

**Ex-Ante Evaluation (for Japanese ODA Loan)****Central America and the Caribbean Division, Latin America and the Caribbean Department, Japan International Cooperation Agency (JICA)****1. Program Name**

Country: Republic of Honduras (Honduras)

Program: COVID-19 Crisis Response Emergency Support Loan

Loan Agreement: October 15, 2021

**2. Background and Necessity of the Program**

(1) Current State and Issues of the Freight and Logistics Sector Affected by COVID-19 Spread and the Priority of the Program in Honduras

Regarding the status of COVID-19 in Honduras as of July 8, 2021, the number of infections is 269,000 and the number of deaths is 7,129. In this country, which is affected by customs regulations and measures to prevent the spread of infection, freight and logistics have been delayed or stagnated. This has caused difficulty in transporting products as well as suspension of production and exports due to raw materials in transit, in agriculture and manufacturing, which are the key industries in the country. Economic activities have also stagnated with the increased unemployment rate and decreased domestic demand.

In Honduras, there were originally bottlenecks caused by the inefficiency of logistics operations such as the significantly higher regional logistics cost than other countries (Central America: US\$0.17/km, US/Brazil: US\$0.0035/km) and the slowness of transport (Transport rate: 5–19 km/h) (JICA 2017<sup>1</sup>). These escalated the impacts of the COVID-19 pandemic described above. In addition, Latin America is deemed to be an area on which the impact of a decrease in trade caused by the COVID-19 pandemic is the strongest (the Economic Commission for Latin America and the Caribbean or ECLAC 2020<sup>2</sup>). With the COVID-19 pandemic, shipments to the US and Europe significantly decreased and the import volume also decreased. The interdependence of trade in North America, Europe and Asia has also declined. In these circumstances, the role of regional integration has attracted attention as a measure to reduce the vulnerability to changes in supply and demand outside the region as well as a measure to revitalize the regional economy. Improvement of logistics and increase in the competitiveness of each country are deemed to be important

<sup>1</sup> JICA (2017) "Final Report of the Data collection survey on logistics in Central America"

<sup>2</sup> ECLAC (2020) *Los efectos del COVID-19 en el comercio internacional y la logística*

factors for it (ECLAC 2020).

The sector including freight, logistics and related industries in Honduras accounted for 21% of GDP in 2020. This was higher than agriculture, which accounted for 13%, and manufacturing, at 18%. The sector's growth rate of total value added was 8.4% (in the first quarter of 2021), following electricity and water supply sector (Central Bank of Honduras). The freight and logistics sector is one of the key sectors in Honduras. The Port of Cortes on the Atlantic coast in northwestern Honduras, handling nearly 80% of trade of the country, is not only the center of the logistics network that links the agriculture, food and manufacturing industries inside and outside the country but also an important commercial port for logistics in Central America. Also, in order to make Maquila (a bonded processing zone), which accounts for 5% of the GDP and 3.8% of employment in the country, function as an industrial complex (conglomerate) and to attract investment and promote industries, it is important to make logistics efficient.

To resolve these issues, the Honduran government has made efforts regarding reforms in the freight and logistics sector, such as the formulation of a comprehensive plan, regulatory and institutional reforms, and the establishment of smooth trade and modernization through three-phase financial support provided by the IDB. These efforts can contribute to development of resilient logistics infrastructure to respond to crises like COVID-19 as well as the recovery of the devastated economy. It is also pointed out that in order to promote regional integration by the member countries of the Central American Integration System (SICA), including Honduras, it is necessary to improve the logistics system, reduce the logistics cost to increase the competitiveness, and add value to industry.

