Personnel within DEI have been changed to different working positions without an official communication and others with a memorandum but without specifying the length of time they will work on an interim basis, all this without notifying Human Resources Department so they can formally notify the personnel.</p>	<p>Give instructions to Directors and Chief of Departments that any personnel change they make should be notified to Human Resources Department to make an official action.</p> <p>To whom corresponds: Conduct a registry of personnel who have been changed from their former positions to legalize their current one.</p> <p>To DARA: immediately accomplish the instructions given by Human Resource Department in relation to the communication and formalization of the transfers and changes of personnel under the agency.</p>	<p>This recommendation has not been executed as of the 2017 follow-up done by TSC.</p>
<p>The guidelines, criteria, and proceedings for control of personnel and other human resources activities have been established by every coordinator and chief of department and not the HR department.</p>	<p>To whom corresponds: Elaborate an official proceeding to define all personnel actions towards HR department.</p> <p>Give instructions to Directors, Chiefs and Responsible for departments, areas and, sections, that all guidelines, instructions, proceedings should be properly communicated to their staff in a timely manner.</p>	<p>This recommendation has not been executed as of the 2017 follow-up done by TSC.</p>
<p>The payroll and attendance reports are not standardized among the different customs offices (HR department hasn't officially issued a template); there is no monitoring of the information sent in these reports as well.</p>	<p>Design and implement a standard template for payroll and send it to all custom offices; implement a process to check and verify the reports elaborated by the human resource sub offices.</p>	<p>This recommendation has not been executed as of the 2017 follow-up done by TSC.</p>
<p>Personnel don't wear their ID card and some ID cards are not updated.</p>	<p>Update all the ID cards for DARA personnel; establish the proceeding to carry it in a visible</p>	<p>This recommendation has not been executed as of the 2017 follow-up done by TSC.</p>

Conclusions	Recommendation	Institutional response
	manner always and any sanctions for non-compliance.	
IT and infrastructure		
Facilities in bad condition (moisture, electric hazards, animal plagues) and insufficient and deteriorated furniture and equipment.	Develop a short and medium-term investment plan to improve and renew facilities, equipment, furniture for all customs offices, and search for internal or external financing.	This recommendation has not been executed as of the 2017 follow-up done by TSC.
The storage areas are insufficient and inadequate for the organization and conservation of public documents from customs offices.	Request the budget to repair and equip the offices where DARA operates.	In the 2017 follow up done by TSC there has been a partial execution of this recommendation.
Some properties of DEI are not properly legalized because they either don't have a public deed or are not registered in the Property Registry.	Register the properties belonging to DARA in the Property Registry to obtain the public deed and cadastral code.	This recommendation has not been executed as of the 2017 follow-up done by TSC.
DEI works with expired software licenses or that they belong originally to another institution.	Update all expired licenses and purchase a technological insurance to protect the databases that contain institutional information.	This recommendation has not been executed as of the 2017 follow-up done by TSC.
There is policy to control access to the information systems that is neither approved nor socialized.	Approve and publish the Policy to Control Access to the Information Systems to exert control and security over the collection systems in the DEI.	This recommendation has not been executed as of the 2017 follow-up done by TSC.
There is no chain of custody for the extraction of samples; this can't guarantee that the physical and chemical results are reliable.	Strengthen the supervision of the customs laboratory, establishing and approving the procedures for the extraction, packaging and results of samples.	This recommendation has not been executed as of the 2017 follow-up done by TSC.

Road Fund (Fondo Vial – FV)

Table 30: FV audit conclusions, recommendations, and institutional response

Conclusions	Recommendation	Institutional response
FV is not maintaining the roads in acceptable condition and lacks basic performance indicators to measure effectiveness or measures of costs.	Establish performance indicators for each management unit and include them in the POA.	FV reports challenges in measuring performance.
FV has a process for selecting maintenance projects but it lacks an inventory of the current state of the network to use these criteria.	Ensure REGIOPLAN's compliance with its contract and the development of the current state of roads and needs.	FV interviewees contended that the state of the network was in constant flux, particularly the non-paved parts of the network and felt that REGIOPLAN was compliant with this aspect of the contract.
Low quality maintenance work with completion outside of contract timelines.	Given supply chain problems that cause low quality and delays, procurements should require back-up sources of supplies.	FV provides various justifications depending on the case.
Poor planning in the maintenance of non-paved roads and a lack of coordination with work with micro-businesses. Not carrying out programmed work and contracts for projects never signed.	Conduct an analysis of projects completed against projects planned and improve the planning process.	FV did not consider this a case of poor planning. The planning for 2015 was ambitious and contingent on pooled funds from a variety of sources, including municipalities and the Tourism Institute. FV did its procurements based on these funding sources, but in the end the funds did not come through. As a result, FV only signed some of the contracts and pushed the others into the following fiscal year. As a result, no major changes are expected.
FV doesn't verify the work of the verification contractors, which is required to verify all contracts but only does a small sample. No cost-benefit analysis was conducted to contract out verification firm.	Conduct a cost-benefit analysis prior to contracting out a verification firm again. Establish controls to ensure compliance.	Interviews confirm that verification firm is not a good value for money; however, interviewees were skeptical that change would occur. The institution's creating legislation specifically mentions contracting with a firm to conduct verification audits. The incumbent firm has won the contract every time since 2000. The one time that they lost, they challenged the results in court and were given the contract.

Conclusions	Recommendation	Institutional response
FV generated 9,807 jobs of a target 12,000 and fostered the creation of 21 micro-businesses against a target of 26.	Set realistic expectations in the planning process.	-

ENEE

Table 31: ENEE audit conclusions, recommendations, and institutional response

Conclusions	Recommendation	Institutional response
Planning and investment to control and reduce losses		
The ENEE did not carry out the investment called for in its plan to reduce losses.	Invest the required funds.	No response.
Actions to reduce losses		
There is no mechanism to report anomalies in the electricity consumption registry to the Energy Regulatory Commission (Comisión Reguladora de Energía – CREE).	Implement procedures to inform CREE to ensure that sanctions and fines are applied.	ENEE contends that it is the CREE's responsibility to request this information.
Some beneficiaries of social electrification programs do not have meters.	Ensure that meters are installed, and customers are billed.	Heads of the system should follow the procedures to disconnect customers without meters.
Meters do not comply with technical specifications.	Ensure that products comply with technical specifications before reception.	No response.
In 2014 and 2015 there were insufficient meters to meet demand.	Ensure sufficient meters to meet demand accounting for defects and maintenance problems.	No response.
During 2014 and 2015, ENEE had to correct a significant number of bills because of billing errors.	Improve billing processes.	No response.
Systems for energy management		

Conclusions	Recommendation	Institutional response
Newly procured Commercial Management and Incident Management systems were not being used in their totality.	Use the recently acquired systems and ensure that ENEE maintains rights over the databases.	No response.
ENEE is unable to measure losses because meters on the distribution network do not work.	Establish a trustworthy system of metering that allows for a precise measurement of electricity losses.	No response.
Organizational structure		
ENEE lacks the information systems or personnel to supervisor the operator EEH.	Create a management system involving information systems and human resources, to oversee EEH.	No response.
Contract between ENEE and the operator		
An economic analysis of a contract of a PPP focused on reducing electricity losses shows no financial improvements.	Renegotiate the contract to reduce costs.	Points out that optimistic scenarios of the analysis do show financial improvements.
Design of generation projects		
Major delays and cost increases in the hydroelectric plan Patuca III.	Ensure compliance with the workplan to ensure generation by 2018.	The financial information used by the auditors is incorrect. There have been delays; however, these stem from the fact that the contractor is Chinese, without experience in Honduras or diplomatic ties between the two countries.
Contracting electricity generation		
The procurements for private sector generation did not follow international standards. For example, ENEE did not establish a price.	Comply with the General Law of the Electricity Industry.	No response.
Administrative economy, efficiency, and effectiveness		
ENEE purchases electricity from suppliers beyond contracted amounts without regard for cost.	Use the National Interconnected System to purchase the lowest cost electricity.	No response.

Conclusions	Recommendation	Institutional response
ENEE has signed 100 contracts not considered in expansion plans. These purchases are not based on demand projections and have resulted in an over-contracting of 1,661MW.	Avoid contracts that contribute to over-installation of capacity. Restrict new contracts to renewable resources.	No response.
The supply of services is not done in accordance with the contracts, leading to higher costs.	Demand that private generators deliver reactive energy as stipulated in the contracts.	No response.
The Vegona Dam undermines the efficiency of El Cajón hydroelectric plant.	Given priority to El Cajón.	ENEE recognizes the problem.
The Central Ceiba is not properly maintained.	Prioritize maintenance in Central Ceiba.	No response.

INA

Table 32: INA audit conclusions, recommendations, and institutional response

Conclusions	Recommendation	Institutional response
Property titles		
INA doesn't accomplish the objectives of their annual operative plan (e.g. accomplishment of 27 percent in providing property titles; 0 percent in some geographic regions while an over execution of 49 percent in other regions).	The planning director should keep a continuous monitoring of the programmed objectives in the annual plan versus the executed objectives.	There is a follow-up to property title processes in all regions, still there are conflicts that need to be solved before approval like usage of land, internal conflicts in farmer associations, lack of legal constitution, or conservation areas.
Some property titles were handed in without evidence of having paid the corresponding fees to INA.	Give instructions to whom it concerns to make sure that all fees are paid before a property title is handed in.	A database is being developed to have reliable information of fee payment, because when payments are completed, the property title is given to the owner.
The inventory for rural private national and communal property is not registered or updated.	The rural register manager should update the inventory to proceed and allocate the land to the beneficiaries of the agrarian reform and it is certain that the lands belong to INA.	The property database is under construction; all properties purchased throughout the different managements have been identified and researched in the property registry; we are waiting for the budget to

Conclusions	Recommendation	Institutional response
		proceed to identify and geo-reference them on the field.
Agrarian debt		
In the contracts and agreements between INA and property beneficiaries there are accounts receivable still pending corresponding to debts and interest moratorium.	The debt manager should develop policies and procedures to collect debt according to the terms established in the Law for Agrarian Reform and the contracts and agreements signed.	There was no response from INA.
The database that collects information on agrarian debt has deficiencies: negative balances, titles given for free that appear with money values, titles paid in full that appear with debt, and individual titles that appear as group titles.	Give instructions to whom it concerns to monitor the database and provide quality control to the information in it to have reliable data.	The database doesn't have the necessary technological conditions; it is obsolete and sometimes has lost information and changes.
Accounting should have debugged and valid information regarding agrarian debt; they are not included in the institution's financial statements.	Give instructions to whom it concerns to incorporate the total outstanding agrarian debt in the financial statements and from there carry on collection procedures; have a reliable database to introduce the correct amount.	Currently there is no registration of the total outstanding agrarian debt in the financial statements (accounts receivable); several consultancies have been procured to introduce the accounts receivable in SIAFI.
Enterprise conversion		
The resources for the National Agricultural Project were only used in one department leaving outside thirteen other that were also included in the project profile.	Give instructions to whom it concerns to invest the resources of the project equitably in all the departments according to the project profile.	In previous years the project had more funds to be invested; there was a reduction of approximately 90 percent of the budget for this project.
The resources of the projects should be executed for the purpose they were created; the resources of the projects were mainly used to pay employee salaries or institutional expenses.	Give instructions to whom it concerns to invest the resources of the projects to accomplish their objectives and benefit the population from the Agrarian Reform Law.	The accomplishment of the projects' objectives has been affected by the budget deficit of the institution regarding salaries.
Human resources		
The human resources manual needs updating; some positions described in the manual are not	Give instructions to whom it concerns to define job profiles	INA has a defined organizational structure; the chart doesn't reflect all positions because they

Conclusions	Recommendation	Institutional response
included in the current organizational chart, the functions are not defined according to the structure of the institution.	according to the organizational structure.	have been organized by functions; this chart is being updated to match the manual; some positions may still be subject to change.
INA should implement a permanent evaluation of employee performance.	Give instructions to whom it concerns to implement a performance evaluation procedure according to the organizational structure.	Performance evaluations were not being done because there was no training and evaluation department functioning. In mid-2015 this department was established.

