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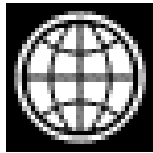
# Republic of Honduras

## **COUNTRY PROCUREMENT ASSESSMENT REPORT (CPAR)**

February, 2005

Inter-American Development Bank

The World Bank



## **CURRENCY EQUIVALENTS**

(Exchange Rate Effective June 20, 2004)

Currency Unit = Lempiras  
18.0 = US\$1.0  
US\$1.45 = SDR 1

## **FISCAL YEAR**

January 1 – December 31

## **WEIGHTS AND MEASURES**

Metric System

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## ABBREVIATIONS AND ACRONYMS

CAFTA	Central American Free Trade Area
CAS	Country Assistance Strategy
CFAA	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
CNA	National Commission for Anti-corruption
CPAR	Country Procurement Assessment Report
FHIS	Honduran Social Investment Fund
GOH	Government of Honduras
HIPC	Highly Indebted Poor Country
HNL	Honduras Lempira
IAU	Internal Audit Unit
IADB	Inter-American Development Bank
ICB	International Competitive Bidding
IDA	International Development Association
IMF	International Monetary Fund
MCA	Millennium Challenge Account
NCB	National Competitive Bidding
NGO	Non-Governmental Organization
ONCAE	Oficina Normativa de Contratación y Adquisiciones
POA	Annual Operation Plan
PER	Public Expenditure Review
PET	Program of Efficiency and Transparency in Public Procurement
PFM	Public Financial Management
PIU	Project Implementing Unit
PRSC	Poverty Reduction Support Credit
PRS	Poverty Reduction Strategy
SEFIN	Ministry of Finance
SIAFI	Integrated Financial Management System
SIDA	Swedish International Development Agency
SOPTRAVI	Ministry of Public Works, Transport and Housing
SWAp	Sector-Wide Approach Program
TSC	Supreme Audit Court
UNAT	National Technical Assistance Unit
UNDP	United Nations Development Program
UPET	Technical Unit of the Program of Efficiency and Transparency in Public Procurement

**HONDURAS**  
**Country Procurement Assessment Report (CPAR)**  
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## EXECUTIVE SUMMARY

1. This Country Procurement Assessment Report (CPAR) was prepared jointly by the Inter-American Development Bank (IADB), the World Bank (WB), and the Government of Honduras (GOH) to provide a basis for an active dialogue with four objectives: (i) Assisting the public procurement system reform process; (ii) Contributing to the government programs execution in accordance with the Poverty Reduction Support Credit (PRSC); (iii) Identifying potential fiduciary issues that may affect the assistance programs of both financial institutions; and (iv) Supporting the efforts that are made in parallel to update the budgetary systems, accounting, treasury, public credit and personnel management using the Integrated Financial Management System (SIAFI). In addition, this report will be useful for other international donors interested in this matter, to their own effects.

2. During 2003 and 2004, the average volume of public sector procurement in Honduras was 1 billion US dollar including goods, works and services which represented a significant share of total budgeted expenditures (39 %), and reflected an increase of 28 % compared to the previous year. In a country with a per capita income of US\$920, the need for an efficient and transparent administration of severely limited public resources is directly linked to the effectiveness of government strategies for economic growth, poverty reduction and, ultimately, a fair distribution of the economic dividends of development. A sound and well structured public procurement system is key to efficient management of public funds, and acts as a catalyst of reforms and integration of public sector financial management system. Moreover, greater transparency in the procurement system, and greater responsibility of public officials engender greater confidence in investors, trade partners, and the international donor community, and contribute to the development and competitiveness of the domestic market.

3. The Poverty Reduction Strategy Paper (PRSP) prepared by the GOH stresses governance, and more specifically, as a key factor in implementing the current procurement system. The need for these improvements was previously discussed in the 1999 CPAR issued by the IADB which found significant problems in the legal framework. As a result of the recommendations made, a new procurement law Ley de Contrataciones del Estado (LCE) and its corresponding regulations Reglamento de la Ley de Contrataciones del Estado (RLCE) were adopted.

4. Although the LCE and the RLCE represent a substantial improvement over the previous regulatory framework, these new tools can be improved during the current implementation phase to include all the aspects that are necessary to create an ideal structure for public procurement, such as separate selections procedures for individual consultants, or amendments proposals to those provisions which do not reflect generally accepted procurement principles, such as limiting eligibility to domestic suppliers and contractors or very limited periods of time for bid preparation, among others.

5. Another important initiative undertaken by the GOH was to launch the Program of Efficiency and Transparency in Public Procurement (PET) supported by the IADB and other international donors. The PET is a comprehensive technical assistance program aimed at strengthening the government's capacity for the LCE's implementation and also at strengthening the institutions in charge of supervising and managing the public sector procurement. Assistance activities under PET include support for establishing a new regulatory authority; documents developing, and other standard bidding tools; improving the control and responsibility systems; and training staff which carry out procurement responsibilities.

6. The outline of PET is sound and the reforms it supports remain critically needed in the country. PET has been in full execution for over a year. Thus it is still early to assess its impact on the reform. PET's implementation began with delays (including a change in GOH administration), and therefore some components have been executed at different times. This off-tracks the schedule and logical sequence of efforts originally forecasted. Moreover, PET has been executed in an institutional environment in which LCE's implementation has to be improved in its different dimensions: Planning, Regulation, Implementation and Control; the country's capacity to absorb the technical assistance available; and the coordination between the procurement system reform and other public reforms under the Presidential Commission on Modernization of the State (CPME) and the National Technical Assistance Unit (UNAT).

7. Another important issue is the largely ringed-fenced fiduciary arrangements applied to donor-funded projects, which combined make up a significant share of public investment in Honduras (approximately 75%). Specific procurement regulations, procedures and systems of each donor agency apply to the great majority of these procurements. It is true that under these arrangements the efficiency and transparency governing important procurements during the current administration have been improved. However, these arrangements may have inhibited the development of a strong domestic system and they may have not encouraged a more accelerated implementation of the reforms supported by the PET. The procurement local system under the LCE is presently applied to a non significant share of public procurement and it is difficult to monitor and evaluate its real impact on budget implementation.

8. Since the last 1999 CPAR was prepared, important new drivers and mechanisms have emerged in Honduras which create opportunities for increased use of the national procurement system. First, the GOH has requested that donors begin harmonization of fiduciary requirements to better align their assistance with the country's development strategies, and reduce the burden and costs associated with multiple rules. Second, implementation of several new Sector-Wide Approach Programs (SWAPs) requires, on one hand, further progress on such harmonization among the international cooperative agencies, and, on the other hand, significant improvements in several aspects of the local procurement system. Finally, Honduras has two important drivers to undertake the reform: the first one is provided by the trade agreement recently undersigned by the country, specifically the Central American Free Trade Area (CAFTA). The CAFTA

requires significant improvements in regulatory quality, in the control of the transparency and control systems, and in the public procurement institutions capacity to monitor and enforce consistent application of the agreement. The second driver is the recently establishment of the Millennium Challenge Account (MCA) by the U.S. government. The MCA eligibility requirements and assistance incentives rely on the commitment to improve governance quality and to fight against corruption, both tightly linked with the procurement subject.

9. Furthermore, IADB and IDA have presented to GOH new frameworks for assistance on the PRSP. Assistance by both institutions contemplates a move towards programmatic lending through a series of PRSCs to support GOH in the implementation of its PRSP. These operations will place particular emphasis on strengthening public sector institutions. Under IDA's PRSC, GOH agreed on a series of concrete procurement reform actions as conditions which are described in detail in this report.

10. Taking this reference framework into consideration, delays to face these issues may cause difficulties in the execution of reforms. Efforts may lose the momentum, entrenched interests would become stronger, and the lack of measurable improvements would provide little incentive for changes, and would also limit the arguments for the reform champions to generate political support and energize potentials stakeholders.

11. The CPAR's general recommendation is based on the premise that full consolidation and integration of the existing procurement systems arrangements (regulatory and human resources) into one harmonized system, anchored on the effective implementation of the LCE, remains of paramount importance to improve public procurement in Honduras. For this to be possible and for the current reform to remain on track offering short term results, the GOH must take decisions on the following three issues:

**Effective Operation of the Oficina Normativa de Contratación y Aquisiciones (ONCAE).** The key to accelerate improvements in the Honduran procurement system depends on the Oficina Normativa de Contratación y Aquisiciones (ONCAE). Presently, the ONCAE is inoperative; it bears problems and remains largely understaffed and underfunded. Therefore, ONCAE is unable to undertake responsibilities leading to reforms and supervision of said reforms. The GOH has taken two right decisions to overcome these limitations. First, the Regulation of the ONCAE was issued and soon the Consultative Committee will be operating. Second, an increase in the budgetary allocation (from Lp 2.5 millions in 2004 to Lp. 3.5 millions in 2005), which will allow the ONCAE to complete its operative structure and to start offering technical support and leadership to the different government agencies in regard of: (i) establishment of procurement units within the Administration; (ii) consistent use of procurement planning and contract management policies, standard bidding documents, and operational manuals; (iii) systems consolidation and existing qualified procurement expertise in government agencies and in Project Implementing Units (PIUs); and (iv) access to training programs.

**Prompt and Coordinated Implementation of the Program for Efficiency and Transparency in Government Procurement (PET).** PET should remain the primary

technical source to advance towards the public procurement system reforms. It would be convenient to update, in light of new country developments and the recommendations of this CPAR, the PET's activities and schedule in order to promptly and firmly implement them. It is of paramount importance to devote attention to the recommendations announced by the Project Audits (Inspectoria de Procesos) and by the component of Procurement Management Support (Apoyo a la Gestión.) It would also be convenient that the PET program should be linked and framed into a broader context of efforts towards the strengthening of the public sector's governance, in particular, towards those efforts focused on transparency, controls, and enforcement of the PET. The IADB and the CPME have recently conducted an intermediate assessment of the PET which is favorable to its execution. During technical discussions with the GOH, the CPAR's team endorsed the findings and recommendation about the PET, and agreed that the action plan of the CPAR shall be constituted by the action plan of the PET.