For flexible financial operation toward such economic recovery and logistics improvement, it is deemed to be urgently necessary to fill the financing gap. The fiscal surplus of Honduras in relation to GDP was 0.1% in 2019. However, affected by the COVID-19 pandemic, that in 2020 worsened to -4.5% (International Monetary Fund or IMF), and that in 2021 is estimated at -3.4%<sup>3</sup>. On the other hand, since it is planned that the real GDP growth rate, which dropped to -9% in 2020 through fiscal stimulus and recovery from the two hurricanes in 2020, will be recovered to 4.5% in 2021, it is necessary to finance

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<sup>3</sup> Besides, the fiscal balance of Honduras (excluding the financial sector) in relation to GDP, written in a material of IMF Board of Directors, was -5.5% in 2020 and -4.5% in April 2021, which was revised downward to -5.4% in IMF Press Release in May 2021.

1,889 million US dollars. Out of this, 435 million US dollars are expected to be financed by financial support from abroad. Along with the IDB's financial support of 118.48 million US dollars, expectations for a Japanese ODA loan by the end of the year are great.

The Program is meant to meet the financing needs of the Honduran government, which was put in difficult financial circumstances with the COVID-19 pandemic, promote smooth border and domestic logistics, and help revitalize the domestic economy through promotion of industries and attraction of foreign investment. It can be expected that by improving logistics that support the production and sale chains in agriculture and manufacturing, which are the key industries in Honduras, these industries will be promoted, and employment will be stabilized and wages will increase in the logistics sector, in which smaller and micro enterprises account for 45%. This can also contribute to stabilization of the life of citizens and improvement of employment.

#### (2) Japan and JICA's Cooperation Policy and Operations in Honduras

In Japan's Country Development Cooperation Policy for Honduras (April 2012), "Support for Sustainable Socioeconomic Development with a Core of Measures for Regional Vitalization" is set as the main goal. Since it is necessary to revitalize the regional economy and ease the serious poverty problem particularly by providing support focusing on development of regional industries and training of human resources necessary for the development, Japan intends to contribute to resolving development issues by setting "regional development" as a priority area. In the JICA Country Analysis Paper for Honduras (March 2020), "reinforcement of socioeconomic infrastructure" is positioned as one of the development issues to address in the country. The Project, which is meant to support the Honduran government's reforms in the freight and logistics sector through financial support, is agreeable to the Policy and the Analysis.

Also in JICA's Cooperation Policy, as one of the five priority areas in the "Five-Year Plan of the SICA-JICA Regional Cooperation Action Plan," which was set between SICA and JICA in October 2015, the "logistics area" is positioned. The Project is meant to realize JICA's contribution to this area along with JICA's Technical Cooperation for Development Planning "Project to Strengthen Capacities in the Elaboration of Regional Master Plan for Mobility and Logistics for Sustainable Regional Development in the Framework of Central American Economic Integration," which will be described later.

#### (3) Other Donors' Activities

As emergency support in response to COVID-19, the World Bank approved, in April 2021, the “Honduras COVID-19 Emergency Response Project” (20 million US dollars) for the purchase of COVID-19 vaccines and strengthening health systems, which can correspond to a vaccine supply for about 25% (about 2,400,000) of the total population. The first shipment in the plan to have vaccines supplied by COVAX, which the Biden administration announced in June, brought 1,500,000 doses of the Moderna-manufactured vaccine to Honduras in July.

The IDB, which supports regional integration in Central America and improvement in the hub function of Honduras in regional logistics, will approve the co-financing project with the Project, “Honduras Transportation and Freight Logistics Sector Reform Program III” (in which the amount financed in this phase is 118.48 million US dollars, and the total amount to be financed is 320 million US dollars, with all policy actions expected to be achieved by the end of the year) at the Board of Directors in September 2021. In Phase I, which was approved in October 2018, the priorities of reforms and the policy and institutional frameworks of reform promotion were suggested. In Phase II, approved in April 2020, the realization of the suggestion was emphasized by preparing legal documents and other means. In the following final Phase III (in which co-financing with the Project is planned), the activities continuing to be implemented from the Phase II will be completed and the implemented activities will be evaluated.

### **3. Program Description**

#### (1) Program Objective

The objective of the Program is to improve the freight transportation and logistics sector of the Republic of Honduras for gains in the competitiveness and regional integration through the regulatory and institutional reform, and planning, and trade facilitation, thereby contributing to promote the economic stabilization and development efforts of the Republic of Honduras.

