



1. Project Data:		Date Posted : 07/03/2002	
PROJ ID: P007388		Appraisal	Actual
Project Name: Transport Sector Rehabilitation	Project Costs (US\$M)	104.58	106.04
Country: Honduras	Loan/Credit (US\$M)	65	85
Sector(s): Board: TR - Roads and highways (67%), Central government administration (17%), Aviation (16%)	Cofinancing (US\$M)		
L/C Number: C2458			
	Board Approval (FY)		93
Partners involved :	Closing Date	12/31/1997	12/31/2001
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

The two major objectives of the project were :

- a) to help improve the institutional and regulatory framework of the sector** so as to:-
 - i) encourage greater private sector provision of transport services;
 - ii) establish investment and pricing policies based on efficiency and equity considerations;
 - iii) integrate into the Secretariat of Communications, Public Works and Transport (SECOPT) the systematic consideration of environmental concerns;
 - iv) strengthen SECOPT's planning and regulatory capability;
 - v) restructure the port subsector and redefine the role of the National Port Company (ENP);
 - vi) design and implement a strategy for the development of the airport subsector; and
 - vii) rationalize railway operations; and

b) to help improve and rehabilitate transport infrastructure in the main trade corridors in support of the Government's efforts for export led growth and reduce the backlog of deferred maintenance

b. Components

There were three key components

- i) Policy - as reflected in the Government's Transport Sector Policy Declaration, and Action Plans to address the most important sector issues;
- ii) Investment (\$61.7 million) - which finances a time slice of the Government's 1993-96 Transport Sector Investment Program amounting to \$545.7 million;
- iii) Institutional development and technical assistance (\$3.3 million) - to implement a regulatory framework consistent with the new public-private sector mix, integrate environmental considerations into all transport modes, implement privatization/divestiture measures of Action Plans for port/airport subsectors and strengthen bridge management capability.

Revised Components :

There were 5 amendments to the components. The **First Amendment** of 1994 financed an additional 260 km of feeder roads and bridges damaged by Tropical Storm Gert, and provided an advance of \$ 10 million from the credit for civil works to relieve temporarily the pressure on counterpart funding . The **Second Amendment** of 1996 constructed and rehabilitated additional bridges and expanded the maintenance program to an additional 750 paved roads. The **Third Amendment** provided for construction of the apron to the San Pedro Sula airport terminal . In response to the extensive damage caused by Hurricane Mitch, the **Fourth Amendment** of 1998 provided a Supplementary Credit of \$20 million for rebuilding and repairing of critical infrastructure (which included project civil works), technical assistance / supervision and replacement of computer equipment and vehicles . The **Fifth Amendment** in 2000 facilitated the financing of equipment and vehicles required to launch the operation of the Road Fund.

c. Comments on Project Cost, Financing and Dates

Actual project costs under the original credit were \$84.27 million (2% cost overruns) against \$ 82.88 million at appraisal, with IDA financing \$65 million and the Government \$19.27 million. Ultimate costs from the supplemental

credit was \$21.77 million with a cost overrun of 4% with IDA providing \$20 million. The project closed on December 31, 2001, 4 years after original closing date.

3. Achievement of Relevant Objectives:

The project achieved its objectives of improving the institutional and regulatory framework of the transport sector, rehabilitating transport infrastructure in the main trade corridors, and reducing the backlog of deferred maintenance as follows:-

Physical:

- Rehabilitation of 170 km of highways (150 km at SAR) on the main trade corridor, with an average ERR of 21%.
- Rehabilitation of 1236 km (1000km at SAR) of feeder roads including 260 km damaged by Tropical Storm Gert.
- Periodic maintenance of 1864 km (1800 km at SAR) of the main and feeder roads
- Rehabilitation of 1170 m of bridges (1000 m at SAR)
- Rehabilitation of San Pedro Sula Airport runway and construction of terminal apron

Private Sector Development :

- Concession Law passed in 1998 providing for private sector financing / operation of transport infrastructure
- Concession of the 4 main Honduran airports to private sector
- Only the first steps towards concessioning of port and railway subsectors are underway .
- Outsourcing of all road rehabilitation, periodic and routine maintenance to the private sector and the dismantling of the Directorate General of Roads and Airports Maintenance ((DGCCA).