**Review the Government Policy on the Use of Project Implementing Units (PIUs).**

Reform progress should lead GOH to assess and gradually implement a transition plan to progressively reduce reliance on PIUs to implement a significant part of its procurements, and redirect the currently used resources under these arrangements to a more effective strengthening of the procurement national system. The transition plan should take into consideration the strengths of PIUs services, and use these arrangements in those entities of the administration that are particularly weak or, in selective cases where a rapid response is necessary (e.g., in a critical country situation, or in case of emergency operations). Likewise, GOH should consider to develop a program to transfer the accumulated know-how of the PIUs. This transition or knowledge-transfer plan should count on the advice of the UNDP on how to face institutional problems and those related to lack of capacity. Besides, this should be aligned with the PET program to ensure consistency and efficient use of available expertise in the country. Given the tight relationship between the UPET and the SEFIN, these proposals may find a sound reference framework for their implementation in the Support Program to the Strengthening of Fiscal Management.

**CPAR Action Plan**

12. Annex 1 of this CPAR provides an action plan to implement and follow up on its recommendations. This action plan was prepared jointly with the activities and products involved in the action plan of the Program of Efficiency and Transparency in Public Procurement (PET). This plan focuses on the four procurement system areas: Planning, regulation, implementation and control. It includes:

- Short-term actions aimed at creating immediate impacts on the procurement system. These are tightly linked to both the execution of the PET program agenda, and the conditions agreed on the PRSC matrix. These actions focus on the ONCAE, and the procuring units of the public entities, and complementarily on the TSC.



- Medium and long-term actions aimed at ensuring the sustainability of the procurement national system beyond the implementation of the LCE current phase and the PET implementation. These actions are tightly linked to the CFAA's Action Plan and focus on the consolidation of procurement existing systems and tools, on the creation of linkages with the financial system, municipalities, civil service, training, and the transition for procurement outsourcing.

## **PREFACE**

### **Objectives of the Country Procurement Assessment Report (CPAR)**

1. The CPAR is a diagnostic tool used by the Inter-American Development Bank (IADB) and the World Bank (WB) to: (i) design programs aimed at improving the public procurement system in Honduras and (ii) coordinate in a more effective way with other cooperative agencies all aspects related to priorities and activities identification within the public sector reform context. Furthermore, this report will be useful to other International Donors in the matter, at their own effects.

2. In addition to its diagnostic value, the CPAR is tied directly to the implementation of programs within the WB's Country Assistance Strategy (CAS) and the IADB's Country Strategy for Honduras. In this sense, the CPAR supports both Banks in their fiduciary responsibilities by identifying the strengths and weaknesses of public procurement arrangements so that the potential risks to the use of funds of both countries can be assessed and managed.

### **Methodology**

3. This CPAR follows WB's internal instruction dated May 23, 2002. It is based on (i) the Initiating Concept Memorandum (April, 2003); (ii) interviews with several public and private sector representatives during visits of IADB-WB procurement experts to Tegucigalpa between March 2003 and December 2004; (iii) analyses of the laws, subsidiary instruments, questionnaires, surveys, as well as other information and documents collected by the CPAR missions; (iv) desk review of fiduciary reports such as Honduras Country Assistance Strategy (WB, 2003), Honduras Poverty Reduction Strategy Paper (GOH, 2001), Honduras Development Policy Report (WB, 2004), Country Financial Accountability Assessment (CFAA, 2004), and the previous CPAR (IADB, 1999); (v) input provided by the capacity assessment of the education secretariat (SEDUC) conducted by Consulting and Audit Canada; and (vi) reports and assessments produced by the IADB's Program of Efficiency and Transparency in Government Procurement (PET). Public procurement analysis, environmental policies and municipal public procurement system are not covered by this report and will be differed to the next CPAR.

### **Consultation with other Donors**

4. The CPAR's team consulted the leading donors in Honduras (the Group of 17), including the United Nations Development Program (UNDP), the Canadian International Development Agency (CIDA), the United States Agency for International Development (USAID), the Department for International Development of the United Kingdom (DFID), and the Swedish International Development Agency (SIDA).

## **Participating Government Organizations**

5. The Secretariat of the Presidency and the Finance Secretariat (SEFIN) were both the official counterparts for the discussions of the CPAR's findings, recommendations and action plan. The implementing unit of the Program for Efficiency and Transparency in Government Procurement (UPET) was the technical counterpart. Other stakeholders included the Presidential Commission on Modernization of the State (CPME), the Regulatory Office of Public Procurement (ONCAE); the Tribunal Superior de Cuentas (TSC), [SOPTRAVI](#), FHIS, SEDUC, SANAA, the *Comisión Nacional Anti-Corrupción*, and the municipality of Tegucigalpa.

## **Acknowledgements**

6. The CPAR was prepared by Messrs. Hugo Betancor (Coordinator of the Anti-Corruption and Transparency Group, RE2/SC2, IADB), Roberto Camblor (Operations Specialist, RE2/SC2, IADB), and Luis Tineo (LCOPR, WB).

7. The CPAR's Team would like to thank to the following persons for their invaluable advice and direction to this report. To Messrs Ralph Oberholzer (Vice Minister, SEFIN), and Mauro Membreño (Executive Secretary, CPME), who coordinated the CPAR on behalf of the GOH, for their collaboration and support. Messrs Miguel Manzi, Honduras Program Manager Specialist and Helge Semb, Resident Representative, from IADB. Mr. Joseph Owen, Honduras Country Manager, Mr. Bernard Becq, Regional Procurement Manager, and Mrs. Neeta Sirur, Senior Operations Advisor, from WB.

8. The CPAR's team is particularly grateful to Messrs José Moscoso (Honduras-CPAR consultant); Miguel Ángel Bonilla, Óscar Díaz, Víctor Hugo Escala and Flavio Lowenrosen from the UPET; Alberto Victory, Hernando Fortín and Marcelo Iezzi from PriceWaterhouseCoopers; Enrique Moreno from SWIPCO, Barry Lipsett from Consulting and Audit Canada; Renán Sagastume Fernández from the TSC; Nicolás Cruz Torres from the ONCAE; and Enzo De Laurentis, Jaime Román, Vladimir Jadrijevic, Roche Levesque, Dante Mossi and Rajeev Swami from WB, for providing essential analytical inputs and invaluable advice on regulatory, institutional and financial management issues.

9. Peer Reviews were provided by Mr. Alberto Leyton (WB), Ms. Sabine Engelhard and Ms. Gina Montiel from IADB.

## CHAPTER I

### OVERVIEW OF PUBLIC SECTOR PROCUREMENT

1. During 2003 and 2004, the average volume of public sector procurement in Honduras was US\$1 billion including goods, works and services which represented a significant share of total budgeted expenditures (39 %), and reflected an increase of 28 % compared to previous year. In a highly indebted poor country, with a per capita income of US\$920, the need for an efficient and transparent administration of public resources is directly linked to the effectiveness of government strategies for economic growth, poverty reduction and, ultimately, a fair distribution of the economic dividends of development.

#### **Multiple Rules and Users**

2. Honduras does not yet have a well developed public procurement system. The current system is fragmented, with multiple rules and users, and inconsistent institutional and organizational arrangements. This environment leads to high administrative costs, numerous budgetary inefficiencies, and lack of transparency and accountability. Although Honduras enacted a modern public procurement law in 2001, as described in Chapter II in this report, the law has only been partially implemented. Rules and policies currently applied vary according to the capacity of the procuring entity, the source of funding, and the type of goods or services being procured.<sup>1</sup>

3. The great majority of the significant investments in Honduras are financed by cooperative multilateral and bilateral agencies, and therefore their respective procurement rules and procedures are used. These projects finance most of civil works, goods (ranging from vehicles, equipment, technological data, to office equipment), and consulting services hired by the GOH. This procurement is generally managed by the Project Implementing Units (PIUs) staffed mainly with consultants, selected from a prequalification process.

4. Government agencies (central, parastatal and municipal) use the LCE's regulatory framework primarily to carry out projects and to procure locally-financed goods and services which represent less than 20 % of total procurement expenditures. With a few exceptions, such as the Ministry of Public Works, Transport and Housing (SOPTRAVI) and the Social Investment Fund (FHIS), the national system is not used for either major capital investments or a large portion of current expenditures.

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<sup>1</sup> A daunting task for the CPAR team was to quantify, based on currently available data, the financial value of expenditures on public procurement by the various levels of administration and sources. The Central Bank and the Ministry of Finance (SEFIN) do not collect or publish any information on expenditures on public procurement. In measuring procurement expenditures it was necessary to rely on the budget data prepared by SEFIN to verify the implementation of the IMF program. Box 1 of this CPAR contains figures on the value and sources of procurement expenditures.

5. In a less significant way, during the present administration, GOH has hired the UNDP to manage public procurement in some public entities including both locally and externally financed programs. Under individual agreements for each program, UNDP either applies its own procurement rules, those of the development agencies, or donors; those legally accepted by the Honduran legal framework. Public procurement outsourced to UNDP is concentrated in relatively few sectors, notably health and telecommunications.

6. This situation shows a high level of reliance by GOH on procurement systems of the respective external funding and cooperative agencies, and a low use of local system. Originally, it was anticipated that in the long-term GOH's capacity would increase along with greater utilization of institutions and the LCE. However, as a result of the international donors' requirements, the "ring-fencing" imposed to the great majority of public procurements has become a permanent issue of the system, leaving most of GOH agencies with little or no public procurement responsibilities and the GOH with few incentives to pursue reforms more vigorously. This policy choice of using extensively alternative structures (i.e. PIUs and multiple donor rules) is based primarily on the perception that the local system lacks transparency, sufficient capacity and credibility among the suppliers and donors. The government, donors and the private sector have gained more confidence by the relative transparency, efficiency and economy offered with these arrangements. For instance, bidding turnover has been reduced from 14 to 5 months in some areas; competition has increased, reflected in the number of participants in the bidding process and the number of firms awarded contracts. Changes such as these have generated substantial savings. The experience of procurement by UNDP in the health sector (i.e., a large purchaser such as the *Instituto Hondureño de Seguridad Social*), shows about 28 % savings in procurement, for example.