#### (2) Program Site/Target Area

All over the Republic of Honduras

#### (3) Program Component(s)

In order to achieve the objective above, the Program will promote and improve the Honduran government's independent continuous effort by confirming the achievement status of the policy matrix with the following as features.

Component 1: Macroeconomic stability

Component 2: Reform of the regulatory framework for freight logistics and

trade facilitation

Component 3: Consolidation of the institutional framework for freight logistics and transportation

Component 4: Establish and modernization of comprehensive planning, transportation and logistics services, and trade facilitation processes

-Sub-Component 4.1: Establishing comprehensive planning processes and improving transportation and logistics services

-Sub-Component 4.2: Modernizing trade facilitation processes

(4) Estimated Program Cost (Loan Amount)

218.48 million US dollars. Out of this, the ODA loan amount is 11,011 million yen, equal to 100 million US dollars, which is converted based on the Bank of Japan monthly average rate in June: 1 US dollar = 110.11 yen. (The amount co-financed by the IDB is 118.48 million US dollars.)

(5) Project Implementation Period

September 2021 to December 2021 (A total of 4 months). With disbursement (scheduled for December 2021) after all policy actions are achieved, the Project is to be completed.

(6) Program Implementation Structure

1) Borrower: Government of the Republic of Honduras

2) Executing Agency: Secretaría de Estado en el Despacho de Finanzas (SEFIN). The monitoring of policy actions will be conducted with the Honduran government and the IDB. JICA will make recommendations on inputs to parties concerned with the policies particularly in the above-mentioned technical cooperation.

3) Collaboration with Other Donors: The Program is co-financed with the IDB's "Honduras Transportation and Freight Logistics Sector Reform Program III (in which amount financed by this phase is 118.48 million US dollars and this program's grand total amount to be financed is 320 million US dollars). The IDB approved Phase III in September 2021. Monitoring will be also conducted in collaboration with the IDB.

(7) Collaboration and Sharing of Roles with Other Projects and Other Donors

1) Japan's Activity

Through the implementation process of the Technical Cooperation for Development Planning "Project to Strengthen Capacities in the Elaboration of Regional Master Plan for Mobility and Logistics for Sustainable Regional Development in the Framework of Central American Economic Integration"

(from November 2019 to August 2023), JICA has strengthened the capabilities of Honduran government personnel and has contributed to realization of the policy actions supported in the Project. We will continue to support the capacity building and the policy development of Honduran government personnel, and contribute to achievement of the policy actions. In addition, if the foundations of related plans, policies and systems are built through achievement of the policy actions in the Project, synergistic effects on achievement of the outcome of the technical cooperation above can be expected. The northern logistics conglomerate, which is the target area of the master plan formulated in the Project (Sub-Component 4.1 in the policy matrix), is the target area of JICA's master plan to be formulated in the technical cooperation above for six countries in Central America. Through the formulation of JICA's master plan, we will clarify issues for the Honduran government to address and commit the Honduran government to the implementation. In addition, through this co-financing, the above-mentioned collaboration between the Project and the technical cooperation will be recognized among parties concerned, and promotion of further collaboration and production of further cooperation effects can be expected.

Besides, speeding up the procedures at El Amatillo Customs, which is one of the indicators in the Project, is meant to promote fulfillment of the functions of border facilities at the bridge, which was constructed in Japan's Grant Aid "Project for Construction of the Japan-Central America Friendship Bridge," on the border with El Salvador. Actions to promote speeding up the procedures, which is to be suggested in JICA's master plan above, are being taken. This can be positioned as an example of the synergistic effects.

Also, in recent years, JICA has supported the maintenance and improvement of the most important trunk roads for logistics in Honduras through grant aids such as "Project for Landslides Prevention in National Road No.6" and "Project for Reconstruction of Bridge on National Road No.1." In response to this financial support in the Project, we have confirmed that we would collaborate with the Honduran government and these projects to work on road maintenance and improvement necessary for securing logistics routes connected to the target areas of the projects.