Policy/Institutional :

- Policy dialog on pricing policies based on efficiency and equity considerations are in progress, but restructuring of urban public transport to eliminate poorly designed subsidies and the establishment of cost based tariffs in the port subsector have yet to be undertaken .
- "Open Skies" Law of 2000 which allows free reciprocal rights to foreign countries to provide air service to Honduras
- Transformation of SECOPT into the Ministry of Public Works, Transport and Housing (SOPTRAVI), and the strengthening of its policy, planning and regulatory functions .
- Strengthening of the Environmental Unit within SOPTRAVI and the mainstreaming of environmental impact assessments into all major sector investments
- Establishment of GIS, HDM III, Bridge Management System and a transport data base in the relevant directorates to support monitoring, prioritization and procurement of civil works in the road subsector .
- Reorientation of and strengthening of Directorate General of Civil Aviation into its new regulatory role
- Restructuring of National Port Authority (ENP) and Honduran National Railway (FNH) was partially achieved

4. Significant Outcomes/Impacts:

- Despite the setbacks and widespread damage from Tropical Gert and Hurricane Mitch, the project stayed on track with its long term goals and delivered most of its targeted objectives . Physical targets were surpassed and the most important institutional reforms were achieved . The project also built on strategic lessons from the disasters that led to institutional strengthening / management of natural disasters, including changes in the technical specifications, drainage considerations and routine maintenance practices which would lessen the impact on road infrastructure from similar events in future .
- Planning, evaluation, environmental and regulatory capabilities of the various subsector institutions have been considerably strengthened
- Role of the private sector has been considerably enhanced especially in the roads and aviation subsectors .
- Dismantling of SECOPT and restructuring of subsector institutions have generated private sector firms with the relevant technical expertise .
- Concessioning of the 4 major airports to private sector management and operation - International Civil Aviation Organization (ICAO) provided substantial technical assistance .
- Complete outsourcing to private sector for all road maintenance and rehabilitation .

5. Significant Shortcomings (including non-compliance with safeguard policies):

- A substantial amount of the works performed under the original project (some up to 70%) were destroyed by Hurricane Mitch, and had to be redone. This implies a lower rate of return overall on physical investment than was reflected in the ERR calculation provided for in the ICR.
- Restructuring of ENP and FNH was incomplete and only the very first steps towards implementing the action plans for concessioning of port functions and the phasing out of the rail subsector have been taken
- Given the project's emphasis on policy and structural reforms, project M & E could have placed more priority on tracking their progress.
- The road fund, implemented with IDB assistance, is an essential sector component . The adequacy and reliability of its sources of funding are not yet known, and may have implications on the performance and sustainability of road maintenance activities supported by the project .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
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Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- Project adopted a rich reform agenda aimed at fostering efficiency gains in all transport modes while strengthening regulatory capacity - It was highly ambitious but was able to succeed because it was built on solid sector work and had the support of highly committed "reformist" governments from two different administrations .
- Flexibility, promptness and balancing of long and short term goals in dealing with natural disasters enabled the project to mobilize critical technical and financial resources while ensuring IDA's fiduciary mandates were maintained
- Utilizing the disasters to demonstrate the vulnerability and weaknesses of existing infrastructure led to improved technical specifications, maintenance and financing considerations
- Project coordination contracted out to a private consulting firm, can, under the right circumstances yield a positive outcome. Manned by former staff of SOPTRAVI, the consulting firm had the desired public sector administrative know-how and the drive and efficiency of the private sector . The follow on project will adopt the same mechanism for project coordination .

8. Assessment Recommended? Yes No

Why? To document project experience and draw lessons from 1) reforms achieved in the roads and aviation subsectors, and 2) concessions and private sector participation in the sector .

9. Comments on Quality of ICR:

Quality of ICR is very high. Information provided is clear and thorough and discussion of substantive issues are well supported. Given the importance of sustainable maintenance in the sector, ICR could have provided more information on the Road Fund, its adequacy, reliability/sustainability etc. ERR ex-post could have been provided for more than the 2 sections of highways (20% of total project costs) when civil works accounted for the major share (75%) of the original credit.