7. This situation has affected the ongoing efforts at reform by under-utilizing existing structures and resources, and has contributed in the development of other capacities. Without preventing them of the short-term benefits, the current situation is more costly than it would be under an efficient national system. These higher costs are reflected in consultant fees, smaller efficiency scales for purchases of similar goods and services, and duplication of activities to manage different systems, including training.

8. Finally, by relying entirely on donors' rules, GOH is not developing a fundamental public sector function which interfaces with many other key aspects of governance and public sector management. The slow progress in implementing the public procurement reform affects the overall quality of the financial management system which, without a sound procurement framework, lacks efficient arrangements for budget execution.

## **Transparency and Accountability**

9. The CPAR acknowledges that systematic weaknesses in transparency and accountability are easy to identify, but considerably more difficult to address, particularly in Honduras. Events such as Hurricane Mitch put enormous pressure on GOH to deliver a vast number of goods and services in an extremely short time period. Faced with pressing needs, GOH made the right decision to use the most credible solution. The use of UNDP and other donor rules and systems, under pressing circumstances, provided a higher degree of transparency, oversight and accountability that was non-existent in the public procurement system. Without these systems, donors and financiers might have been considerably more reluctant to invest in Honduras at a time when the country needed it most.

10. For the past two years, however, as the effects of the crisis abated, GOH has been able to begin to address longer-term challenges. Notable among these challenges is that the GOH continues its credibility increase policy through its capacity to deliver public procurement services. Two elements are essential to improve transparency and accountability. Transparency in public procurement refers specifically to clear and accessible rules on procedures, duties, and requirements applied to procuring agencies and tested over time. Accountability implies the ability of the system to monitor procurement transactions and contracts, as well as to incorporate independent mechanisms for reviewing and protesting bids and to be open to appeal of decisions.

11. These two elements, however, are extremely difficult to develop even with the most committed reformers, and require significant investment and a long term horizon.

## **Issues for a Dialogue on Procurement**

12. Full consolidation and integration of existing public procurement arrangement, into one harmonized system, anchored on the effective implementation of the LCE, are of paramount importance to improve the public procurement system.

13. GOH is at an opportune moment to improve the current arrangements, and focus on developing its efforts to create its own system. This CPAR believes that this is the most appropriate path for reform. Currently, thanks to the tight relationship between the UPET and the SEFIN, these proposals may encounter a sound reference framework for their execution in either the Support Program to the Strengthening of Fiscal Management (Programa de Apoyo al Fortalecimiento a la Gestión) or the PET.

14. The Implementation of PET is timely to undertake this reform path. After a series of diagnostics, PET has developed the expertise and understanding of public procurement issues across sectors and government agencies, which allows PET to adapt and support

any program or policy (i.e., SWAps or PRSC-related programs) where the use of the local procurement system is essential. GOH should use PET to the fullest extent and even take further steps to link it into the broader context of public sector institutional reforms and current efforts to improve the transparency and anti-corruption framework.

15. Reform progress should lead GOH to assess and gradually implement a transition plan to progressively incorporate the existing procurement features on PIUs or the administrative unities, to a more effective capacity building of procurement activity. The transition plan should take into consideration the strengths of PIU services, and provide for outsourcing where the executing agencies are particularly weak or in more selective cases where a rapid response is necessary (e.g. in a critical country situation, or in case of emergency operations).

16. Taking advantage of the current mandate of the UNDP in Honduras, and its worldwide experience in strengthening process of government authorities and transparency, the GOH should consider, under the current undersigned cooperation agreements framework, to develop a program with UNDP to transfer the accumulated know-how to address institutional development and capacity problems, as well as to provide the GOH with sector analysis on procurement efficiency and transparency managed by the UNDP. In addition, GOH should also implement a well coordinated campaign to ensure that the benefits provided by the UNDP's services (i.e., transfer of savings, cost regain policy, and the synergies created in management systems and human resources) are fully understood and build political support. This campaign should focus on the positive results from the UNDP (in its double function as developing agency regarding policies and training, and as procurement agent on bidding processing, contracts management and finance management). Delays in addressing these issues may make the implementation of the reform increasingly difficult. Public procurement reform efforts are underway. However, the profile of these efforts is low, and key stakeholders both in government and civil society are not aware of such efforts. Thus, strong leadership and wide dissemination of results could raise the profile of public procurement activities, and generate the political and stakeholder support necessary to accelerate progress.

## CHAPTER II

### THE NATIONAL REGULATORY FRAMEWORK AND ITS APPLICATIONS

17. The previous CPAR – carried out by the IADB in 1999 – found significant problems with the regulatory framework. As a result of the recommendations made in that report, a new public procurement law and implementing regulations were adopted. This chapter provides an assessment of these new legal and institutional features, and as well as an examination of their applications by procuring entities.

#### **The Regulatory and Institutional Framework**

##### **Ley de Contrataciones del Estado (LCE)**

18. The legal and institutional framework for public procurement is provided for in the Ley de Contrataciones del Estado (LCE) enacted in June 2001, published in the official Daily La Gaceta No. 29,583 dated September 17, 2001, and in force since October 8, 2001, and in the Reglamento de la Ley de Contrataciones del Estado, (RLCE), according to executive agreement No. 055-2002, published in the official daily La Gaceta No. 29,793 in force since May 29, 2002. Key features include:

- an obligation for all public procurement entities to acquire goods, services and construction in a consistent manner with the principles of efficiency, transparency, and equal access;
- the decentralization of procurement operations to each Secretariat and public procuring entities;
- the creation of a new central authority, the Oficina Normativa de Contratación y Adquisiciones del Estado (ONCAE) responsible for developing policies and guidelines on use of standard bidding documents, operational manuals for tendering procedures, and contract administration;
- the redefinition of the Supreme Audit Court's (TSC) functions for concurrent audits and further of transactions, enforcement of transparency standards, and investigation of illicit gains;
- the use of open, competitive procedures that include public bid opening and non-discriminatory participation of suppliers under a wide range of procurement methods; and;
- mandatory public notification of procurement opportunities.

19. While the new law and regulations represent a substantial improvement over the previous regulatory framework, the law and regulations do not include all of the features which are needed for a sound procurement framework. These include.



- *Eligibility.* Locally-financed procurement may limit eligibility of bidders only to local firms.
- *Bid preparation and submission period.* The timeframe allowed for bidders to prepare and submit their bids is substantially lower than that required internationally.
- *Consular certification of bids.* Foreign firms participating in tenders in Honduras are requested to certify the bid documents in the Honduran Consulate of their respective countries.
- *Minimum number of bids requirement.* There is no indication in the law that revisions to the tender documents or to the opportunity or other aspects of the process should be reviewed before launching the new process.
- *Contract performance guarantees to be provided after contract signature.* The LCE provides for suppliers to submit their contract performance guarantees after having signed the respective contracts.
- *Civil works contracts not signed prior to access to land and commencement of works.* The LCE does not explicitly mandate for contracts to be signed before the contractor's access to land. In addition to the requisites specified in Art. 68 of LCE, a clear statement prohibiting mobilization into the works site or the commencement of works before the signing of the contract should be included.
- *Change orders or contract amendments.* Change in orders and amendments in civil work contracts are a frequent occurrence in public contracts in Honduras, instead of being exceptional

## **Recommendations**

20. Boxes 3, 4 and 5 contain an overview of the LCE and a comparison between the LCE and the WB-IADB public procurement guidelines, which may be useful for future amendments of the LCE. For the moment, additional changes in the regulatory framework should be made in the RLCE. A comprehensive review of the RLCE should be conducted once the PET program is completed so that the RLCE mirrors the new operational tools and practices of procuring entities with procurements and ONCAE. Finally, these actions should be carried out within the harmonization framework in accordance with the donors procurement regulations and systems.

## **Organization of Public Procurement within Public Institutions**

***Policy Oversight.*** The LCE decentralizes procurement operations to individual ministries, but entrusts policy oversight and implementation to a new central authority, the Oficina Normativa de Contratación y Adquisiciones del Estado (Regulatory Office for Contracts and Acquisitions) (ONCAE). ONCAE's responsibilities include: (i) issue

guidance, instructions and operational procedures and manuals; (ii) oversee decentralized operations of procuring entities, and coordinate activities towards a standardized procurement system; (iii) develop and maintain the Supplier and Contractors' Registry; (iv) train procurement staff; and (v) conduct market analyses of goods, services and works.

21. ONCAE reports directly to the Secretariat of State of the Office of the President. The organization is made up of a director, appointed by the President, and a nine member consulting committee, with five representatives of the public sector and four from the private sector. To date, however, ONCAE has remained largely unstaffed. In 2003, for example, ONCAE did not have an operating budget, and as a result it could only manage its limited workload with four individuals: the director and three individuals seconded by SEFIN. For 2004, Congress approved a budget for ONCAE of L5.0 million (US\$278,000). Although half of the budget is comprised of transfers from the Office of the President, and is considerably less than the requested budget of L8.5 million (approximately US\$470,000), congressional allocation is a positive step forward, since it will allow ONCAE to hire additional staff and acquire basic operating infrastructure.

22. The new regulatory framework of the public resources control, derived from the 2002 constitutional reform, contains the two main components of such control: (i) the ex-post external control in charge of the Supreme Audit Court, and (ii) the internal control attached to the Executive Branch, within the general regulations and governing framework of the TSC. To date, external and internal controls lack a proper interrelation that could guarantee the effectiveness of their goals, and the system's governing feature contains weaknesses that need attention. To pursue these goals, it is recommended to develop a program supporting the establishment of a public resource control local system, which will rely on the advances registered up to date and on current supports to this and other related areas, specifically using programs financed by the IADB and the AIF.