ANNEX IV: ASJ FINDINGS, RECOMMENDATIONS, ACTIONS TO BE TAKEN, AND STATUS (Q15)

26.1 SEDS Procurement

In their 2015 report, ASJ explored two procurements in depth, the purchase of bulletproof vehicles and rehabilitation of police posts, and had the following findings:⁹⁰

- Only 68 percent of the procurement information requested could be or was provided.
- SEDS bought bulletproof vehicles without a market study and paid a higher than market price.
- Fourteen bulletproof vehicles were purchased, despite the fact that only 5 were authorized and only four stayed with SEDS; the others were distributed to other agencies.
- Procurement files did not include a report from the evaluation committee.
- The bid evaluation committee was improperly constituted.
- The bid period for a construction project was an insufficient 15 days.
- The winning firm, whose price was not technically the lowest, was given the opportunity to clean up its proposal, a benefit not extended to other bidders.
- Despite numerous irregularities, there was no evidence of any internal audits into procurement.

⁹⁰ Asociación para una Sociedad más Justa (2015). Informe de Línea de Base de la Secretaría de Seguridad. Retrieved from: <http://asjhonduras.com/ti-asj/resultados-secretaria-de-seguridad/>

Table 33: SEDS procurement: Recommendations, actions to be taken, and status

Recommendation	Action to be taken	Status
Conduct market studies of goods to be purchased.	Market studies were not to be conducted in the medium term; however, all goods in the PACC were also to be included in a database in the SAP as a preliminary step.	This was not done as of ASJ's monitoring. In an interview, SEDS noted that it was ONCAE's legal responsibility to conduct such market studies. The institution did note that it had conducted some market research on the price of vehicle oil and reduced expenditures on oil as a result. They have requested ASJ support for conducting future market studies.
Develop and implement procedure documents for tracking and management of assets (e.g. firearms, vehicles) throughout their lifecycle.	Five draft protocols to be developed for vehicles, firearms, office materials, tires, and uniforms.	A manual for managing resources has been developed and is in use. Goods are tracked through the SIG, allowing the Secretariat to individually track vehicles, arms, and other goods.
Require that all persons serving on evaluation committees complete a course on procurements.	SEDS planned to create a new Procurement and Contract Management Unit and ensure personnel were trained. As of 2015, procurement was done by diverse units within SEDS.	This ten-person unit was created in September 2016, centralizing authority for procurement. Purchase requests are made at the departmental level, automatically checked against the budget using the SIG, purchased by the centralized unit, and distributed to one of over 40 storage facilities. In addition, fifteen procurement personnel were trained in an 80-hour course in 2015 through the Universidad Tecnológica Centroamericana (UNITEC).
Schedule and conduct internal audits on procurement processes.	Develop an annual operational plan for the Internal Audit Unit.	An operational plan was developed; however, the Unit contended that it did not have authority/responsibility. The Unit committed only to observing the opening of bids and conducting financial audits. As such, ASJ's recommendation has not been implemented.
Use a point or percentage-based system in evaluating bids.	Include percentage or point-based evaluation criteria in all bid documents and use in evaluating all bids.	Points or percentages were only included in 5 of 43 bids in the period examined by ASJ in follow-up work. These points were used by the evaluation committee in all five of the cases where there were included.
	Post all procurements to HonduCompras.	ASJ finds in their follow-up that all procurements were correctly posted to HonduCompras.

Source: Developed by the authors based on ASJ reporting and interviews

26.2 SEDS Human Resources

The ASJ team conducted an analysis of the laws governing HR management in the police and the Secretariat, reviewed HR management documentation for completeness, audited a sample of hiring personnel files for completeness (115 in 2013 and 115 in 2014), and audited a sample of the same size of discharged personnel files for completeness. The research found the following:

- The 1998 legislation was outdated, and piecemeal legal reforms lacked necessary supporting regulations, leaving a number of legal gaps.
- There was no accurate census of the police force, and data was poorly maintained and secured.
- In a review of police files for incoming recruits, none had undergone polygraphed based vetting, 43 percent lacked a review from the Police Career Evaluation and Investigation Department (Dirección de Investigación y Evaluación de la Carrera Policial - DIECP) in 2014, and 100 percent lacked a review in 2013. 80 percent of files did not include graduating documentation from police training institutions.
- There were serious concerns about inconsistencies in the firing processes undertaken by DIECP, which lacked legal authority to carry out the firings. The review of discharged personnel found only 10 percent and 9 percent compliance for 2013 and 2014.
- Overall, ASJ concluded that Security was 30 percent compliant with HR management criteria in 2013 and 33 percent compliant in 2014.

Table 34: SEDS human resources: Recommendations, actions to be taken, and status

Recommendation	Action to be taken	Status
Reform and approve the Organic National Police Law and the Police Career Personnel Law and supporting regulations.	Develop draft bills of the two pieces of legislation.	Draft bills were developed on time. An updated Organic National Police Law was passed by Congress in May 2017 and an entirely new Police Career Personnel Law was passed in August 2017. Both will go into effect when published in the official gazette, which is expected in January 2018. The latter creates an improved mechanism to investigate and fire police not apt for the job while also offering positive incentives to other police and improving the selection, training, and promotion process. The Special Commission, with the participation of ASJ personnel outside of the TCP, played an important role in the development of the legislation. If implemented properly, this could represent a major reform to human resources and address the finding in the ASJ

Recommendation	Action to be taken	Status
		baseline report related to improper hiring and firing of employees.
Develop strategic HR plan with growth and cost projections.	Acquisition of ERP software and utilization of five HR modules.	As noted above SEDS has acquired the SIG and is now using the new HR modules, including personnel management and payroll, which has the potential to dramatically improved human resource management. For example, the secretariat conducted an agency census in November 2016, one of the original recommendations of the ASJ baseline report and is now able to prepare payroll in less time with far better controls, addressing the concerns with the payroll identified in the baseline report.
Establish procedures for the correct flow of information.	Develop HR procedures manual and train personnel in the procedures.	At the time of the follow-up report, SEDS had not yet developed the manual.
Develop and implement a new process to evaluate personnel, allowing for terminating police when necessary.	Recruit and train individuals to integrate a polygraph unit and develop a protocol for selecting new personnel and evaluating existing personnel.	At the time of the follow-up report, SEDS had recruited 38 people to form a new vetting unit but was waiting on legislative changes to advance further. The new unit, the Department of Police Disciplinary Affairs (Dirección de Asuntos Disciplinarios Policiales - DIDAPOL), will replace the existing DIECP and will be responsible for investigating allegations of police misconduct, vetting incoming police and evaluating existing police. Police will be required to pass a variety of tests including drug, psychological, polygraph, and asset verification.
Promote citizen participation, creating mechanisms for greater transparency and accountability.	Develop the police personnel oriented towards citizen participation. Develop a psychology department and review psychological testing.	See previous.

Source: Developed by the authors based on ASJ reporting and interviews

26.3 SEDUC Procurement

In their 2015 report, ASJ explored five procurements for computers and software, and four for textbooks and other materials, and had the following findings:⁹¹

- SEDUC bought computers and 10 mobile laboratories without a market study and paid a higher than market price.
- The bidding document for the laboratories included highly restrictive technical specifications that only one bidder could comply with.
- The evaluation committee did not follow the formal evaluation criteria established in the bidding document and was improperly constituted. There were also conflicts of interest in the evaluation committee and goods reception committee.
- There were failures to enforce penalties stipulated in the contract for late deliveries and for non-compliance with the contract. There was inadequate documentation in the delivery and acceptance of goods.
- SEDUC bought textbooks through an international public procurement to companies who did not have sufficient documentation to win the bid (i.e., references, sworn declarations, evidence of previous contracts above USD \$1 million, financial statements) or to sign the contract (i.e., tax declaration, evidence of no lawsuits against the GOH).
- There was a 10 percent increase between each contract without justification.
- The contracts did not have the minimum required clauses and they were not registered in ONCAE.
- There was non-compliance in the distribution of texts in some schools nationwide, including textbooks with mistakes. There was no evidence of any sanctions.

Table 35: SEDUC procurement: Recommendations, actions to be taken, and status

Recommendation	Action to be taken	Status
Develop and implement guides, manuals or protocols that describe the process of storage and distribution of assets in the warehouse.	Develop a Procurement Manual for all types of processes to include procedures for all stages of storage and distribution of assets.	A draft of the Procurement Manual has been developed and it includes a section about asset management and procedures for storage and distribution.
Require that all persons serving on evaluation committees complete a course on procurements.	Train 20 personnel from the General Procurement Unit and 10 from the Administrative-Financial Unit requesting support from ONCAE.	Eight personnel from the General Procurement Unit have been trained by ONCAE.

⁹¹ *Ibid.*

Recommendation	Action to be taken	Status
Use a point or percentage-based system in evaluating bids.	Include percentage or point based evaluation criteria in all bid documents and use in evaluating all bids.	The General Procurement Unit has been revising the percentage-based evaluation criteria. Not yet implemented.
Establish new agreements with civil society for the accompaniment and evaluation of procurements.	Sign two subscribed agreements with civil society at central and non-central levels for procurement oversight.	SEDUC has sent invitations to different civil society organizations to establish an agreement so they participate in their procurements.
	Post all procurements to HonduCompras.	ASJ finds in their follow-up that more procurements are being posted to HonduCompras but there still need for a major improvement.
Schedule and conduct internal audits on procurement processes.	SEDUC will develop a standard procedure for each type of procurement and all files will have a control sheet.	Control sheets have been developed but they have only been used in one procurement so far.
	SEDUC will develop a revised and updated Internal Audit Annual Plan.	There is an Internal Audit Annual Plan that for the first time includes the stages of selection and adjudication in procurements.

Source: Developed by the authors based on ASJ reporting and interviews

26.4 SEDUC Human Resources

In their 2015 report, ASJ compared the onboarding and removal process of 352 personnel (teachers and department directors) in three departments, Choluteca, Ocotepeque, and Francisco Morazán, at two points in time, 2011 and 2014, and had the following findings:

- SEDUC officials report that all hiring documentation from 2011 in Francisco Morazán was burned. In 2014, 1,332 teachers were approved despite not reaching the legally required score of 75 percent on a knowledge test, and 249 of these were hired by SEDUC.⁹²
- Regarding the hiring process in Choluteca in 2011, two teachers were replaced by their children, who did not meet the requirements. In 2014, 63 percent of the evaluated files presented anomalies.

⁹² SEDUC contests this finding noting a disagreement with ASJ on the scoring procedure.

- Regarding the removal process, eight people were fired for disciplinary violations in 2011 and sixty in 2014. Out of these sixty-eight, only one was fired irrevocably, so the rest are considered suspended. This suggests an inadequately robust disciplinary regime for an institution with over 70,000 employees.
- Because of lack of clarity in the law, Departmental Directors are appointed by the Secretary of Education with little restrictions or oversight, resulting in incentives for patronage and corruption.