**23. External Control.** Under the LCE, external control of procurement transactions is the responsibility of the Supreme Audit Court (TSC). The TSC was established by a legislative decree No.10-2002-E of December 5, 2002, published on January 20, 2003. It is headed by three magistrates appointed by the National Congress for one seven year term (which exceeds the four year term limits of both the President and the congressional representatives). TSC has its own budgetary allocation, proposed through SEFIN and approved by Congress. The TSC has its own budgetary allocation, proposed by SEFIN and passed by the Congress. Despite a payroll of 435 civil servants, TSC counts on approximately 25 qualified staff to carry out responsibilities which include: (i) financial control of public income and execution of expenditures; (ii) concurrent and ex-post review of procurement transactions to assess use, results and identify mismanagement of public funds; (iii) enforcement of transparency standards and investigation of allegations of illicit gains; and (iv) control of public assets through registration, custody and administration of said assets.

**24. Internal Control.** The law of the TSC provides that the agencies of the executive branch apply internal audit systems pursuant to the rules issued by TSC. The obligation of the Internal Audit Units (IAU) is to supervise budget execution in the public sector, and each IAU will be regulated by the specific organizational structure where it is placed, the configuration of its structure, the basic rules, powers, duties and basic requirements to be determined by the heads of the administrative units. Internal audit reports include budget, economic, finance, national assets, management and assessment. Each executing agency must have an internal auditor. The internal audit function is weak, widely dispersed and uncoordinated due to a number of factors within the different management levels. These include: (i) disagreement between each entity's senior management and the Internal Auditor concerning the authority of the Internal Auditor to undertake pre-audits or preventative audits; (ii) poor communication with senior management since internal auditor are not members of management committees; and (iii) the absence of regulations and procedures against which compliance can be audited<sup>2</sup>.

### **Recommendations**

25. The lack of sufficient budgetary resources and qualified staff have prevented ONCAE (and to a lesser extent TSC) from becoming fully operational, and hence from undertaking critical responsibilities for procurement policy formulation and oversight much needed to advance the effective implementation of the LCE and the management of the public procurement system.

26. Critical aspects of the public procurement system reform depend on the ONCAE's effectiveness. Therefore, it is essential that ONCAE be operative with appropriate organization, resources and capacity to carry out its responsibilities under the LCE framework. A presidential decree to enable the consultative committee's regulation of the ONCAE, and the immediate designation of its members should be considered as a priority. Likewise, adequate budgetary appropriations should allow ONCAE to hire qualified staff and acquire material infrastructure. A well functioning ONCAE is sine qua non for (i) establishing procurement units within the ministries and consolidation of PIUs; (ii) adopting guidelines and oversight to ensure consistent use of planning resources, bidding documents, operational manuals, and other implementing tools; and (iii) training of procurement staff responsible for the public procurement<sup>3</sup>.

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<sup>2</sup> It is important to mention that the recently enacted Budgetary Law complements the Law of the TSC in regard of the Internal Audit Units, and establishes the principles of strengthening the responsibility of the fiscal management.

<sup>3</sup> The CPAR team analyzed the efforts made in parallel to update the budgetary systems, accounting, treasury, public credit and personnel management using the Integrated Financial Management System (SIAFI). The following aspects within the regulatory and institutional framework governing the control and responsibility of the public expenditures were reviewed in detail: (i) monitoring, execution and preparation of the budget, and (ii) the SIAFI in relation to public procurement and contract management functions. However, in order to maintain the thematic consistency, the CPAR's team established the differences among the specific analysis and recommendations in the financing management areas including the effective operation of the TSC, considerably referred by the CFAA. Thanks to the tight relationship

27. On external and internal controls for procurement operations, the CPAR team reviewed the regulatory and institutional framework governing public expenditure control and accountability, including (i) budget preparation, execution and monitoring; and (ii) the accounting system or SIAFI as related to procurement and contract management functions. However, to maintain thematic consistency, the CPAR team differed specific recommendations in these areas of financial management, including the effective operation of the Internal Auditing Units and TSC to the CFAA.

#### **Practices and Application<sup>4</sup>**

**28. Procuring Agency-Level Procedures.** Except for the purchases conducted by the UNDP and under the procurement regulations of the donors, all procurements are governed by the LCE and the RLCE. However, in the absence of ONCAE, the LCE and RLCE have not been implemented consistently throughout public administration. There is a significant disconnect between the requirements set forth in these rules and practices of applications developed by procuring entities. There are no internal procedural or operational manuals to explain how the principles and obligations contained in the legislation and regulations are to be applied within the organizational context of GOH. Similarly, there is no guidance with respect to organizational and individual roles, relationships, authorities and accountabilities. Although some executing agencies have had such manuals in the past, they have not been updated. Many of the current procedures have developed more as a result of customary practices and uses than from consistent, coherent instructions in a manual.<sup>5</sup>

29. The functioning of the procurement system relies heavily on the judgment, knowledge and experience of individual staff members. However, even when individual staff are competent, there is no guarantee that individual practice will lead to outcomes consistent with the LCE. Transactional audits carried out in 11 government entities by *PriceWaterhouseCoopers* under the PET program, have identified some weaknesses in the application of the LCE by procuring entities. For example:

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between the UPET and the SEFIN, these proposals may encounter a sound reference framework for their implementation in the Support Program to the Strengthening of Fiscal Management. See Financial Management Assessment Report in the Public Sector (CFAA), report No. 28418-HO, dated January 2004. WB-IADB.

<sup>4</sup> Two sources of information provide the basis for this section. One, under the Program for Efficiency and Transparency in Government Procurement (PET), *PriceWaterCoopers*, a consulting firm carried out some 800 reviews of individual contracts and acquisitions by the Honduran public sector. Two, a joint CIDA-WB assessment of the Education Secretariat (SEDUC) was conducted in preparation of the SWAp. Both assessments identified several weaknesses common to many government agencies and line ministries in procurement capacity and processes

<sup>5</sup> Based upon interviews with staff of SEDUC, the IADB 1000 Re-engineering project has identified and described 16 acquisition related processes within that organization, ranging from tendering for security and cleaning services to the purchase of petroleum products.

- limitations to foreign participation;
- lack or inability of planning and later monitoring of procurement processes;
- frequent subjectivity in the evaluation of bids;
- extension of bid submission deadlines informally before the expiration of such deadlines;
- seeking bid clarifications from bidders informally;
- use poor technical specifications;
- negotiation of contract prices with selected bidders; and
- inadequate payment control, contract filing, poor quality control systems.

30. Likewise, the specification, tendering, evaluation and award of contract proposals are generally subject to exhaustive and lengthy scrutiny prior to approval, but the examination is not based on objective, clearly established administrative criteria. This has a number of consequences. Uncertainty of what is and is not permissible tends to make procurement staff overly cautious and risk adverse. Lengthy approvals can lead to situations where work proceeds in the absence of a contract. The reversal of a contract award recommendation can result in unnecessary financial costs for both suppliers and GOH and can result in delays in project implementation.

**31. *Public Procurement Planning.*** Executing agencies do not produce annual procurement plans. The most detailed forward planning information available is contained in the annual budget which allocates available funds to five broad expenditure categories. Consequently, the procurement function is largely reactive to individual demands as they arise. There is no strategy on how government entities might best approach the market for different goods and services. In the case of the recurrent expenditures, the decision to do pluri-annual, annual, semiannual, or quarterly procurements is not taken on the basis of economic and efficiency criteria, but rather on immediate budgetary availability. The lack of adequate planning has encouraged the use of procurement methods that are less formal than open competitive tendering. Fractioning of tender packages is common and frequently goes undetected.

32. As a result, GOH may be missing significant opportunities to generate administrative economies and price savings from such strategies as consolidated purchasing and just-in-time delivery arrangements<sup>6</sup>. The lack of procurement planning and the resulting large number of small purchase order transactions below the threshold required for public tendering also weakens the transparency and, possibly, the fairness of the procurement function. The development of automated data bases should improve GOH's ability to develop better operational plans with strong links to the budget process and SIAFI.

**33. *Standard Bidding Documents.*** According to the LCE and RLCE, there are no tendering uniform local documents. Procuring units have developed their own models

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<sup>6</sup> Box 11 provides a discussion on framework agreement for scale procurements.

which contain minimum requirements (general conditions of contract, technical specifications and terms of reference) to prepare the biddings. The lack of bidding standard documents cause critical delays in public procurement. It is both cumbersome and expensive for customary suppliers to submit proposals under differing tendering conditions. Agencies that have worked with the few standardized bidding documents that exist report that they have achieved significant price reductions for goods and services procured. In connection with standard bidding documents, there is no customary use of technical specialists for the preparation or review of technical specifications. Instead, low, unclear or non-existent technical specification has led bidders to include in their bids the cheapest quality equipment, materials, and workmanship to keep their bid prices as low as possible to win the contract, and then they perform poorly during contract implementation.

**34. *Registration and Qualification of Bidders.*** Suppliers must be listed in the Register of Suppliers and Contractors (Registro de Proveedores y Contratistas) in order to be awarded contracts. Failure to register is not an impediment to participate in tenders, but non-registered firms must request registration at least one day before the deadline for bid submission. However, there is no documented process governing the registration of suppliers in some of the agencies, nor is the opportunity to register publicly advertised. Further, there is no documented process governing the selection of suppliers to be invited to participate in a particular tender. Accordingly, the openness and fairness for tendering, in terms of providing all potential suppliers an equal opportunity to participate over time, is questionable.

**35. *Protest Mechanisms.*** The LCE provides for limited procedures to request clarifications on bidding documents, and address actual complaints on procedural aspects or protests. The legislation only makes a reference to the Administrative Procedural Law as the applicable framework and the ordinary administrative tribunals as the applicable authority. There is no comprehensive, effective and transparent mechanism for bidders to channel their complaints and protests. Most bidding documents used by the executing agencies make no reference to the availability of an independent review process and, as a consequence, suppliers may simply be unaware that they have recourse.

36. The local procurement system should offer bidder recourses to a quick and inexpensive process for actions which bidders believe are unfair and can have a powerful effect in ensuring transparency, fairness and integrity. In practice, it is very uncommon for bidders to contest the results of a process. Traditionally, complaints do not succeed (even when they may have solid grounds) because the executing units usually do not follow up on the claims and they delay the final response to the process, which is normally not affected by the complaint. Under the national regulations, a complaint does not halt the process.