Table 36: SEDUC human resources: Recommendations, actions to be taken, and status

Recommendation	Action to be taken	Status
Create a new Teacher Management System.	SEDUC was going to make a Diagnosis of the current human resources management system as a baseline to strengthen processes.	There are no advances, but it is expected that once the agreement is signed between SCGG and SEDUC the actions will be executed.
Digitization of all files relating to director and teacher contests, as well as all teacher personal files.	Develop a protocol for the management of the scanned files.	SEDUC has designed a project to organize and digitize all teacher files. This project lacks an official regulatory support and there is no participation of civil society expected.
	Draft two budget proposals to buy scanning equipment for the decentralized levels of SEDUC.	The project will start with a pilot test in four department directions before going nationwide. It has a budget estimation and it is proposed to start with Islas de la Bahía.
	Train 44 personnel from SEDUC central unit in management of files.	260 personnel from SEDUC central unit have been trained in management and conservation of files.
Design and implement a teacher hiring system executed by the Civil Service General Direction.	Develop 100 percent of contests according to the Fundamental Education Law, the Civil Service Law and its ruling.	SEDUC hired interim teachers in the 18 department offices. Only one of the departments showed evidence of participatory processes of these hiring.
Develop contests for the position of Department Directors.	Appoint a committee to develop the contest.	There was a committee appointed to develop two contests. The first one for Department Directors and the second one for Department Secretaries. There was participation of civil society in both contests. The process was suspended three times at request of civil society members because SEDUC was unable to provide evidence of credibility and transparency of the process. At the end the

Recommendation	Action to be taken	Status
		process was completed, and they hired 15 out of 18 department directors needed, and 10 department secretaries out of the 18 needed as well.
Incorporate legal norms, plans and reports to help guarantee good governance in SEDUC.	Publish 100 percent of the department directors and secretaries hiring processes on the transparency website. Publish 100 percent of the teacher hiring processes on the transparency website. Civil society participates in 100 percent of the interim teacher competitive hiring processes. Civil society participates in 100 percent of the contests to hire personnel working in the Direction levels.	SEDUC has published the latest processes on the transparency website.

Source: Developed by the authors based on ASJ reporting and interviews

26.5 INSEP Procurement

Table 37: INSEP procurement findings

Previous requirements	Across all private procurements, including those not in the sample, in 94 percent of cases, only three bids were solicited. Although the law only requires three bids, ASJ considers this contrary to the spirit of the law, as the law promotes a principal of competition and provides three as a minimum.
	In one procurement, the winning bid's budget was the exact amount budgeted for the works and just below the ceiling for a public procurement. Furthermore, after award, the contract included a modification that brought the total above the ceiling.
	They find a lack of proper authorizations, lack of an approved POA and PACC, and lack of evidence in procurement files that procurements were accounted for in the PACC.
	There is no mechanism to prioritize and select projects and strong evidence of targeted political and patronage-based spending.
Procedures for contracting	Evaluation commissions are not officially named and in at least one of the nine cases had insufficient members.
	Procurement files did not have an adjudication resolution.

	Evaluation criteria were not clear and in three of the nine cases the winning bidder did not have the lowest price, despite lowest price structured procurements.
Internal control	No internal audits were conducted despite obvious red flags including 12 private procurements (from the total universe) that exceeded the threshold for public procurements, 102 construction contracts without a required supervisor, and possible cases of subdivisions.
Administrative sanctions	Despite the irregularities, there were no administrative sanctions.
Citizen participation	There was no citizen participation or oversight of the procurement process.
Prequalification	The law requires annual prequalification processes; however, none has been done since 2014. There were 199 contracts to firms that were not prequalified and no good registry of prequalified firms.
Transparency	ASJ obtained 71 percent of the information requested. As occurred in past reports, INSEP came forward with additional documentation after the draft report was produced. As agreed to prior to the report to encourage timely and complete information sharing, ASJ did not take this additional information into account in the report revisions. This was strongly opposed by interviewed INSEP personnel, as they felt that the new documentation would have reversed some of the findings.
	Of the universe of procurements (783), 402 or 52 percent were posted to HonduCompras. While procurements for the WB were more frequently on the platform, two of the eight procurements (25 percent) were also not on HonduCompras.
	95 of 175 contractors (53 percent) were not registered with ONCAE.

Source: Asociación para una Sociedad más Justa (2017). Borrador: Informe de Línea de Base de la Secretaría de Infraestructura y Servicios Públicos.

26.6 INSEP Human Resources

Table 38: INSEP human resources findings

Hiring	87 percent of new hires examined joined under a labor category of “day laborers;” however, within a year they obtained all the benefits of permanent employees.
	Over the three-year period there was not a single merit based public hiring process as required by the law. Instead hiring is done based on a solicitation from the head of the agency, a practice enshrined in HR’s labor manual.
	There are inconsistencies in documentation between payroll and hiring and termination files.
	There is evidence of political based hiring, noting: “the entity favors activists of the political party in power with jobs in this secretariat.” (pg.153)
Termination	80 percent of terminations were not properly justified. There was no documentation of citations or discharge hearings. The report concludes that the firings lacked legal pretext.
	The report finds light sanctions for what the authors consider serious disciplinary violations (e.g. marijuana consumption, drunkenness, unjustified absences).
	During the three-year study period, the courts ordered 324 terminated employees to be re-hired because of improper termination (around 16 percent off the total terminated) and HNL 4.6 million paid in back wages.
Control of personnel	In the first of surprise visit to identify workers in their assigned workplaces 57 percent of 71 selected employees could not be verified, and in the second, 35

	<p>percent of 75 selected employees could not be verified. Only 5 percent of the absences could be justified by superiors.</p>
	<p>There is a lack of administrative controls, including personnel files are dispersed; most employees arrive late; and there was a case of one employee who earns a salary of Supervisor General but really runs a small convenience store on the property.</p>
	<p>There are concerns of abuses of authority, and institutional leadership typically arrive late to work. More concerning is the power of the union, which appears to protect many of the HR irregularities.</p>

Source: Asociación para una Sociedad más Justa (2017). Borrador: Informe de Línea de Base de la Secretaría de Infraestructura y Servicios Públicos.

26.7 SESAL Procurement

In procurements developed only by SESAL, ASJ found the following:

- Across all procurements there were no market studies, price reference analysis, effectiveness or quality studies, or value for money studies.
- Some procurement files were incomplete, and did not include opening proceedings, notifications of awards, purchasing orders and contracts, guarantee of compliance and quality, records of receiving products, warehouse records, inventory and distribution of products.
- There was no evidence of receiving 67 percent of the products from the evaluated processes.
- In one procurement, there was evidence that a vendor delivered the products 26 days late, however, there was no evidence of any penalties.
- In one procurement, there was evidence that the evaluation committee modified the quantity requested for a product, therefore increasing the total value of the purchase.

In procurements involving SESAL and the fiduciary bank, ASJ found the following:

- Several omissions in the trust agreement between SESAL and the banks including, (a) important terms in the contract (e.g. immediate deliveries), (b) record keeping for products reception, (c) publishing in HonduCompras, (d) storage of documentation for audit processes, (e) minimum requirements for membership on the Evaluation Committee or the Technical Committee of the Trust, or (f) the evaluation mechanism or the criteria to evaluate the bids.
- Neither SESAL nor the Technical Committee have Rules of Procedure to administer the trust.
- There is no file that contains all the information of the process; instead, every stakeholder has a partial file according to their responsibilities.
- The trust agreement and the purchase contracts were not sent to the TSC.
- In one process with the trust fund there is no evidence of sanctions for late deliveries.

In procurements between SESAL, the fiduciary bank and UNOPS ASJ found the following:

- On one procurement there was no State Emergency Declaration that legally supports the direct purchasing method used.
- A lack of transparency in the evaluation stage from UNOPS, as this organization did not publish any information from the procurements to HonduCompras or other mechanism.
- SESAL does not demand that UNOPS comply with what was established in the agreement (e.g. training to SESAL personnel, follow-up on contract management issues with vendors).
- Vendors who had non-compliance records for three consecutive years were still awarded procurements.
- There was no bidding document for one direct procurement process.
- In one process they did not request a sanitary registration or quality certificate and they did not conduct testing of products.

Table 39: SESAL procurement: Recommendations, actions to be taken, and status

Priority area	Recommendation	Action to be taken	Status
Previous requirements	Plan purchases by doing market studies for all types of procurements and origin of the funds to guarantee competitive market prices and responds to needs.	Develop a market price study and quotations to provide support to the POA and PACC.	SESAL has developed a database that describes the products they purchase along with a price reference and a list of vendors. ASJ expects a more comprehensive study than what is shown so far.
		Develop a document outlining good storage practices, including reception, handling and distribution.	SESAL will implement the Central American Technical Regulation for pharmaceutical products, medicines for human use and good storage and distribution practices.
Procedures for contracting	Use a point or percentage-based system in evaluating bids.	Include percentage or point based evaluation criteria in all bid documents and use in evaluating all bids.	SESAL has developed an Excel sheet that organizes the procurement by code, backup processes, complies or not complies, observations; however, ASJ still has not seen this sheet included in any bidding document.
	Demand that all personnel working in procurement units as well as participating in evaluation committees complete ONCAE's	At least 60 percent of personnel working in procurements are to be trained.	At the time of data collection, SESAL showed ASJ diplomas for only two personnel.

Priority area	Recommendation	Action to be taken	Status
	formal training course on procurements.		
Internal control	Schedule and conduct internal audits on procurement processes; reactivate and strengthen the audit unit in SESAL.	At least 80 percent of planned audits should be conducted on procurement processes.	SESAL presented ASJ a memo establishing that audits will be done to procurement processes, but it is still not clear how many processes will be incorporated in the annual audit plan.
	Develop an evaluation report of the agreement between UNOPS and the fiduciary bank before subscribing a new one. Identify other capacity building mechanisms to strengthen SESAL.	Produce two evaluation reports, one with the fiduciary bank and another with UNOPS.	SESAL presented ASJ a memo sent to UNOPS to begin the evaluation of the agreement. There is no information regarding the evaluation with the fiduciary bank thus far.
	Establish a unique procurement file that includes all stages of the process.	Every procurement process is to have a unique file with all information in it from all stakeholders included.	SESAL has been uploading more procurements to the transparency and HonduCompras portals but there still not a unique file because of the way the IT system works. ASJ will ask in the future for the paper files.
	Improve the receipt, counting, and quality system in the warehouse, as well as the input and output system for medicines.	90 percent of high-volume products are to be delivered directly to prioritized hospitals.	ASJ did not find any evidence that this action has been started.
Transparency	Publish all contracts on HonduCompras, and the ones that involve the trust agreement should be sent to the TSC.	All contracts procured only by SESAL are published in HonduCompras and Transparency Portal. At least 80 percent of contracts between vendors and the fiduciary bank are also to be published.	ASJ found that SESAL is publishing contracts in HonduCompras and the Transparency Portal, however, they cannot calculate the ratio because they do not know how many contracts have been effectively subscribed.
		SESAL send to TSC all contracts subscribed between the vendors and the fiduciary bank.	SESAL sent a memo to TSC informing about the contracts and purchase orders. ASJ could not verify the supporting documents with the memo.

26.8 SESAL Human Resources

The study finds several HR concerns that are summarized below:

- Regarding the regulatory framework, the Civil Service Law, other corresponding rules and SESAL’s Internal Regulations, need to be updated (last one was 2014) or complemented with new tools to improve human resource management. SESAL is also affected by two policies established in 2014 from the President’s Secretariat, including a freeze on permanent hires and centralization of hiring decisions. This has made hiring and permanency subject to political affiliations.
- SESAL’s central HR office does not have an exact registry of hiring and cancellations of personnel from the different hospitals and other health units. The central level reported there was no hiring consistent with the executive order, but when ASJ visited the sample of hospitals and other health units found out that they have in fact hired personnel in three different modalities including interim, contract, and permanent.
- Absence of a strategic plan for the distribution and strengthening of human resources.
- Payroll is elaborated in each health unit and then sent to the Secretariat’s offices. Once there, it goes through several units placing it at risk of mishandling and/or manipulation.
- Only two out of eighteen departments comply with the international standard of density of health personnel per population.
- Absence of a mechanism that unifies human resources processes like hiring, training, evaluation, sanctions, and terminations between the different units of SESAL (centralized, non-centralized, NGOs).
- There is no civil society participation or oversight in hiring processes.
- SESAL does not have an internal regulation for human resources that establishes termination procedures according to its different origins.
- Few personnel terminated (e.g. seven out of 211 files evaluated) in an institution with over 23,000 personnel suggests low monitoring levels of their activities.

Table 40: SESAL human resources: Recommendations, actions to be taken, and status

Priority area	Recommendation	Action to be taken	Status
Regulatory Framework	Update the Internal Regulation and human resources procedures manual, applicable to centralized and decentralized health units that clearly defines their relationship with SESAL, human resource and payroll management.	SESAL will draft a Human Resources National Policy.	SESAL has drafted a document called “Talent management policy for the National Health System.”

Priority area	Recommendation	Action to be taken	Status
Clean and efficient payroll	Establish a protocol to manage personnel files; standardize in alphabetical and chronological order; scan all files to keep an electronic and a physical backup.	Conduct a census of personnel in sanitary regions and hospitals and update.	SESAL presented to ASJ an updated census of its personnel with information that includes location, functions and salaries.
Transparency	Establish reliable protocols to manage information needed for reports and databases in central and non-central levels; publish update information to the transparency portal; create internal links between information units to have an updated transparency portal.	Health research agenda will be socialized with the sanitary regions and the NGOs that administer some hospitals.	SESAL has socialized the research agenda with some sanitary regions and one university; it will continue with other health units, universities and NGOs.
	Improve transparency and disclosure processes of information.	Implement merit based public hiring processes and publish monthly the quantity of personnel per hiring type to the SESAL transparency portal.	SESAL has published documents for 17 hiring processes occurring between October 2016 and March 2017 in the transparency portal. (It is not clear if they were merit-based public processes.)
		Certified publication of the names of the winners of the merit based public hiring processes in the transparency portal.	There is no evidence yet of this action.

27. ANNEX V: ILLUSTRATIVE INTERVIEW GUIDE

INFORMED CONSENT:

Introduction: Thank you for taking the time to meet with us today. We are conducting interviews as part of an evaluation of the Honduras Threshold Project, a project of the US government's Millennium Challenge Corporation, which includes technical support to the Government of

Honduras to improve public financial management and public private partnerships. I would like to introduce myself and my colleagues...

Risks and benefits: We do not anticipate that you will incur any risk or direct benefit from participating in this interview.

[For group interviews: Some of our discussion will deal with some potentially sensitive topics, including XXXX. We aim to minimize the risk to discussing these topics openly by ensuring that your responses are kept in confidence by the evaluation team.]

Voluntary participation: Your participation is voluntary. If you do not want to participate or to answer specific questions you do not have to.

Confidentiality: Your responses in this interview will be kept in confidence by the evaluation team. Only the evaluation team will have access to notes and transcripts. Your name or position will not appear in any reporting.

[IF A GROUP INTERVIEW: Please be advised that although the researchers will take every precaution to maintain confidentiality of this interview, the nature of group interviews prevents us from guaranteeing confidentiality. We would like to remind participants to respect the privacy of your fellow participants and not repeat what is said in the group interview to others.]

Public report: We expect to speak with approximately 150 people as part of this evaluation. The information that you and others provide will be used to write an interim report on the Honduras Threshold Project. This will be shared with the Millennium Challenge Corporation and stakeholders for comment and eventually be made publicly available. While the report will be in English the executive summary will be translated into Spanish.

Recording: [If applicable] With your permission, we would like to record this interview. This is mainly because we are doing so many interviews at once, and we want to ensure that we do not misunderstand or misrepresent anything.

Informed consent questions:

- Do you have any questions for us before we get started?
- Are you willing to participate in this interview? Yes / No
- Would you prefer that we do not record or is it ok if we record? Ok to record / Not ok to record

If you have any questions or concerns you may contact the Social Impact Technical Director Daniel Sabet at dsabet@socialimpact.com or James Fremming, the chair of a research body design to protect study participants, at jfremming@socialimpact.com.

ILLUSTRATIVE SEMI-STRUCTURED INTERVIEW GUIDE FOR PFM ACTIVITY 1.1: BUDGET AND TREASURY MANAGEMENT

Question
Could you please describe to me recent progress made in the methodologies being introduced and utilized by DGP during the formulation of the 2017 and 2018 budgets? Especially in relation to the forecasting of expenditure baselines by Secretarías and other institutions (pilots), the aggregate expenditure ceiling-setting process, and the overall MTEF?
How did DGP manage the budget calendar throughout 2016? Were deadlines in the Budget Calendar 2017 adhered to? Were there any challenges? How was the 2017 budget process different than previous budget cycles?
We understand that TCP will soon be supporting you with a resident MTEF advisor. Could you please describe broadly the terms of reference of this consultancy? Which parts of the MTEF will the advisor be focusing on?
Has there been any further progress on fiscal impact analyses (FIAs) conducted? Do you think the methodologies are understood and embedded? Are you using the new templates? Are there any live examples that you could perhaps share with us?
Were any FIAs/fiscal policy options discussed with DPMF and DPT and incorporated into the MTEF during the formulation of the 2017 budget (refer to the official budget calendar)? What about the 2018 budget?
How would you evaluate the support provided by TCP consultants (MTEF and FIA)? Would you say that it was very good, good, fair, poor, very poor? What were the strengths and what could have been more helpful or efficient?
The Dirección Presidencial de Gestión por Resultados was established through Decreto Ejecutivo Número PCM-002-2014, Art. 2º, 3 de febrero del 2014, published on Diario Oficial de la República “La Gaceta” 28th February 2014, Num 33,367, within the Secretaria de Coordinación General de Gobierno (SCGG). How does the DGP now coordinate with the Dirección in relation to the MTEF? Are there formal processes in place in the context of the emerging Sistema Nacional de Gestión por Resultados to coordinate with DGP? What worked well? What didn't work so well or could be improved? What has changed since the baseline evaluation exercise?
At the time of baseline data collection, a number of format changes to the quarterly budget execution reports were in the process of being proposed. To what extent those changes were rolled out, automated, and institutionalized during 2016-17? Could we obtain a copy of one report? What is the uptake by Congress on the new formats? Is further support anticipated in relation to the above activities?

ILLUSTRATIVE SEMI-STRUCTURED INTERVIEW GUIDE FOR PFM ACTIVITY 1.2: PROCUREMENT STRENGTHENING

Question
What do you see as the major differences between this procurement assessment and an audit that would be performed by the TSC or the research that ASJ is conducting?
Could you describe to me the process you undertook including preparation, field work, writing and analysis, agency feedback, finalization? (teaming, milestone dates, time/Level of effort, cost)
Could you tell me about what support was provided by MCC/MCA-H/Procurement advisors?
How would you evaluate the support they have provided? Would you say that it was very good, good, fair, poor, very poor? What were the strengths and what could have been more helpful?
Thinking about your experience conducting procurement assessments, what worked well? What didn't work so well or could be improved?

Question
How would you evaluate the quality of the final reports? Would you say that they are very good, good, fair, poor, very poor? What are its strengths and weaknesses?
Could you describe the follow-up process that ONCAE has? What has occurred to date? Have any or all of the institutions produced an action plan? Could we obtain a copy?
Did you face any pressure to soften your findings or were you able to clearly publish problems identified?
What dissemination has occurred? Are these public? Who receives?
Can you point to any changes as a result of the procurement assessment in terms of improving their procurement processes?
Can you point to any changes as a result of the procurement assessment that could lead to a financial savings for the government or improved services to citizens?
What do you NOT expect to change despite your findings and recommendations? What recommendations will not be implemented?
What are the consequences for an institution that does not implement a recommendation? Are there any?
What are the obstacles to having an impact? (Resources, disagreements about findings, lack of political will, lack of follow-up, corruption)
With several of the findings of irregularities the institution responded by explaining the finding and justifying its actions? (Insert example). What happens with these kinds of cases?
Did you find any evidence that could lead to criminal or administrative charge? What and how was this handled?
How would you describe the impact of the assessment? A major impact, an impact, a minor impact, or no impact?

Principal findings from evaluation reports	Changes realized or expected?	Obstacles to change?	Other comments?
Problems with annual procurement plan			
Organizational/structural problems			
Don't use standardized documentation			
Specifications undermine competition			
Lack of methodology to determine short-lists (private procurements)			
Possible sub-division of procurements			
Insufficient use of HonduCompras			
Problems with evaluation process			
Delays in issuing contracts			

ILLUSTRATIVE SEMI-STRUCTURED INTERVIEW GUIDE FOR PFM 1.3: PERFORMANCE AUDITS

Question
What do you see as the major differences between this performance audit and legal and financial audits you have worked on in the past? (Focus, Level of effort/teaming, Type of impact desired, costs)
Could you help me construct a timeline of the different steps in the process from tasking, to preparation, to field work, to writing and analysis, agency feedback, finalization? Were these times sufficient?
Could you tell me about what support was provided by MCC/MCA-H/ advisors?

Question
How would you evaluate the support they have provided? Would you say that it was very good, good, fair, poor, very poor? What were the strengths and what could have been more helpful?
Thinking about your experience on this performance audit, what worked well? What didn't work so well or could be improved?
How would you evaluate the quality of the final report? Would you say that it is very good, good, fair, poor, very poor? What are its strengths and weaknesses?
Did you face any pressure to soften your findings or were you able to clearly publish problems identified?
With several of the findings of irregularities the institution responded by explaining the finding and justifying its actions? What happens with these kinds of cases?
Did you find any evidence that could lead to criminal or administrative charges? What and how was this handled?
There are a lot of findings in this report and a large number of irregularities. Which in your mind were the most important findings?
Which in your mind were the most important recommendations?
Could you describe the follow-up process that has occurred to date? Did the institution produce an action plan? Could we obtain a copy?
What dissemination has occurred? To your knowledge, has it been cited in the media or used by a civil society organization?
What do you expect to change as a result of the audit? What impact do you expect to have? (Discuss specific findings/recommendations)
What do you NOT expect to change despite your findings and recommendations?
In sum, do you think it will have a major impact, a moderate impact, a minor impact, no impact, or a negative impact?
What are the consequences for an institution that does not implement a recommendation? Are there any?
What are the obstacles to having an impact? (Resources, disagreements about findings, lack of political will, lack of follow-up)
What would you say have been the lessons learned for the TSC in this experience?