**37. Administrative debarment.** A positive aspects of the LCE is the ability to disqualify individuals and companies from contracting with the government for reasons of criminal conviction, bankruptcy, conflict of interest, and suspension from the Register of Suppliers and Contractors. LCE demands the tender documents to contain a requirement that bidders submit a sworn statement that they are not subject to any of the disqualifications enumerated in the law.

38. The LCE also provides for the suspension of public officials found to have acted with malice or negligence in carrying out their contracting functions. The LCE also provides for suspension for the unauthorized solicitation or acceptance of bribes from suppliers or potential suppliers. Private individuals can also be suspended from the list of suppliers for default, repeated poor performance, fraud, offering bribes to a public official involved in a public procurement and similar acts. Public officials and individuals are also subject to the generally-applicable legal penalties for corruption.

**39. Contract Implementation.** During implementation the contract document is seen more as a legal record of a transaction than as a legal binding agreement on delivery of goods or construction of civil works. Agreements to modify the price or the scope (either or both) of the contracts are often reached in private, without much consideration given to the original provisions of the contract. As such, amendments are the rule and not the exception in contract management as a result of this informal bargaining process. Clauses on completion dates, liquidated damages, timely payment and interest for delay are seldom enforced.

40. Contract implementation is frequently delayed due to a variety of reasons including deficient and incomplete designs, unrealistic completion periods, and delayed access to the construction site, uncertain funding and payment delays. Contract performance securities were traditionally limited to bank guarantees, however the use and acceptance of guarantees from insurance companies have been gradually implemented.

41. A common problematic feature in contract implementation is variation orders, because there are no clear instructions about their definition, manner and timing for processing. Therefore, the processing of variation orders and other contractual decisions are subject to a protracted process that involves approval by several departments within the contracting agency, which can take a long time. Cost overruns are frequent events, due to the laxity of the change order or approval of additional works mechanism. According to the LCE, contracts may be modified “for the sake of public interest”, which is a broad statement that canvasses numerous motives for contract amendments. Often, the practice is to execute the changes and later “legalize” them through the corresponding amendment. The law also provides for the employer to introduce changes in contracts up to 10% of its original value simply through change orders. This is interpreted in practice by many agencies as the prerogative to automatically increase payments in that proportion, and Contractors and Suppliers also have the expectation of receiving that additional amount. If the aggregated amount of change orders adds up to 25% of the original contract amount or more, then the National Congress would have to approve the amendment to the contract.

42. Contractors are mostly paid on time, but the timeframe allowed for payments under the law is too extensive. In the case of civil works, after a certificate is prepared, the administration has up to 10 days to review and approve, and once it is approved it has up to 45 additional days to make payments. This renders about 2 months under normal circumstances. However, if payments are delayed beyond that period Arts. 28 of LCE and 41 of RLCE provide for the accrual of interest as a means of compensating the Supplier / Contractor. This interest adjustment for delayed payments is seldom applied and the differences are settled by over billing or additional works. Further, LCE provides for a suspension of up to three (3) months without payment for the public official who unduly retains payments to a Supplier / Contractor. In spite of the numerous payment delays identified in the PET analysis of the executing units, there are no records of any officials ever reprimanded.

**Recommendations**

43. PET should develop, as soon as possible, manuals, documents and other implementing tools including planning and contract management systems and procedures, and efficient bid protest systems (with appropriate rules for standing, timing for submitting protest and decision, scope of protestable matters, and appeal to an independent entity). Appropriate procedures for administrative debarment, with adequate due process, should also be developed. Registration procedures should be designed in such a way that they do not act as mechanisms to restrict competition (e.g. required only as a condition of signing the contract and not participation) nor as a substitute for pre or post qualification. In the recruitment and procurement area, the institutional and operational capacity, and the management quality are largely influenced by the human factor, which obviously varies in each public entity. One of the Honduran procurement system weaknesses arises from the absence of trained professionals to perform this function. This subject is tightly linked with the weaknesses of the country’s civil service system. As with many other areas of the public sector, recruitment processes, assessment, promotion and dismissal of personnel are very politicized, and therefore, public institutional capacity is reduced to attract, maintain and develop a qualified personnel.

44. In 2003, a 300-interview PET-conducted survey of procurement related positions had the following results:

<b>Years of Experience</b>	1 to 5	6 to 10	11 to 15	Over 15
<b>% of Staff</b>	59%	22%	10%	9%

45. In general, procurement positions (also known as logistic, purchase, and supply) have no defined career track, nor do they have a structured compensation package that would reward them for improved skills, as is the case with public sector jobs of similar responsibilities. Not surprisingly, staff turnover is high. Staff chooses to move within the public sector, or to the private sector, where compensation is considerably higher.



46. Although procurement personnel is limited in the public sector, new procurement specialists have begun to flourish to meet demands created by donors. As a result, much of the current procurement operations are delivered by private consultants hired by each project. Civil service reform, then, is an important element, perhaps the most important, to start creating capacity and offering stability in the public procurement sector.

47. Another weakness of the procurement system arises from the described context: the absence of know-how on procurement regulations, the inconsistency on the use of standardized tools of procurement planning and operation, and the diversity of practices performed by each contracting entity officials. This weakness is closely related to the lack of training provided to the officials dealing with procurement.

**Table 1. Civil Service Reform Strategy**

GOH has been working on a civil service reform strategy that addresses both medium-term and long-term objectives. Measures to be carried out in the strategic plan involve the following:

- Preparation of a comprehensive reengineering study of the whole public administration, which identifies the functions that will remain in the centralized public sector (as well as those to be divested to the private sector or municipalities) and then determines the appropriate size and composition of public entities in accordance with these functions.
- Completion a comprehensive reengineering study of the public sector to determine the appropriate functions and skill requirements of different public sector entities, and begin the reorganization of certain public entities in accordance with the new civil service regime.
- Preparation and submission to Congress of a new law to reform civil service, which establishes transparent procedures for hiring, evaluating and dismissing public servants, limits the number of political appointees in the civil service, and creates an independent oversight institution for the civil service.

## **Recommendations**

48. Knowing that a comprehensive reform to the civil service will be carried out in the medium-term, it is important to design a strategy to address capacity and reduce existing distortions related to human resources in the public procurement system. The CPAR identifies two action areas in which the ONCAE will perform a relevant function:

- In relation to the civil service structural problems, the ONCAE would be in a unique position to help formalizing and structuring the procurement function within the civil service system at adequate levels in accordance with the responsibility carried out by these type of specialists. It would be recommended that in the short-term, the ONCAE; (i) identifies existing qualified procurement personnel in government agencies and project implementation units; (ii) consolidates this expertise on a sector basis as a first step towards the creation of a professional stream of procurement officers; and (iii) offers technical inputs to the CME and to the congressmen to be used in the current discussion of civil service

reform bill, and then to deepen in this line of action together with the agencies responsible for implementing the national system of human resources once these bills are passed.

- In regard of technical weaknesses of the human resource of the public procurement sector, the ONCAE, supported by PET, would lead a national training program created with a systematic vision that allows the development of programs containing answers to public and private sectors demands. PET has performed a significant function in this area. Most of the requirements may be achieved by continuing training public procurement programs in government entities by ONCAE, supported by PET, within a coherent group of parameters for accreditation, curricular designing, certification, follow-ups and assessment of the training programs and their suppliers.

### **CHAPTER III**

## **ONGOING PUBLIC PROCUREMENT REFORM EFFORTS AND DRIVERS**

49. The PRSP highlights the need to improve governance, including public procurement, as a key issue to implement the proposed strategy. This chapter assesses the reform strategy, the new drivers, and efforts building programs to achieve an improved national procurement system.

### **The Efficiency and Transparency in Government Procurement Program (PET)**

50. As mentioned throughout this CPAR, the largest present effort at public procurement reform is conducted under the Program of Efficiency and Transparency in Public Procurement (PET), a comprehensive technical assistance program aimed at strengthening the government's capacity to oversee and manage the procurement function.<sup>7</sup> Assistance activities under PET include support to establishing the new procurement policy and regulatory authority; developing bidding documents and other procurement implementing tools; improving the monitoring environment; and training staff which carry out procurement responsibilities.

51. The outline of PET is sound and the reforms it supports remain critically needed in the country. PET has been in full execution for over a year. Thus it is still early to assess its impact on the reform. PET's implementation began with delays including a change in GOH administration, and therefore some components have been executed at different times. This off-tracks the schedule and logical sequence of efforts originally forecasted. PET has been executed in an institutional environment in which LCE's implementation has to be improved in its different dimensions: Planning, Regulation, Implementation and Control; the country's capacity to absorb the technical assistance available; and the coordination between the procurement system reform and other public reforms under the Presidential Commission on Modernization of the State (CPME) and the National Technical Assistance Unit (UNAT). PET has been in full execution for over a year and expected to end in 2006. Following is an overview of progress of PET's components:

**52. Project Audits.** This component aims to strengthen the government's internal oversight capacity by providing on-spot review of existing public procurement practices of key government agencies. A consulting firm (PriceWaterhouseCoopers) was retained and started activities in mid-2002. This component is PET's most recognizable and most advanced to date. PriceWaterhouseCoopers has carried out 800 transactional audits in 11 government entities, and 1,200 follow-ups. The audits of procurement transactions have resulted in a total of 3,400 audit observations, and 700 findings, which have highlighted systemic weaknesses in different processes. Nevertheless, this component has helped create a culture of control in the procuring agencies selected for auditing. Forty-three

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<sup>7</sup> PET is financed by an IADB loan of US\$14.0 million, and another US\$8.5 million from grants by bilateral donor agencies from US, Spain, Switzerland, Great Britain, Sweden and Canada. The program is managed by the (UPET), which depends on the Presidential Commission on Modernization of the State.

percent (43%) of the recommendations have been progressively implemented by these agencies. This percentage may considerably increase in the short-term following the corresponding administrative provisions. The audit reports and follow-ups are submitted to PET's Consultative Committee for review and analysis (this Committee is composed by government representatives, the Civil Society and the donor funding partners). These reports in turn are sent to TSC for appropriate corrective measures. The usefulness of the report findings have encouraged PET to support further TSC through the creation of a supporting unit to institutional follow-up for improvement or build capacity in the public procurement entities (outside its original coverage). Since this component was developed to address weaknesses facing GOH when Hurricane Mitch occurred, one consideration at this juncture is the sustainability of these audits in light of continued weaknesses in procurement institutions.

**53. *Procurement Management support.*** This component aims to upgrade and consolidate the capacity for managing procurement in seven government agencies (approximately 50 % of investment expenditures), as it relates to organization, structure and functions. In addition, the component helps to create control mechanisms linked to auditing findings, and allows on-the-job training of staff. The products of this component are critical to advance the implementation of the LCE as well as harmonization with the donor community. Two consulting firms (SWIPCO and TYPISA) were retained in June 2003 to conduct diagnostics and develop road-maps for technical assistance. Based on these activities, the firms began implementing the recommendations in April 2004. However, this has been difficult because GOH has not provided the corresponding commitment to be counterpart. The selected government agencies have not given priority to the firms' proposals that include recommendations to overcome specific remarks arisen from "audits," as well as to overcome systematic weaknesses in this matter. On the other hand, in the absence of ONCAE, the component's products – namely, procurement plans, standard bidding documents, operational manuals, record filing and contract management systems – have not found a house to be technically validated and publicly formalized for mandatory use by procuring entities.

**54. *Procurement Training System.*** This component is intended to assist the government to develop and establish a sustainable structure and programs for training of personnel involved in public procurement. This component began at the end of 2003 when PET undertook a preliminary mapping of human resources capabilities in procurement that served as the bases for the initial program. PKF, ILI, and INCAE were selected to develop the design of the curricula and training materials and training methodologies to build up the system. PET has have begun carry out a national procurement training encompassing tender systems, planning of procurement and supplies, ethics, legal and institutional systems, financing and accounting projects, materials management, market analysis and statistics, international trade, e-commerce, concessions, and control systems. During the two years of the component finance, activities have been targeted to train 360 public officials upon completion of three modules and to certify 60 officials as procurement trainers). The impact and sustainability of training activities is expected to be further enhanced once ONCAE is operational.

55. ***Government Procurement National System.*** This component plans to assist ONCAE: (i) implement the LCE and strengthening its capacity of regulation and standardization in the government agencies, and (ii) develop an information system and data base for information to the public, which will eventually evolve into an e-procurement (electronic bidding and contract signing) system. PET has delivered a tool-kit for the operation of a procurement system, including a demo of an electronic platform system aimed at offering public information to download procurement tools, guidelines, market analyses, and facilitate management of the Supplier's Registry. Furthermore, jointly with SIAFI, PET is developing the linkages between procurement transactions and the system of payments, providing consistency and trust to the budgetary, procurement and payment systems.

### **Recommendations**

56. PET should remain the primary source of technical assistance for procurement reform. However, it is essential that GOH adjust PET's activities and schedule, where needed, in light of new country developments and the recommendations of this CPAR. A well-functioning, properly staffed ONCAE with strong leadership at a level satisfactory to the PET funding partners will be key for accelerated improvements in the Honduran system. The expected implementation of the recommendations provided by the "Project Audits" and by the "Procurement Management Support "will establish the guidelines for government commitment.

57. Current progress of PET should lead GOH to frame the procurement reform into a broader context of strengthening the public sector's governance framework focusing, in particular, on transparency, controls, and enforcement. Taking on this additional reform would require that PET expand its current coverage to build complementary linkages with other related efforts (i.e., TSC, municipalities, SIAFI, and other procuring entities) and consolidate progress achieved up to completion of the Program.

58. Finally, GOH should start considering options for continuation of PET, including financial support from the donor community or, once operative, to the ONCAE. Given the tight relationship between the UPET and the SEFIN, these proposals may encounter a sound reference framework for their implementation in the Support Program to the Strengthening of Fiscal Management.

### **New Drivers and Mechanisms for Reform**

59. There are important new drivers and mechanisms which create incentives for accelerated reform efforts and opportunities for increased use of an improved national

procurement system. This section focuses on: harmonization of systems, sector programs, free trade agreements, and the millennium challenge account.

60. ***Harmonization and Sector Wide Approach Programs (SWAps).*** GOH has requested that donors in Honduras begin harmonizing requirements to better align their assistance with the country's development strategy and reduce the burden and costs associated with multiple rules. In the medium-term, the aim is to sufficiently strengthen GOH's fiduciary environment to enhance donor coordination and increase reliance on the national system in the channeling external assistance.

61. This approach on harmonization is consistent with the results of the Rome 2003 Forum on Harmonization, where the multilateral and bilateral development agencies reaffirmed their intention to move towards harmonized procedures and tools. Harmonization on procedures and tender documents for local procurement is the immediate objective of GOH and donors. Issues such as the regulatory framework, transparency, registration of bidders, open bidding under national procedures, private bidding, direct contracting, and local consultants' selection remain the areas of work.

62. GOH's ability to accelerate harmonization will enable it to implement and manage the new SWAps for donor assistance. The PRSP specifically proposes to advance harmonization objectives in the context of the SWAps programs identified in five areas: education, health, social security, water and sanitation, and agro-forestry. GOH hopes that different donors interested in a particular sector will come together to adopt common strategies, harmonized procurement, financial management and auditing procedures, and consolidate human resources and systems in channeling their support to the sector, thereby reducing pressure on scarce resource implementation in sector ministries and GOH as a whole.

63. ***International Agreements on Government Procurement.*** Another important driver for reform, generally overlooked, are the free trade agreements (FTAs) that Honduras has signed. These agreements require significant improvements in the national system's regulatory quality, the control environment, and procurement capacity to carry out procurements with transparency and no discrimination.

64. Presently, Honduras is member of four agreements: Honduras-Chile (1999), Honduras-Dominican Republic (2001), Honduras-Panama (2001), and the Central American Free Trade Agreement (CAFTA, 2003). The country is also in the process of negotiating procurement issues in the Free Trade Area of the Americas (FTAA). All of these agreements contain specific rules and obligations for government procurement. CAFTA is the most relevant and comprehensive.

65. CAFTA's chapter on government procurement is to a certain extent modeled after NAFTA, and to the WTO's Government Procurement Agreement. CAFTA establishes

specific obligations for GOH's listed entities and accepts the application of its procedures and law only to the extent it follows its requirements. For instance, CAFTA generates, *at minimum*, the need for GOH to issue specific guidelines to listed entities to address these obligations. There is clearly considerable work to be done for Honduras' law to conform to CAFTA regulations. Box 13 contained herein includes a commentary on the CAFTA requirements relevant to the implementation and application of the LCE.

66. ***The Millennium Challenge Account (MCA)***. On March 14, 2002, the US government announced that it will increase its core assistance to developing countries by 50% over the next 3 years, resulting in a \$5 billion annual increase over current levels by 2006. This increased assistance will go to a new Millennium Challenge Account (MCA). The MCA eligibility requirements and assistance incentives rely on the commitment to limit corruption and promote good governance, among other development areas. Sixteen countries are eligible to submit proposals for assistance in 2004, including Honduras. GOH responded enthusiastically to the eligibility announcement, and soon will begin discussions with MCA officials. Some of the issues discussed in this CPAR will likely surface, and GOH may increase its support for reforms by submitting proposals to the MCA.<sup>8</sup>

### **Reform Strategy and IADB and IDA Programs**

67. ***Investment lending***. The IADB's Program for Efficiency and Transparency in Government Procurement (PET) is the primary source of funding for procurement reform in Honduras. In preparation of the series of PRSCs and SWAps, IDA and IADB have clearly indicated their intention to continue supporting initiatives in the procurement area, through the restructuring of existing operations such as IADB's PET and the lending to the Strengthening of Fiscal Management, as well as in the new projects currently under preparation by both institutions so that the proposed CPAR recommendations are included. To this extent, the CPAR team provided technical inputs to the IDA's technical assistance credit for the PRS (PRS-TAC). Both operations are designed to implement the recommendations of the CFAA and CPAR by supporting the implementation of associated reforms advanced in the PRSC. Three specific areas supported by the PRS-TAC relevant to the implementation of the CPAR action plan are: (i) the development of the Government's capacity to monitor, evaluate, and improve PRSP implementation; (ii) the implementation of civil service reforms; and (iii) the strengthening of public expenditure management and accountability.

68. ***Poverty Reduction Support Credits (PRSCs)***. IDA's support to the PRSP was embodied in the CAS approved by the Board in June 2003.<sup>9</sup> The CAS presents a new framework for World Bank Group assistance, which positions the PRSP at the center in terms of establishing the targets and objectives to be pursued. IDA's assistance contemplates a move towards programmatic lending through a series of PRSCs to assist GOH in the implementation of its PRSP. The IADB is also preparing a program similar

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<sup>8</sup> For detailed information on the MCA, see: [www.mca.gov](http://www.mca.gov).

<sup>9</sup> Honduras Country Assistance Strategy, Report No. 25873-HO, approved by IDA's Board on June 24, 2003.

to the PRSCs that will share the same objective of helping to support the implementation of the PRSP. These operations will place particular emphasis on strengthening public sector institutions. Table 2 reproduces the agreed IDA-PRSC Matrix of GOH actions as it relates to procurement reform in the procurement area.