Principal finding/recommendation from performance audit reports (Example: Road Fund)	Changes realized or expected?	Obstacles to change?	Other comments?
No inventory of the current state of roads			
Low quality of roads built by contractors			
Contractors do not complete work within contract timelines			
Contracts for work not signed			
No verification of contract completion			
Need a cost-benefit of having a verification firm			
Didn't achieve goals for micro-business contracting			
No technical process for the prioritization of projects			

ILLUSTRATIVE SEMI-STRUCTURED INTERVIEW GUIDE FOR PFM 1.4: GRANT MAKING FOR SOCIAL ACCOUNTABILITY

Question
What do you see as the major differences between your work and government audits?
Thinking about your experience thus far, what has worked well? What didn't work so well or could be improved?
How would you evaluate the quality of the final report? Would you say that it is very good, good, fair, poor, very poor? What are its strengths and weaknesses?
Did you face any pressure to soften your findings or were you able to clearly publish problems identified?
With several of the findings of irregularities the institution responded by explaining the finding and justifying its actions? What happens with these kinds of cases?
Did you find any evidence that could lead to criminal or administrative charges? What and how was this handled?
Could you describe the follow-up process that has occurred to date?
What dissemination has occurred? To your knowledge, has it been cited in the media or used by a civil society organization?
What do you expect to change as a result of your work? What impact do you expect to have? (Discuss specific findings/recommendations)
What do you NOT expect to change despite your findings and recommendations?
In sum, do you think it will have a major impact, a moderate impact, a minor impact, no impact, or a negative impact?
What are the consequences for an institution that does not implement a recommendation? Are there any?
What are the obstacles to having an impact? (Resources, disagreements about findings, lack of political will, lack of follow-up)
What would you say have been the lessons learned for ASJ in this experience?

Principal finding/recommendation from report (Example: INSEP procurement)	Changes realized or expected?	Obstacles to change?	Other comments?
Consistently using only three bids is against the principal of competition			
Possible collusion: With Bella Oriente Hato the bid amount is equal to the budgeted amount			
Possible illegal subdivision of contract			
324 prequalified firms but consistently use the same three			
Procurement plan not approved			
Procurement plan line item not the procurement files			
Political use of funds			
Evaluation committee not officially named			
Files without a resolution of adjudication			
Three cases where the winning bid was the most expensive despite lowest cost procurements			
No internal audits			

Principal finding/recommendation from report (Example: INSEP procurement)	Changes realized or expected?	Obstacles to change?	Other comments?
12 private procurements that should have been public			
102 contracts without a supervisory contract			
No citizen participation			
199 contracts with non-prequalified firms			
9 percent compliance with HonduCompras posting			
92 of 175 contractors not in the ONCAE registry			

INTERVIEW GUIDE FOR PPP (ACTIVITY 2.1 and 2.2): PPP CAPACITY BUILDING AND DESIGN

Question
COALIANZA
Please describe evolution of PPP project identification, evaluation, design, procurement, award and management procedures since last mission.
Please provide copy of any new procedures manuals or guidance which you have adopted in the last 12 months.
Please provide a copy of the most recent organigram of COALIANZA.
Please briefly summarize improvements in PPP procurement process over the last 12 months.
Please identify what you see as the major current barriers to successful PPP procurement.
Please comment on the state of interinstitutional coordination and collaboration, with particular reference to UCF, SAPP, INSEP and others.
Please comment on the quality of the support you have received from the MCC program and from the financial advisors in particular. Are there areas that you consider to still require support?
Please comment on the way in which lessons learned under the first PPP projects in roads have been applied to the latest projects. (Occidente / Sur / Islas de la Bahia / etc.)
Has there been any change in the remuneration formula governing the work of COALIANZA in PPPs?
Please comment on recent experience in the hiring and management of external transaction advisors to work on new PPP projects.
Please comment on what you consider to be the market's response to the PPP program in Honduras since the start.
Has there been any change in the methodology of bid evaluation, providing greater flexibility to assess not only price, but also quality of service delivery?
Please comment on the nature of the financial market's involvement in current PPP projects.
Have there been any major changes in the regulatory environment governing PPP procurement? Do you expect any and if so, when might this happen?
UCF
Please comment on the evolution (human resource, procedural, funding, interinstitutional coordination) of UCF in the PPP process over the last 12 months.
Please comment on the quality of the support you have received from the MCC program and from the financial advisors in particular. Are there areas you still consider requiring support?
Please briefly summarize improvements in PPP procurement process from the point of view of UCF over the last 12 months.
Have you undertaken an assessment of the risks to which the government of Honduras is exposed under existing PPPs and what was the result?

Question
Please provide examples of PPP projects in which you have intervened (successes and failures) and the impact of your interventions.
Please provide examples of any internal procedures manuals or guidance prepared during the last 12 months for the work of UCF, and which have been formally adopted. Have these helped you to address such questions as risk, liabilities, VFM.
Please comment on your relations with other parties to the PPP process.
Have any VFM analyses been conducted? If so, for which projects and what were the results?
Please comment on any other support you may be receiving from e.g. the IMF (CAPTAC), the IADB, World Bank or others.
SAPP
Please comment on the evolution (human resource, procedural, funding, interinstitutional coordination) of SAPP in the PPP post-contract monitoring process.
Please comment on the quality of the support you have received from the MCC program and from the financial advisors in particular. Are there areas you still consider requiring support?
Please comment on the use of sub-contractors for contract management and supervision. Do you feel that the current procedural arrangements are working and providing timely warning of problems arising? In particular that the remuneration of the subcontractors should be a cost borne by the Special Purpose Vehicle (SPV) of the PPP.
At which stage in the PPP project cycle does SAPP become involved? Has anything changed in this respect in the last 12 months?
Please comment on the conduct of PPP contract management and supervisions meetings (frequency, attendance, other considerations).
Please comment on whether more recent PPP contracts show signs of having learned lessons from the early contracts in terms of clarity, enforceability, amendment arrangements, other.
INSEP
Please comment on the evolution (human resource, procedural, funding, interinstitutional coordination) of INSEP's PPP management capacity over the last 12 months. Is INSEP able (in resource terms) to play its full part at every stage?
Please comment on the quality of the support you have received from the MCC program and from the financial advisors in particular (VIVALLOS, ARMIJA, others). Are there areas you still consider requiring support?
Please briefly summarize improvements in PPP procurement process from the point of view of INSEP over the last 12 months. How would you compare the procurement procedures of the most recent projects (CA4, CA5 AND CA13) with your experience on Logistico, Turistico and Siglo XXI? Is INSEP involved at an earlier stage in the project design?
Please indicate what procedures manuals and guidance documents you have received from the MCC program, their current status (formally adopted? consulted only) and areas for which more work is required.
Please comment on the current experience of PPP project and contract management from the point of view of INSEP.
Please comment on the evolution of interinstitutional coordination with COALIANZA, SAPP, UCF or others at the project evaluation, procurement development, award and contract management stages.
Please comment on any changes in such areas as land title acquisition processes on more recent roads PPPs.
Please provide any comments on lessons learned from the first generation of roads PPPs (Logistico, Turistico and Siglo XXI).
Please comment on progress in the preparation of a multi-year road investment plan.

Question
MCA Financial Coach
<p>We would like to start out with a few questions about the “process” as serving as a consultant. Can you confirm the period of performance of your consultancy? [Note: Insert period of time included in the TOR. Note any deviations and the reasons why.]</p>
<p>Was this (or will this be) a sufficient period of time to successfully complete your work, or would you have benefitted from additional time to complete the deliverables and tasks? If no, what would the additional time be needed for?</p>
<p>Much of your work has been with the UCF team. Please comment on the quality and level of expertise of that team for the tasks which they have been given.</p>
<p>Over the course of the months and missions, you have been working on a procedures manual for the UCF, and seeking to gain consensus around their role from other relevant institutions – COALIANZA, SAPP and others. Please comment on the state of advancement of that document and on, where applicable, any resistance you have encountered – whether inside UCF or in other institutions – the conceptual approach which you have proposed.</p>
<p>At various times you have been asked to comment on aspects of existing roads PPPs – e.g. the IMAG of Corredor Turístico, or on the Siglo XXI contract. In these cases, you have also worked in collaboration with other external consultants – VIVALLOS, MEDINA. Please comment on the effectiveness of this mode of work and whether your comments were accepted and acted upon.</p>
<p>At various times you have made proposals regarding the process of determining a project’s PPP “eligibility.” Please comment on the manner in which these recommendations were received and whether they may have improved the manner in which projects are evaluated for potential PPP execution.</p>
<p>In the case of the project “Operación, Funcionamiento, Financiamiento y Administración del Registro de la Propiedad Vehicular”, you provided comments on the financial model prepared by COALIANZA. Please comment on your perception of the quality of the work undertaken by COALIANZA, was this prepared by COALIANZA staff alone or were outside consultants used – and if so, what are your views on the quality of the external consultants being procured by COALIANZA.</p>
<p>You have presented a note entitled “Lineamientos para la estructuración de proyectos desarrollados en esquema de Alianza Público Privada (APP).” For which institution was this prepared, by which institutions was it reviewed and what was the reaction to the document?</p>
<p>You have presented a note entitled “INFORME ALIANZAS PÚBLICO PRIVADAS EN HONDURAS.” This document was “frank and constructive” about the current status of the PPP program in Honduras. For which institution was this prepared, by which institutions was it reviewed and what was the reaction to the document?</p>
<p>What activities remain for you to undertake under your current contract? When does it come to an end?</p>
<p>What recommendations would you make as to the areas on which the MCC program should focus in the remaining period of their contract (another 12 months) and what do you regard as the principle obstacles which they will face during that period.</p>
<p>We would like to start out with a few questions about the “process” as serving as a consultant. Can you confirm the period of performance of your consultancy? [Note: Insert period of time included in the TOR. Note any deviations and the reasons why.]</p>
<p>Was this (or will this be) a sufficient period of time to successfully complete your work, or would you have benefitted from additional time to complete the deliverables and tasks? If no, what would the additional time be needed for?</p>
<p>A major component of your consultancy was support to UCF in the identification, evaluation and registration of direct and contingent liabilities. Please comment on how this work progressed, the final product and the degree to which you consider it will have contributed to the successful execution of UCF’s responsibilities under the Honduras PPP program.</p>
<p>In your report you identified the following projects as potentially requiring renegotiation: Centro Cívico, Aeropuerto de Palmerola, Corredor Turístico and Carretera CA-4. Please comment on the reasons for</p>

Question
this analysis and the extent to which, in your view, weaknesses in the evaluation, structuring and procurement of these projects will have contributed to this state of affairs. To what extent were your concerns shared with COALIANZA and might have led to improvements in the manner in which COALIANZA structures future PPP projects.