**Table 2. IDA PRSC Matrix - Public Resource Management**

THEMATIC AREA	ISSUES	PRSC I (by March 2004)	PRSC II (by March 2005)	PRSC III (by March 2006)	OUTCOME INDICATORS
A5. <i>Public Procurement</i>	Public sector bidding is fragmented, costly and non-transparent.	<p>UPET has continued to implement the PET, as evidenced by (i) completion of 1,500 procurement audits to public procurements; (ii) hiring two firms to provide technical assistance for procurement systems, control and auditing, and staff training; and (iii) design of an electronic procurement information system.</p> <p>A presidential decree has been issued with implementing regulations to the <i>Ley de Contrataciones</i> for the operation of the <i>Oficina Normativa de Contratación y Adquisiciones (ONCAE)</i> and its consultative committee.</p>	<p>UPET has continued to implement PET and (i) has completed an internal review to take stock of progress in the implementation of the procurement law and (ii) based on the findings, has proposed a revised operational plan.</p> <p>ONCAE has implemented a satisfactory plan to disseminate new regulations, such as procedural manuals, sample contracts, etc.</p> <p>Government has issued standard bidding documents.</p> <p>Government has started to develop a strategy for strengthening the procurement systems of municipal governments.</p>	<p>Government has implemented an e-government procurement and contract management system.</p> <p>Regulations are being applied satisfactorily in all central government agencies.</p> <p>Standard bidding documents are being used in sectors implementing SWAps.</p> <p>Government has implemented the strategy to strengthen municipal procurement systems.</p>	<p>Increased transparency and efficiency in public sector procurement, reduce administrative costs and increase savings.</p>

## CHAPTER IV PROCUREMENT PERFORMANCE ON IDA AND IADB PROJECTS

69. This section reviews the experience to date of GOH procurement performance in IADB-IDA financed projects based on standard documents such as Implementation Completion Reports (ICR), Performance Audit Reports (PAR), Project Supervision Reports (PSR), procurement post-reviews, and procurement capacity assessments.

70. *Portfolio Profile.* IADB portfolio in Honduras comprises a total of 37 active loans for a total amount of US\$665 million with an aggregate undisbursed balance of about US\$396 million as of August 19, 2003 (see Table 3).

**Table 3: Statement of Loans**

Project ID	FY	Project	US\$	Disb. (%)
<u>1000/SF-HO</u>	1997	Programa Alternativo de Educación Básica	6.55	66.00
<u>1005/SF-HO</u>	1998	Reorganización de Sistema de Salud	36.00	49.10
<u>1024/SF-HO</u>	1998	Desarrollo San Pedro Sula y Distrito Cen	63.00	61.60
<u>1025/SF-HO</u>	1998	Ptmo. CT Dirección Ejecutiva de Ingresos	3.00	90.50
<u>1026/SF-HO</u>	1998	Programa de Asignaciones Familia Fase II	45.23	71.60
<u>1037/SF-HO</u>	1999	Programa de Vivienda Post-Huracan	10.39	50.30
<u>1048/SF-HO</u>	1999	Inversión en Agua y Saneamiento	26.00	4.70
<u>1053/SF-HO</u>	2000	Suplemento Programa Emergencia Vial	26.80	58.50
<u>1059/SF-HO</u>	2000	Eficiencia Transparencia Compras y Contr	14.58	19.60
<u>1063/SF-HO</u>	2000	Reactivación de la Economía Rural	30.00	34.90
<u>1066/SF-HO</u>	2000	Programa Integral Combate Pobreza Urbana	8.10	25.50
<u>1068/SF-HO</u>	2000	Programa Alivio Pobreza y Desarrollo Loc	25.00	91.50
<u>1069/SF-HO</u>	2000	Programa Transformación 3er Ciclo Educac	23.00	28.10
<u>1070/SF-HO</u>	2000	Modernización Poder Legislativo	2.60	15.10
<u>1073/SF-HO</u>	2000	Programa de Preinversión	12.00	35.10
<u>1077/SF-HO</u>	2001	Manejo de Recursos Naturales de Cuencas	25.00	10.50
<u>1078/SF-HO</u>	2001	Apoyo Censo 2001	3.00	100.00
<u>1082/SF-HO</u>	2001	Manejo Sostenible de la Cuenca Alto Río	3.30	5.30
<u>1090/SF-HO</u>	2001	Apoyo a Comunidades Indígenas y Negras	1.55	24.20
<u>1092/SF-HO</u>	2001	Ampliación Capacidades Técnicas de Comun	8.50	23.10
<u>1095/SF-HO</u>	2001	SIEPAC Interconexión Eléctrica Centro Am	25.00	0.30
<u>1104/SF-HO</u>	2002	Desarrollo Municipal San Pedro Sula II	9.00	0.20
<u>1106/SF-HO</u>	2002	Programa Fortalecimiento Sostenible del	7.60	17.50
<u>1112/SF-HO</u>	2002	Modernización Sistema Estadísticas	4.00	11.50
<u>1113/SF-HO</u>	2002	Programa Manejo Ambiental Islas de la Ba.	12.00	4.50
<u>1115/SF-HO</u>	2002	Modernización del Sistema Justicia Etapa	30.00	0.90
<u>1123/SF-HO</u>	2003	Seguridad Ciudadana Valle del Sula	20.00	1.80
<u>1125/SF-HO</u>	2003	Programa de Fomento a la Competitividad	10.00	5.20
<u>1435/OC-HO</u>	2002	Agua y Alcantarillado San Pedro Sula	13.70	0.00
<u>1478/SF-HO</u>	2003	Alivio Pobreza y Desarrollo Local fase I	35.00	0.00
<u>1506/SF-HO</u>	2003	Programa Pro-Bosque	17.50	0.00
<u>1532/SF-HO</u>	2004	Programa Sectorial Reducción de Pobreza	30.00	0.00
<u>1533/SF-HO</u>	2004	Programa Sectorial Financiero	25.00	0.00
<u>938/SF-HO</u>	1994	Ordenamiento Ambiental Islas de la Bahia	19.08	98.10
<u>981/SF-HO</u>	1996	Modernización de Tecnología Agropecuaria	15.00	65.20
<u>997/SF-HO</u>	1997	Proyecto de Alcantarillado Puerto Cortés	18.33	80.20
Total			664.81	

71. IDA portfolio of active projects consists of 14 projects with a total value of US\$330.18 million, of which US\$139.76 million were undisbursed as of May 18, 2004

(see Table 4). The majority of projects are concentrated in the human development sectors (education and health), and Hurricane Mitch-related reconstruction efforts (roads and infrastructure). A new set of projects is under preparation for FY04, which may provide an additional of US\$120 million.

**Table 4: Statement of Credits**

Project ID	FY	Purpose	IDA	Undisb.
P070038	2004	Trade Facilitation and Productivity Enhancement	28.06	29.26
P040177	2003	HN Financial Sector Technical Assistance	9.90	10.09
P081172	2003	HN Regional Dev in the Copan Valley	12.00	12.10
P057859	2002	HN SUST. COASTAL TOURISM PROJECT (LIL)	5.00	4.17
P053575	2002	HN- HEALTH SYSTEM REFORM PROJECT	27.10	28.48
P060785	2001	HN ECONOMIC & FIN.MANAGEMENT PROJECT	19.00	12.69
P007397	2001	HN COMMUNITY-BASED EDUCATION PROJECT	41.50	37.38
P064895	2001	HN FIFTH SOCIAL INVESTMENT FUND PROJECT	60.00	23.86
P073035	2001	HN Access to Land Pilot (PACTA)	8.00	6.45
P057538	2001	HN ROAD RECONSTRUCTION AND IMPROVEMENT	66.50	42.18
P064913	2000	HN EMERG DISASTER MGMT (TAL)	10.82	7.18
P057350	1999	HN PROFUTURO	8.30	3.78
P044343	1998	GEF HN-BIODIVERSITY CONSERVATION	0.00	2.44
P007398	1997	HN RURAL LAND MGMT	34.00	0.74
Total:			330.18	139.76

**72. Satisfactory Performance.** Reports rate procurement performance is satisfactory. Despite some deviations, there have not been major procurement issues in IADB-IDA financed projects. Project implementing agencies have largely contracting according to IADB-IDA rules and standard bidding documents. The number of complaints received is not significant. Reviewers have not found evidence of corruption, fraud or mismanagement of procedures and funds. Interviews with suppliers, consultants and contractors for this assessment revealed on projects to be fair and efficient in handling procurement.

**73. High Supervision Costs.** Although satisfactory, IADB-IDA projects in Honduras are characterized by high costs in supervision time and expenses to follow-up and enforce procurement compliance with policies and practices. PIUs continue to experience difficulties understanding and following procurement procedures. Procurement implementation and supervision need strengthening. Generally, project supervision costs are affected by weak procurement planning, organization, staffing, and IADB-IDA supervision standards.

**74. Areas of Improvement and Technical Issues.** Technical issues that require further work include improvements in the quality of bidding documents and contracts and evaluation reports. Some implementation agencies do not keep up-to-date procurement records. Some civil works contracts require upward adjustments because of poor technical specifications. There have been instances of implementing agencies attempting to tailor technical specifications in bidding documents in order to restrict competition and favor a single bidder. There have also been instances of implementing agencies taking

extended periods of time to conduct bid evaluations, requiring bidders repeatedly to extend bid validity, which may be an indicator of possible manipulation. There have been instances of implementing agencies attempting to apply evaluation criteria that were not included in the bidding documents. With regard to consultant contracts, there have been examples of several contracts being awarded as single source and the values of these contracts increasing substantially through contract extensions.

**75. Organizational Arrangements.** Procurement under IADB-IDA financed projects is generally handled by PIUs, which are supervised by their implementing agencies. There are two types of arrangements: (i) PIU staff is selected as individual consultants in a prequalification process, or (ii) PIU staff are the employees of the implementing agency itself. In the latter case, the PIU staff turnover is higher than in the case of individual consultants who receive higher pay than the public servants, whose pay level is regulated by government’s guidelines. The PIU procurement staff exercise all main procurement functions under the projects. The PIUs are mostly staffed by qualified procurement specialists who are familiar with IDA’s and IADB’s procurement procedures. Although staff has gained experience in WB-financed procurement, the number of procurement specialists is still limited. Furthermore, some key positions continue to suffer from political interference. There is the perception that PIU candidates are often chosen by their political ties to high-ranking officials.