Question
Implementation Coach
We would like to start out with a few questions about the “process” as serving as a consultant. Can you confirm the period of performance of your consultancy? [Note: Insert period of time included in the TOR. Note any deviations and the reasons why.]
Was this (or will this be) a sufficient period of time to successfully complete your work, or would you have benefitted from additional time to complete the deliverables and tasks? If no, what would the additional time be needed for?
How would you evaluate the working relationship between you and your counterparts? What have been the challenges?
How frequently do you meet with your counterparts? (Prompt: frequency of meetings, reporting documents, formal vs. informal). Have you had any trouble getting meetings? Getting responses or feedback to reports or recommendations?
What about your relationship with MCC and MCA? Have you obtained adequate support from them? Have they intervened on your behalf to address any problems or concerns? Have there been any challenges with MCC or MCA?
Now we would like to ask you about the substance of the consultancy... Would you please comment on the following which relate to the Scope of Services defined in your TORs:
Please comment on what you have done in terms of the development of a “project management plan” for each road concession and future PPP?
What is your general impression of the quality and reliability of the historic concession contracts?
We are going to be writing up case studies on some of the past, current, and future PPPs. Two of our case studies are the Corridor Logistico and the Corridor Turistico. What in your view were the strengths and weaknesses of each of these contracts?
We understand that MCC asked you to dig into the C4 tender. Have you produced a report on this? Can you tell us what you’ve found?
We have seen your responses (Informes sent between April and August 2015) to specific question related to the roads contracts, posed to you by INSEP or others in relation to existing concession contracts. Has this led to your producing a more general recommendation as to the structuring of future road concessions contracts? To what extent have you seen or contributed to improvements in current contracts under negotiation?
Your TORs identify “adherence to the output-based specifications and minimum performance standards and specifications (MPSS).” Have you been able to review this and what conclusions have you reached?
We would like to start out with a few questions about the “process” as serving as a consultant. Can you confirm the period of performance of your consultancy? [Note: Insert period of time included in the TOR. Note any deviations and the reasons why.]
You have continued to work during the period since our last mission (August 2016 – June 2017) and have produced a significant body of reports and notes. In the light of progress to date, do you estimate that your contribution will continue to be necessary – and for how long?
Over the last 12 months, you have been joined by two other advisors to the main institutions (UCF/SEFIN and COALIANZA). On certain documents produced by them, you have made comments (e.g., ESPELT’s analysis of the current state of PPPs in Honduras). We also understand that the IADB

Question
has provided advisory support in the area of risk analysis in PPPs. How would you evaluate the working relationship between yourself and your counterparts? What have been the challenges? Do you believe that your combined efforts have generated tangible results, and if so, in what areas?
- Given the number of missions you have undertaken to Tegucigalpa over the last 12 months, do you consider that their frequency is sufficient / too many?
What about your relationship with MCC and MCA? Have you obtained adequate support from them? Have they intervened on your behalf to address any problems or concerns? Has there been any challenges with MCC or MCA? You have played an important supporting role on El Tablon hydro project. Do you wish to comment on the fact that this project has in effect been taken out of the hands of the Honduran public sector, and in your view has that led to a loss of transfer of technology and experience to the GoH?
Now we would like to ask you about the substance of the consultancy... Would you please comment on the following which relate to the Scope of Services defined in your TORs:
Your monthly inputs provide both detailed guidance on technical issues arising out of requests made by the concessionaire in e.g. Siglo XXI, Turistico and Logistico. Please comment on the ability of INSEP or SAPP to manage routine issues arising out of the day to day management of those contracts.
What is your general impression of the quality and reliability of the historic concession contracts? It is clear that issues of land title, the construction of tollbooths, and the discrepancy between projected revenues and real revenues have been recurrent problems over the period. In the case of
We are going to update our case studies on two of our case studies - Corridor Logistico and the Corridor Turistico, and would also like to review progress on Centro Civico and CA4. The main issues affecting the early contracts appear still to be delay in transfer of land title or termination of collateral works (Canal Seco in Logistico), constructions delays, problems relating to toll booths (including the opposition of local society), and the question of the Minimum Guaranteed Income (IMG). Are there other issues we should examine?

Question
Road Implementation Advisor
Given that the TCP has been going for 3 years now, is this (or will this be) a sufficient period of time to successfully complete your work, or would you have benefitted from additional time to complete the deliverables and tasks? If no, what would the additional time be needed for? How does the TCP extension of one year affect your work?
How would you evaluate the working relationship between you and your counterparts? What new challenges have arisen between baseline and now? What has been resolved?
To what degree do you feel that your work is generating results? How is INSEP using your work? How has this changed in the past year and a half? Are you obtaining the necessary support from INSEP and others to conduct your work?
What is the current status of the second objective defined in your TORs, namely "implementation of the INSEP strategy with regard to the road sector pre-investment and multi-planning for the period 2015-2025"? Working on this report, have you obtained all necessary support and information from INSEP and any other relevant sources? Please comment on the current state of medium-term investment planning in INSEP.
What are the obstacles to developing a long-term strategy that can be applied in practice? (Political, capacity, other obstacles)
Is there anything else that you think is important to note about the consultancy that we have not touched on? (Prompt: Are there any lessons learned from the consultancy)

Question
Given that the TCP has been going for three years now, is this (or will this be) a sufficient period of time to successfully complete your work, or would you have benefitted from additional time to complete the deliverables and tasks? If no, what would the additional time be needed for? How does the TCP extension of one year affect your work?
To what degree do you feel that your work is generating results? How is INSEP using your work? How has this changed in the past year and a half? Are you obtaining the necessary support from INSEP and others to conduct your work?

Question
PPP Training Instructor
What is your role in the PPP Training Program and what prior professional experience do you have in this role?
Which Modules do you teach and what is the subject matter of these modules? Did you prepare it yourself or was it prepared for you? If prepared by someone else, how would you rate the prepared subject matter? Is it appropriate and adequate for the context? Why or why not?
How many participants are in your courses? Who are they and where do they come from? Are some countries represented more than others? Why or why not? Is the quantity of students appropriate for the classroom and time allotted?
Is the timeline of the course appropriate? Is it long enough (daily and overall) to adequately teach all of the materials? Why or why not?
What is attendance in the course like? Do participants continue on from one module to the next? Why do some participants continue and others do not (if this is the case)? Who continues on and who does not?
To what degree are participants grasping the concepts and learning new material or gaining knowledge on PPPs? What challenges are participants facing? What are the hardest concepts for participants to grasp? How participatory are the trainings?
How are participants tested? Is the testing methodology appropriate? Does testing create a barrier for participants to move on in the training?
Are the students complementing the course work with material from other sources and if so, from which sources? Have there been opportunities to meet with other PPP practitioners and if so, from which countries and in what context?
What do you think of this overall approach to building PPP capacity? To what extent do you think it will help build institutional capacity in the countries of participants? Will participants go back and continue working for institutions or go to the private sector?
How your experience been working with MCA? Why do you feel this way?

Question
PPP Training Participants
How did you come to hear about this training? Are you paying for it yourself or is an institution sponsoring you? Where/who do you work for? What is your prior experience with PPPs?
How would you rate the subject matter? Is it what you were expecting? Why or why not? Is it appropriate for the national context from which you come (in the case of students from El Salvador and Guatemala)?
Do you think the number of students is appropriate for the classroom and time allotted? Does the number of students create any challenges to course learning?
Is the timeline of the course appropriate? Is it long enough (daily and overall) for you to learn all of the materials? Why or why not? Do you have to do preparatory research between courses / classes?

Question
Are you able to attend all the courses in full each day? Is there anything preventing you or discouraging you from attending courses?
Do participants continue on from one module to the next? Why or why not do some participants continue and others do not? Who continues and who does not?
To what degree are you grasping the concepts and learning new material or gaining knowledge on PPPs? What challenges are you facing? What are the hardest concepts for participants to grasp? Which are the easiest? Why?
What do you think about the testing? Do the tests accurately reflect the material that you learned? Does testing create a barrier for moving on in Modules?
How would you rate the instructors? Are they knowledgeable on the subject matter? Do they invite questions from participants and teach in a participatory manner? What are the strengths and weaknesses of the instructors?
Do you think you will use the knowledge you gained in your professional work? How? Why or why not?
Will you continue to stay in your current professional position or are you thinking of using these skills to work elsewhere?
What do you think of the overall PPP training? To what extent do you think it will help build institutional capacity in Honduras / El Salvador / Guatemala?
What recommendations do you have to improve this PPP Training program?

ANNEX VI: COMMENTS MATRIX

Stakeholder comments

Commenter affiliation	Section Name	Draft page	Comment	Social Impact Response
INSEP	General	n/a	Les informo que he revisado el borrador del Informe de Evaluación, y no se tiene comentario al respecto, solo mas que lamentar que un programa como el de Umbral vaya a tener fin en este año y no se hayan completado sus objetivos definidos.	Noted.
MCA Financial Advisor	General	n/a	El reporte es satisfactorio y no tengo mayores comentarios que hacer luego de haberlo revisado.	Noted.
SEFIN	General	n/a	Buenas tardes leí todo el resumen ejecutivo en especial las preguntas de la 2 a la 7 donde menciona el proceso de pago de la Tesorería, un resumen ejecutivo que al leerlo muestra la realidad con la que vivimos esperemos que nuestras autoridades superiores tengan acceso a él y se trabaje en la correcciones.	Noted. No change.
MCA Honduras	Executive Summary	viii	Include in description of 1,2 "purchase of e procurement system"	Added.

MCA Honduras	Executive Summary	viii	Include in description of 1,3 "capacity for Illicit Enrichment Analysis"	Added.
SAPP	Acronyms	viii	ACRONYMS, IMAG: Minimum Guaranteed Income (Ingreso Mínimo Alternativo Gravable). Please correct IMAG as "Guaranteed Minimal Anual Income" (Ingreso Mínimo Anual Garantizado)	Noted and revised.
TSC	Executive Summary - In Response to EQ1	x	Con el valioso apoyo del Programa Umbral, se han sentado la bases para aumentar la eficiencia y transparencia de la gestión financiera pública, tema de impacto social involucrando a la Secretaría de Finanzas (SEFIN), la Oficina Nacional de Regulación de Contrataciones y Adquisiciones del Estado de Honduras (ONCAE), Tribunal Superior de Cuentas (TSC) y transparencia y la eficiencia del gobierno en las APP, podemos decir que se han logrado medianamente los objetivos y resultados del Programa Umbral.	Noted. No change.
TSC	Executive Summary - In Response to EQ2	x	Los resultados fueron positivos, todo es parte de un proceso de gestión presupuestaria y de la tesorería, contrataciones, el uso del catálogo electrónico continúa aumentando, auditorías de desempeño efectuadas por el TSC y desarrollo de la capacidad principal de APP	Noted. No change.
TSC	Executive Summary - In Response to EQ3	xi	En cuanto respecta al TSC como ente rector del Estado, en la practica de auditorías de desempeño encontramos que las instituciones no cuentan indicadores de desempeño claramente definidos, asimismo objetivos y metas institucionales plasmadas en las planificaciones estrategicas ligadas al plan de nación.	Added text noting the lack of performance indicators in the body of the report in response to Question 6.
TSC	Executive Summary - In Response to EQ4	xi	Si se realiza un esfuerzo en conjunto de todos los actores de la administración pública, APP, TSC, mejorando la capacidad institucional, la probabilidad de que los resultados del proyectos sean sostenible a través del tiempo son considerablemente alta	Noted. No change.
MCA Honduras	Executive Summary	xii	Would include that the financing of the different trainings to the public employees (PPP Training, Compradores Públicos, Helpdesk) may result in in quality of public service provision.	For this question we decided to follow the Project Logic Model. If we have evidence of impact outside of the logic model, we will certainly include that. At this point, we don't have that evidence linking training to improved services, but we will continue to explore this at endline.

TSC	Executive Summary - In Response to EQ5	xii	Eficientando la administración pública y la puesta en practica de la Auditoría de Desempeño, bajo los principios de Eficiencia, Eficacia, Economía, se logra un incremento en el ahorro de costos del sector público, sin resultar en el deterioro de la calidad o el valor del gasto público	For this question we decided to follow the Project Logic Model. If we have evidence of impact outside of the logic model, we will certainly include that. At this point, we don't have that evidence linking performance audit recommendations to cost savings, but we will continue to explore this at endline.
TSC	Executive Summary - In Response to EQ7	xii	No obstante a todas las limitantes en la administración pública, la SEFIN, ha implementado el Sistema de Administración Financiera Intergrado (SIAFI), que ha reducido significativamente los tiempos en el procesamiento de facturas y pagado a proveedores de igual manera en el reforte de los ingresos.	Noted. No change.
TSC	Executive Summary - In Response to EQ8	xii	No aumenta, existen factores tanto internos como externos que afectan negativamente el logro de bjetivos institucionales.	Noted. No change.
TSC	Executive Summary - In Response to EQ9	xiii	Con el apoyo del Programa Umbral, se presenta un avance en la formulación y administración presupuestaria de las instituciones asociadas.	Noted. No change.
MCA Honduras	Executive Summary	xiv	All credit regarding Baselines, FIA and congressional support should be given to OTA.	Text edited to remove qualifier.
OTA - Advisor	Executive Summary - In Response to EQ8	xiv	Based on recent conversations with DPMF staff they updated their forecasting based on the formulas Jean developed during her missions. This includes the elasticity models. Changes were made to SIAFI GES to based on Jean's work that allowed for forecasting for more than one year.	Based on our interviews at interim data collection, proposed changes were understood and accepted but never made in SIAFI. We will explore this again at endline. No change. With regards the model at DPMF, see section 10.3.2. The evaluation team confirmed that the microsimulation model supported by TCP was not yet in use. DPMF found that data predicted by the model differed substantially from DEI data. DPMF expected to receive tax returns from DEI to calibrate the model and assess the source of these divergences. However, with the

				dismantling of the DEI, data from the new tax administration, SAR, had not been received by DPMF. It had not been possible to reconcile any differences. At endline, the evaluation team will assess whether any further calibration has taken place and model take-up by DPMF. No change.
TSC	Executive Summary - In Response to EQ10	xiv	Se ha logrado un progreso considerable en la evaluación de informes trimestrales en cuanto rendición de cuentas	Noted. No change.
MCA Honduras	Acronyms	xv	Incluir FV como siglas del Fondo Vial.	Revised.
OTA	Executive Summary - In Response to EQ9	xv	The use of Baseline and reconciliation is being implemented with the 2019 budget process	This is after the evaluation period of focus, but we have noted it in a footnote.
TSC	Executive Summary - In Response to EQ11	xv	Todas las recomendaciones estan orientadas a cambios en las practicas,	Noted. No change.
TSC	Executive Summary - In Response to EQ13	xvi	Definitivamente los cambios s cambios en los sistemas y procesos Reducen las oportunidades de corrupción y/o mejoran las percepciones de corrupción	Noted. No change.
TSC	Executive Summary - In Response to EQ14	xvi	De conformidad a la Ley Orgánica del TSC, todas las recomendaciones son de estricto cumplimiento.	Noted. No change.
INSEP	Executive Summary - In Response to EQ15	xvii	El Informe de Linea Base presentado por ASJ emitido sobre la intervencion de los años 2013, 2014 y 2015, fue cuestionado fuertemente y rebatido con las pruebas o documentos fundamentales por parte de la INSEP especialmente en lo que compete al eje de COMPRAS Y CONTRATACIONES por las inconsistencias y subjetividades del mismo, NO es que haya resistencia por parte no solo del personal operativo sino de parte de todos los mandosde la INSEP por la subjetividad y falta de veracidad de dicho informe	This position has been added to the body of the report in response to question 15.

TSC	Executive Summary - In response to EQ15	xvii	En la actualidad la Sociedad Civil realiza un papel sumamente importante como auditoría social vigilante y denunciante del desarrollo de proyectos en sus comunidades que conducen a cambios en las instituciones objetivo.	Noted. No change.
OTA	Executive Summary - In Response to EQ15	xviii	(In response to "As the administration of Juan Orlando Hernandez comes to a close and as the TCP winds down, there are concerns about the sustainability of the initiative.") This is confusing.	This has been clarified.
SEFIN	Resumen Ejecutivo	xxii	Se recomienda nombrar las Secretarías de Estado pilotos, ejemplo: Secretaría de Salud, ...etc	This has been added.
SEFIN	Resumen Ejecutivo	xxii	Se sugiere ser más específicos, no es toda la gestión de la TGR sino más bien operaciones puntuales, como: cuotas de pago y de compromiso	This has been qualified as "some aspects of treasury."
MCA Honduras	Resumen Ejecutivo	xxxv	Pregunta 22. El hecho de que el Programa Umbral financie a CoST en los informes de aseguramiento si tiene una incidencia indirecta sobre disponibilidad de información.	We were not able to find reference to CoST oversight of PPP construction in the documentation that we have. Please feel free to share and we can explore at endline.
MCA Honduras	1.3.1 PFM Activity....	6	Under MTEF.....Incluir en este párrafo la elaboración de Baselines.....Within OTA's revised work program, technical assistance on Fiscal Impact Analysis (FIA) and Baseline elaboration have been framed as an input to the MTEF. The future MTEF OTA - Advisor will also facilitate the integration of FIA into the MTEF process.	Edited the paragraph for clarity. Baseline expenditures are the basic part of full expenditure estimates (Pillar 2). This is clear in the main body of the report. Baseline budgets were always supposed to be part of the MTEF. So the note on framing only applies to FIA.
OTA	1.3 Description of the TCP and Project Logic	6	I noticed that nowhere in the report was FIA defined. I suggest this as a good place for a definition; it provides some helpful context.	Thank you. Revisions accepted.
OTA	1.3 Description of the TCP and Project Logic	6	(In reference to "a long-term resident MTEF advisor") - Short term intermittent	Revised to note.
OTA	1.3 Table 1: Activity 1.1 Budget and Treasury	7	Improved quality of PACCs have existed for years but they did not accurately represent purchases.	This has been removed from this column and appears in the following column as "improved formats for PGMs and PACCs."

OTA	1.3 Table 1: Activity 1.1 Budget and Treasury	7	Is this clear. Suggest using - Efficient allocation of resources during budget formulation	This is MCC's language. No change.
MCA Honduras	1.3.2 PFM Activity 1.2 ...	8	La Asistencia Técnica abarca todos los elementos que hemos apoyado. Debería desglosarse esta sección según el alcance del apoyo que se ha brindado por medio del Programa Umbral. Es decir: Asesores Residentes Apoyo a Estructura Organizacional de ONCAE Capacitación Ecatalogue TSC CoST	We are using the categories that appear in the Threshold agreement itself. In the paragraph below we lay out the nature of the technical assistance. We had not included CoST so this has been added.
MCA Honduras	4.7	10	Quizá falte mencionar lo anterior en las Conclusiones.	Not sure what this is referring to. No change.
MCA Honduras	1.3.4 PFM Activity 1.4 Grant Facility for Social Accountability	14	El traspaso de Fondo vial bajo estructura de Investh, resultado de los análisis realizados por ONCAE y TSC, resultará en procesos más competitivos y ahorro de costos.	We'll look into this at endline. No change at this interim stage.
MCA Honduras	1.3.6 PFM Activity 2.2	17	FIDE's contract was canceled October 2017	Noted and revised.
MCA	1.3.6 PPP Activity 2.2 Design and Implementation of PPPs	18	El contrato se cancel en oct 2017	Noted and revised.
OTA	2.1 PFM Evaluation	25	Work with INSEP on payment prioritization has been discontinued due to lack of interest in INSEP.	Noted in a footnote to the table.
MCA Honduras	2.1 PFM Evaluation	30	¿Por qué el PEFA 2012 no puede servir de baseline? Con qué tendríamos que comparar los dos ejercicios posteriores: 2016 y 2019?	Included some more text from the Baseline to explain this. The PEFA 2012 was based on 2008-10 data, which was too outdated given the political and economic challenges during this time period.
OTA	4.1 PFM Activity 1.1 Budget and Treasury	36	The current work with ONADICI will increase the probability of more timely processing of invoices in line ministries. I would consider this more appropriate as orange.	Agreed. Color changed to orange.

MCA Honduras	4.3 PFM Activity 1.3 Improving Capacity of the TSC	39	Ha habido problemas con lograr el establecimiento de plazas en el régimen de Servicio Civil. Este es un output en la Lógica del Programa, que empuja a la institucionalización de las capacidades de ONCAE para la revisión de procesos de procurement.	From our read of the program logic, the output is the completion of the paperwork for civil service admission and the short-term outcome is that employees are given permanence (presumably through admission to the civil service).
MCA Honduras	5 Lessons Learned	53	Under Procurement... Certified Public Purchasers training may result in improvement of the quality of public service	Agreed. Color changed to orange.
OTA	7.1 Cost Savings	58	(In response to "According to the law, the government is required to pay vendors interest for outstanding debts greater than 90 days") - 45 days	Agreed. Corrected.
OTA	9.3 Processing Invoices	74	The GOH does not currently have commitment quotas. The monthly amounts are functioning as payment quotas. Converting to commitment quotas is a key element of the success of cash management and ensuring vendors are paid on a timely basis.	Agreed. The text is consistent with this. However, while there are no effective commitment quotas, the amounts institutions order are known as "cuotas de compromiso," which we have translated as commitment quotas. We have added some text to make it clearer.
OTA	9.3 Processing Invoices	74	The issue is there is no limit to what the institutions can order. The orders do not need to comply with the monthly planning because there is no commitment quota.	Agreed. Text added to clarify.
OTA	9.3 Processing invoices	76	I would add that SEFIN needs an opportunity to review or provide input to the development PACCs of the institutions to better coordinate the timing of purchases with the availability of cash.	Text added further above to clarify.
OTA	9.3 Processing Invoices	78	OTA resident OTA - Advisor is working with ONADICI to develop procedures for the internal audit unit of line ministries to monitor and report on compliance with the proper accrual of expenditures.	Text has been added in subsequent paragraphs to note the work with ONADICI.
OTA	9.3 Processing Invoices	79	And ONADICI	Added.
OTA	10.4 Revenue Forecasting Challenges	85	(In response to full-time MTEF consultant) Intermittent consultant...not a big part of his work plan.	Noted, changed to local.

	and Limitations			
OTA	11.2 Budgeting Intervention	87	(In response to full-time MTEF consultant) Intermittent	Changed to intermittent.
OTA	11.4.2 Baseline Budgets	90	(In response to "virements") - ???	This is a British term. Deleted and just left budget modifications.
OTA	11.4.2 Baseline Budgets	90	(In response to full-time MTEF consultant) Intermittent	Changed to intermittent.
OTA	11.4.2 Baseline Budgets	90	(In response to OTA - Advisor's comment "???" referencing "virements") - Transfer of funds. I can't remember if Honduras uses this term. It's used mainly in the Francophone countries or systems.	British term, deleted and just left budget modifications.
OTA	11.4.4 Fiscal Impact Analysis	94	I think we should suggest a footnote that says the following: Although initial work was done using the Social Protection Act as a case study a decision was made to transition from case studies to finalizing FIA procedures and piloting the new process with actual draft legislation.	Added footnote.
OTA	12.3 Budget Execution Reporting and oversight	99	I'm wondering if they are talking about the summary in the QERs or the template we developed to summarize the reports for Congress?	The template.
MCA Honduras	14 Business Confidence in Public Procurement	100	El traspaso de Fondo vial bajo estructura de Investh, resultado de los análisis realizados por ONCAE y TSC, resultará en procesos más competitivos y ahorro de costos.	We'll look into this at endline. No change at this interim stage.
MCA Honduras	15.2 PFM 1.1	101	Don't agree with "The primary opportunity for corruption occurs in the invoice payment process." I would say it occurs during procurement process.	Changed to "An opportunity..."
ASJ	17 Civil Society Oversight	125	We only did this with the 2nd report for all the sectors. The third one is issued to update the baseline – a similar report using the baseline methodology and format- for the transparency (ONCAE and ONADICI), education, security, and health sectors. Only the infrastructure and tax administration sectors will not have a second assessment.	Thank you for the clarification. Revised.
ASJ	17 Civil Society Oversight	125	It was designed like that in the original agreement – within the transparency sector that included ONCAE, ONADICI and TSC (this one was done by Lester's team as an independent study)	Thank you. This has been deleted.