**76. Procurement Supervision (prior and post reviews).** Both IADB’s and IDA’s policies set forth that all bids whose contracts surpass the limit amounts for ICB procedures will be reviewed ex-ante. Those bids whose contracts are inferior to the limits amounts for international bidding procedures could be revised ex post or by sample. This supervision method is not automatic but it is authorized under the legal agreements, on a case by case basis, depending on previous experience in the country and according to the institutional capacity of the executing agencies. The nature of projects financed by IDA and IADB has moved away from traditional infrastructure projects, which use ICB procedures, and therefore there has been a decline in the share of procurement subject to prior review. More projects are related to social sectors (e.g., education, health, rural development, and social investment) which involve large amounts of small-value contracts that are generally not subject to prior review by IADB-IDA staff, and where capacity for implementation and monitoring is generally weak and the accountability issues are significant. The consequence of these changes is that increasingly a larger share of procurement is subject to ex-post review with an associated increase in fiduciary risks. Often ex-post reviews have been inconsistent and in some cases not performed at all. Only a few projects have had the mandatory annual procurement supervision.

**77. Recommended Financial Thresholds.** Tables 5 and 6 show the recommended financial thresholds for IADB and IDA financed procurement in Honduras:

<b>Table 5. Applicable Thresholds by Procurement Method – IDA</b>	
Type of Procurement	Thresholds
LPI: Works	Over 1,500,000

LPN: Works	Between 150,000 and 1,500,000
LPN: Goods	Between 25,000 and 150,000
Minor works	Less than 150,000
LPI: Goods	Over 150,000
Pricing: Goods	Less than 25,000
Consultants (short-list of national consultants)	Less than 200,000

**Table 6. Applicable Thresholds by Procurement Method – IADB**

Type of Procurement	Public Procurement	Restricted Local Bidding (LLB)
Civil Works	Over US\$200,000	Less than US\$200,000
Goods and related services	Between US\$75,000 and US\$250,000	Less than US\$75,000
Consulting Services	Between US\$75,000 and US\$200,000	Less than US\$75,000

**HONDURAS**  
**COUNTRY PROCUREMENT ASSESSMENT REPORT (CPAR)**  
**ACTION PLAN**

This action plan was carried taking into consideration the activities and products included in the Program of Efficiency and Transparency's action plan. This plan focuses on the four procurement system areas: (i) planning, (ii) regulations, (iii) implementation and (iv) control.

<b>PLANNING</b>				
<b>ACTIVITY</b>	<b>PRODUCT</b>	<b>SUBMITTING DATE</b>	<b>RESPONSIBLE AGENCY</b>	<b>CRITICAL ASPECTS OR ASSUMPTIONS</b>
Procurement planning system development in accordance with the pluriannual budget and the Integrated Financial Management System.	Procurement Planning System.	June 2005.	Program of Efficiency and Transparency ("B" Component) / ONCAE / SIAFI	<ul style="list-style-type: none"> <li>- Main entities commitment and adequate coordination (SEFIN, institutions, ONCAE, etc.).</li> <li>- SEFIN determines the commitment and the budgetary execution procedures.</li> <li>- SEFIN determines the budgetary planning process for 2005.</li> </ul>
<b>REGULATIONS</b>				
<b>ACTIVITY</b>	<b>PRODUCT</b>	<b>SUBMITTING DATE</b>	<b>RESPONSIBLE AGENCY</b>	<b>CRITICAL ASPECTS OR ASSUMPTIONS</b>
Operation of the <i>Oficina Normativa de Contratación y Adquisiciones</i> (ONCAE).	The internal regulation for the ONCAE's operation in compliance with its regulations is being prepared.	In process.	ONCAE, supported by PET ("B and D" Component)	Approval of the corresponding regulation by the ONCAE.
	The Office for the ONCAE has been assigned	September 2004	Secretariat of the Presidency.	
	The ONCAE's personnel has been hired.	September 2004	ONCAE, currently supported by PET ("D" Component)	Qualified personnel identification under proposed conditions.
	The calculation equipment has been acquired and set up.	December 2004	ONCAE, currently supported by PET ("D" Component)	Dynamic functioning of the bureaucratic processes for the authorizations.

Follow-up of the ONCAE's Consultative Committee's regulations for their approval and announcement.	The CC's regulations have been approved and announced.	It is expected to have the CC's regulations before August 2004.	ONCAE, currently supported by PET ("D" Component)	
Support and follow-up to the designation and participation of all the CC members.	The Consultative Committee has been assigned and established.	September 2004	ONCAE and the Secretariat of the Presidency.	Lack of response from the corresponding entities in respect of the designation of their representatives.
Preparation of standardized documents.	At least 5 standardized documents have been issued.	Fourth quarter 2004	PET ("B and D" component) ONCAE and SIAFI	CC establishment and timely meetings for the document evaluation.
Preparation of procedure manuals.	3 procedure manuals have been issued.	Fourth quarter 2004	PET ("B and D" component) ONCAE and SIAFI	CC establishment and timely meetings for the manuals evaluation.
Preparation of documents, agreements and forms.	At least 20 regulating documents have been proposed in the procurement area.	In accordance with the following: -Seven regulating documents for the third quarter, 2004. -Nine regulating documents for the fourth quarter, 2004. -Four regulating documents for the second quarter, 2004.	PET ("B and D" component) ONCAE and SIAFI	CC establishment and timely meetings for the documents, contracts and forms evaluation (if the case).
Procurement legislation analysis.	Proposal document on amendments to the regulatory framework.	Before December 2005.	PET and ONCAE	

## IMPLEMENTATION

ACTIVITY	PRODUCT	SUBMITTING DATE	RESPONSIBLE AGENCY	CRITICAL ASPECTS OR ASSUMPTIONS
Designing and preparing an Information System (SIC) allowing an e-publishing of public procurements (procurement website).	The SIC has been designed, prepared and it is operating (See <a href="http://www.oncae.gob.hn">www.oncae.gob.hn</a> ).	June 2004	PET ("D" Component), ONCAE.	Institutional commitment to manage, feed and update the SIC.
	SIC's implementation pilot for the biddings corresponding to the following entities: SESAL, SEDUC, SAG, SOPTRAVI, FHIS, SEFIN, IHSS, HONDUTEL and ENEE (they approximately represent 90% of the domestic procurement).	Fourth quarter 2004	PET ("D" Component) and ONCAE. SESAL, SEDUC, SAG, SOPTRAVI, FHIS, SEFIN, IHSS, HONDUTEL and ENEE	Institutional commitment to manage, feed and update the SIC.

	Entry into the SIC of the majority of the public entities.	Before the end of 2005.	PET (“D” Component) and ONCAE.	Institutional commitment to manage, feed and update the SIC.
Designing the means of contributing to an understanding of the applicable legislation, procedures, best practices and procurement management using the SIC.	Spreading and comprehension functions and tools have been developed and are included into the SIC.	From June 2004.	PET (“D” Component) and ONCAE.	
Procurement function-related public officers training (In charge of the “C” component of the program).	Curses have been created and are currently operating (C component).	From May 2004 to before the beginning of 2005.	PET (“C” component).	Personnel availability for the training courses as well as for their public work.
	Certification of qualified personnel on procurement.	Certification after course and final a Certificate: (i) 180 officers before the end of October 2004, and (ii) 180 officers before October 2005.	PET (“C” component).	Personnel availability for the training courses as well as for their public work.
	The training system has been designed, it is operating, and has been transferred to ONCAE.	Third quarter of 2005	PET (“C” component). and ONCAE	Institutional commitment to support the System through the necessary finance and technical support.
Creating a strategy for the E-Procurement (E-P) implementation.	Feasibility analysis report for the E-P implementation in Honduras which shall contain: (i) Implementation strategy, (ii) Options, (iii) FODA analysis, (iv) Legislative revision, and (iv) Recommendations (it has been foreseen that this product will be financed by the Canadian donation which provides “binding funds” to the Canadian Consultants hiring)	December 2004	PET (“D” component).	Hiring qualified Canadian Consultants, experts on the subject and with excellent command of the Spanish language.
	Specific legislative development allowing all the functions of the E-P in Honduras.	During 2005.	PET (“D” component). and ONCAE	Political will and institutional commitment for implementing and managing legislative changes for the E-P functioning.



	Implementation of the recommended E-P solution.	18 months from January 2005.	PET (“D” component). and ONCAE	<p>Political will and institutional commitment for implementing and managing legislative changes for the E-P functioning.</p> <p>It has been agreed that it is not possible to implement the E-P on the current conditions of programming infrastructure and internet access, among others.</p>
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## CONTROL

ACTIVITY	PRODUCT	SUBMITTING DATE	RESPONSIBLE AGENCY	CRITICAL ASPECTS OR ASSUMPTIONS
Procurement processes audit on Executive Branch investment programs are currently being performed.	1,000 audits and audit reports.	750 before 2004 and 1,000 before 2006.	PET (“A” component).	Access and information timely availability.
Follow-up of the recommendations included in audit reports.	2,000 first and second follow-up reports to the recommendations implementation contained in the Audit Reports.	1,400 before 2004 and 2,000 before 2006.	PET (“A” component).	Access and information timely availability.
Internal control revisions of the Executing Units which depend on the Executive Branch.	30 audits and Internal Control Reports.	18 before 2004 and 30 before 2006.	PET (“A” component).	Access and information timely availability.
Follow-up to the recommendations implementation contained in internal control reports.	60 first and second follow-up reports to the recommendations implementation contained in the Internal Control Report.	26 before 2004 and 60 before 2006.	PET (“A” component).	Access and information timely availability.
Personnel hiring and support to the Supreme Audit Court (TSC) in order to form a Follow-up Unit that could properly handle audit reports that are sent.	The TSC’s Follow-up Unit has been created and it is operating.	August 2004	UPET and TSC	Timely availability of the necessary means and resources for its creation and proper functioning.
Reach extension on the PricewaterhouseCoopers (PwC) services:	The PwC service contract reach extension has been drawn up.	August 2004	UPET and CPME	

<p>(i) The Consulting Firm may transfer to an Internal Control Unit depending on the Executive Branch, all the necessary knowledge and tools allowing a continuity to the audit functions, and</p> <p>(ii) Until the aforementioned transfer processes are finished, PwC shall continue auditing the subsequent portfolios of procurement process.</p>	<p>The Internal Control Unit has been designed and it is operational.</p>	<p>December 2004</p>	<p>UPET, CPME and the Secretariat of the Presidency.</p>	<p>Timely availability of the necessary means and resources for their creation and proper functioning.</p>
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