ASJ	17 Civil Society Oversight	126	2018 (Q1)	Edited.
ASJ	17 Civil Society Oversight	126	2018 (Q1)	Edited.
ASJ	17 Civil Society Oversight	126	2018 (Q2)	Edited.
ASJ	17 Civil Society Oversight	126	n/a (no improvement plan completed yet by the institution due to the reforms taking place)	Noted. No change.
ASJ	17 Civil Society Oversight	126	The report will be issued in the second half of 2018, out of the TCP agreement with ASJ	Edited.
ASJ	17 Civil Society Oversight	126	We applied the same methodology to all 5 sectors including tax administration (SAR). A similar assessment was conducted to ONCAE and ONADICI as key institutions from the transparency sector, this one is more a performance assessment based on their main functions/mandate.	This has been clarified in the paragraph above.
ASJ	17 Civil Society Oversight	130	Some of them were mentioned in other sections of this document: the Fondo Vial intervention and PPP initiatives would be handed over to INVEST which will leave INSEP in charge of managing national funds only. Foreign fund (loan or funds from bilateral or multilateral banks) would also be transferred to INVEST-H. Which we understand they did in January this year.	Added a sentence noting this.
ASJ	17 Civil Society Oversight	131	That is correct, because they were issued in the last year, the review was done to previous years.	Added a clarification noting this.
ASJ	17 Civil Society Oversight	131	Just what I mentioned before.	Noted. No change.
ASJ	17 Civil Society Oversight	133	Please note comments to table 21 and earlier paragraphs related to this.	Noted. This has been changed to only note concern with INSEP and SAR.
ASJ	17 Civil Society Oversight	133	That is correct, therefore we are aiming at doing these for 4 out of the 6 sectors we're working with	Noted. Edited above.
ASJ	17 Civil Society Oversight	133	Who also responded to our first contact for starting our review 6 months later, just after ASJ request support from the President's office to allow ASJ intervention	This point has been added.
MCA Honduras	19.6 Developing and Structuring PPP's Conclusion	144	¿Hay alguna notificación de que MCC ya no apoyará a COALIANZA?	While we did not see an official notification letter, interviewees reported that such a letter had been sent.
SAPP	19 Developing	137	Table 22: The PPP is expected to require a USD 150 million investment to be recovered	Noted and revised.

	and Structuring PPP's		through tolls. Please correct US\$268,860,109.00 Instead of US\$150 million	
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MCC comments

Commenter affiliation	Section Name	Draft page	Comment	Social Impact Response
MCC	Executive Summary	xviii	Given the importance of the evaluation panel, may be beneficial to describe how the Civic Center panel was more diverse than usual, in what way.	Added reference to the participants, COALIANZA, SEFIN, LAFISE, and the National Department for State Assets.
MCC	1.3.6 PPP Activity 2.2	15	through this review, MCC should clarify the reasons for FIDE's contract cancellation	
MCC	1.4 Evaluation type and questions	19	Recommend using actual indicator names instead of just indicator numbers for PEFA	Added in names and both 2011 and 2016 PEFA indicator numbers.
MCC	5. Lessons learned	43	Lessons learned seem to dance around two critical issues. Given the extremely flexible nature of programming, importance of ownership/buy-in by stakeholders, and coordination with existing reform efforts, it would be prudent to discuss the possible risk of the program funding pet projects with low likelihood for impact. Here, the underlying assumption is a worthwhile, topically related reform would be funded and acted on without MCC funding if there were buy-in and traction. Also, these conclusions (TCP flexibility, ongoing related reform efforts, etc.) appear to contradict the apparent failure to influence some areas, like PPP activities besides training. Further discussion on these topics would benefit the conclusions section.	We have added language to note that the lack of a robust theory of change could lead to funding ineffective pet projects. The second point is a bit harder to know, but the literature is clear that successful reform requires buy-in and support, and there is limited concern in the literature that donors are funding projects that would have happened on their own. We have added a footnote about the limits of adaptation in the case of PPP. In this case, adaptation was not intended to achieve the original project goals by other means, but rather to achieve more modest goals.
MCC	5. Lessons learned	44	Would benefit clarity to specify which institutions are former and latter, ONCAE and SEFIN versus COALIANZA, INSEP, and CBC.	Revised.
MCC	General	General	Understanding the complex and multifaceted nature of the interventions and evaluation questions, I nonetheless wonder if	We acknowledge that organizing by question does introduce some repetition and undermine readability. Unfortunately, we

			the report may be better structured by activity then evaluation question, instead of what's currently the report structure. Organized by evaluation question, the storytelling element of what's been done, what evaluation questions can be answered and how, and the deep implementation details/context doesn't really hang together.	have a responsibility to answer each of the questions and have structured the report accordingly. The PFM and PPP specific questions are organized by section; however, the core questions speak cannot be organized this way. We are exploring alternative structuring for the endline to try to balance our responsibility for answering the questions and readability.
MCC	General	General	Recommend proofreading and correcting the document, missing verbs and typos detract from reader comprehension in some spots.	Copy-edited.
MCC	Executive Summary	VIII	program was extended till 2019 not 2018	At the time of writing it was still 2018, but this has been updated to 2019.
MCC	Executive Summary	X	"It will be important for technical assistance and funding support to be adopted by other donors if these goals are to be realized." why not the GoH, they have been committing to continue w the activities mcc has been funding from day one.	Edited to read: " While in principal the GoH could continue to carry on these activities after the conclusion of the TCP, there was a strong sense among stakeholders that it will be important for technical assistance and funding support to be adopted by other donors if these goals are to be realized." More generally we would note that there are a variety of reasons why reform initiatives do not continue on their own despite government commitments. These include lack of resources/capacity, perverse incentives that favor the status quo, the challenge of realizing institutional change, and numerous competing GoH priorities.
	Executive Summary	XI	"While interviewees were optimistic that this would be achieved by the end of the TCP" actually, this has been the expectation for years and the GoH has been pushing it and pushing it every year losing trained and professional candidates along the way	Agreed. Edited to "While interviewees were optimistic that this would still be achieved by the end of the TCP, it is concerning that this outcome has not yet been accomplished despite multi-year MCC pressure and despite the GoH's stated commitment to incorporating ONCAE staff into the civil service."
	Executive Summary	XI	another activity that has been in the making for a long time is to make the procurement certification a requirement. Up to now, this has not	At the time of data collection, no procurement officials had yet been certified. This is something that we will consider at the endline. More generally we would note that

			happened and has been sitting for signature for some time.	a meaningful certification requirement is a significant reform that would require considerable lead-time to implement effectively.
	Executive Summary	XII	"ONCAE's internal studies suggest substantial savings from its electronic catalogue" the E procurement system is also expected to generate savings.	Yes, we are just looking at cost savings to date at this point rather than expected cost savings.
	Executive Summary	XV	"interviews did not suggest adoption of improved methodologies for selecting short-lists in private procurements (those only requiring three quotes) or an increased number of public procurements." why not? There is a circular already sent around, this can be a norm to be enforced and is a low hanging fruit	We do note that some institutions are posting these private licitations to HonduCompras as the circular requires, but it did not appear that any of the institutions had developed a methodology for identifying what three businesses would be asked for quotes. We would not characterize this as low hanging fruit. Institutions use the private licitations to avoid public procurements either because of the greater speed/flexibility/lower transaction costs or to channel business to specific providers. In other words, there are strong incentives against changing these practices.
	Executive Summary	XVI	Would benefit clarity to specify which institutions are former and latter, ONCAE and SEFIN versus COALIANZA, INSEP, and CBC.	Added a note that ONCAE and SEFIN are examples of technically-driven institutions.
	Executive Summary	xxiv	I think one of the major lessons learned is that MCC needs to have the GoH accountable for their commitments. For most of the program the GoH has been committing but not solidifying their commitments such as the integration of key staff of ONCAE into civil service (even after an org chart w job descriptions was provided). GoH continues to provide ONCAE's staff w temporary contracts. The procurement certificate program has trained hundreds of professional but he GoH has not made the certificate a requirement to procure on behalf of the GoH. It has been difficult to get real data in regards to the use of sole sources/direct contracting and amendment statistics.	Added a sentence that "Stated government promises and commitments have not led to changes on their own." We agree that the GoH should be implementing its commitments, but it is not clear what MCC should be doing differently to ensure that the GoH. What would be of most interest is what MCC has learned about how to achieve government follow-through on commitments. What works in terms of holding governments accountable? We look forward to pursuing these themes at endline.
	1.3.2 PFM Activity 1.2	1.3.2	The summary does not mention the fact that the procurement consultants have also provided recommendations to the Honduran procurement law for their	Have added text to clarify that the regulatory reforms they have been promoting are not limited to the certification process.

			consideration and be funded by another donor in the future.	
	5. Lessons Learned	44	"MCA-H has played an essential role in pushing forward TCP goals and filling gaps in the GoH's capacity" I don't disagree w this paragraph, but did MCA H play a role in the procurement aspect of things? My impression is that MCA H did not own this project and only assigned Fabio for the e procurement. The rest has been dependent on ONCAE who has had their fair challenges of change and sustainability	We would say that MCC has played a role in pushing forward reforms across the Threshold; however, we did not observe a strong role of MCA-H on procurement specifically. The examples that we use here pertain to other aspects of the Threshold.
MCC	Executive summary	ix	This sentence is incorrect. I suggest redrafting as follows: "MCC's Threshold Program was originally designed to assist countries to meet MCC's criteria to be eligible for an MCC Compact by supporting policy and governmental reforms to boost a countries indicator scores within a two to three year period. MCC's Threshold Program has been redesigned to assist countries to become compact eligible by challenging them to implement key policy and institutional reforms that address binding constraints to economic growth.	While we appreciate the suggested language, the reader has not yet been introduced to MCC's process, and the subtle distinction here is very difficult to understand. To address the concern of a potential inaccuracy, we have eliminated the discussion of the goal of the TCP.
MCC	Executive summary	ix	The Honduras Threshold Program uses the following structure. The "Program" is made up of "Projects" that are made up of "Activities." Calling this section "Threshold Activities" is a bit confusing. The report should also make it clear that the Program consisted of a Public Financial Management Project and a Public Private Partnerships Project.	Clarified
MCC	Executive summary	xi	The "Threshold Country Program document" refers to the "Millennium Challenge Account Threshold Program Grant Agreement." In the report this document is described in several ways; "Threshold Agreement," "Threshold Program Agreement," "TCP Agreement," etc. Please be consistent globally.	The report now uses the full name at first mention and then refers to the "Threshold agreement" for shorthand in the rest of the report.
MCC	Executive summary	xi	What is the basis for this statement? MCC has not deemphasized this goal. MCC's statute authorizes MCC to "provide assistance to [certain countries]... for the purpose of assisting such countries to become	This was added based on previous comments. Edited to say that Honduras was not selected rather than not eligible.

			and eligible country." This is reflected in the language of the threshold program agreement. MCC has changed how threshold programs are implemented (i.e. focusing on addressing policies surrounding constraints rather than focusing directly on indicators) but the overall goal and purpose of the threshold program has not changed. This may stem from confusion and conflation of the Program Goal and Program Objective.	
MCC	2.2.4 PFM Activity 1.4 Grant Facility	10	Grant was not from MCC.	Corrected to MCA-H
MCC	2.3 Evaluation Type and Questions	16	What is the basis for this statement? While it is true that Honduras has "graduated" to lower middle income status and therefore has to compete again stronger performing countries in this cohort, it is not clear that Honduras will not be able to pass the scorecard at some point.	This had been added based on earlier comments. Footnote stating this has been removed.
MCC	4 Threshold Country Program Goals and Outcomes		This is a conflation of the "Program Goal" and the Program and Project Objectives.	Edited to distinguish between Program Goal, Program Objective, and Project Objectives, which had been merged for readability.

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