## 2) Other Donors' Activity

The Project is co-financed with the IDB, so the achievement status of the targeted outcome will be confirmed with the IDB, based on the monitoring and

evaluation plans, on which the IDB agreed with the Honduran government, through information gathering from the Honduran government's reports and Honduran official media coverage. The achievement status of the agreements<sup>4</sup> between the Honduran government and JICA, described in "1) Japan's Activity" above, will be continuously confirmed even after the disbursement (project completion), through Honduras Office and related JICA projects.

(8) Environmental and Social Consideration/Cross-Sectoral Items/Gender Category

1) Environmental and Social Consideration: Category C

2) Cross-Sectoral Issues: No

3) Gender Category:

【Gender Project】 ■ Gender Informed (Significant): GI (S)

<Activity Content/Reason for Categorization> In light of the current state whereby there are very few female drivers for freight transport, the Project includes an effort of setting a specific ratio of women to be given a driver's license in activities for improvement of automobile freight transport services, to make it an incentive to promote fostering female drivers.

(9) Other Important Issues

The achievement status of unachieved policy actions will be followed up.

<b>4. Targeted Outcomes</b>
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(1) Quantitative Effects

1) Outcomes (Operation and Effect Indicators)

Indicator	Baseline (Actual Value)	Target (2022) 【Expected value 1 year after project completion】
IDB Classification: IMPACT Indicator		

<sup>4</sup> These agreements are associated with the following two indicators in Operation and Effect Indicators of "4. Targeted Outcome": Indicator "Number of annual budgets implemented in response to the priorities specified by the National Committee of Logistics (CNL)" and Indicator "Reduction of the border crossing time at El Amatillo Customs on the border between Honduras and El Salvador." Through achievement of the former indicator, the Honduran government will work on road maintenance and improvement necessary for securing logistics routes, and further achievement of the latter indicator will be promoted by the Honduran government's approval of the items on making efficient the export procedures at El Amatillo Customs in the master plan to be formulated in the ongoing development-plan-survey technical cooperation "Support Project for Formulation of a Master Plan of Logistics Development in Central America for Sustainable Economic Development and Regional Integration."

World Bank's Logistics Performance Index (lowest 1 to highest 5)	2.46 (2016)	2.82
Honduras' Logistics GDP/Nominal GDP (%)	6.9 (2017)	7.1
IDB Classification: RESULTS Indicator		
Percentage of registered freight vehicles or trailers with third-party insurance (%)	0 (2018)	50
Number of freight vehicles registered by smartcard	29 (2018)	20,000
Annual budget exercise taking into account the priorities identified for the sector by the CNL	0 (2018)	4
Number of driver certifications issued by the National Academy of Overland Transportation (ENTT)	0 (2018)	4,500
Number of driver certifications issued by the ENTT to women	0 (2018)	450
Reduction in time taken to clear the red channel at the El Amatillo customs post	74 h 35 min (2016)	29 h 50 min

(Note 1) As the Operation and Effect Indicators, the same indicators as the co-financer IDB will be used.

(Note 2) The World Bank's Logistics Performance Index (LPI) consists of the six items: Customs, Infrastructure, International Shipments, Logistics Quality and Competence, Tracking and Tracing, and Timeliness. In the Project, policy actions intending to improve these are set.

(Note 3) With IC Card registration, vehicle management and regulation will be promoted.

## (2) Qualitative Effects

Recovery of the economy battered by COVID-19, maintenance and revitalization



of economic activities, and improvement of policy systems and performance improvement in the logistics sector

### (3) Internal Rate of Return

The internal rate of return will not be calculated because this is a program-based loan.

## **5. Lessons from Similar Past Projects and Application to this Project**

The results of the Ex-Post Evaluation of the Japanese ODA loans for emergency financial support to the three Southeast Asian countries, which was made at the time of the 2008 financial crisis, or the Philippines “COVID-19 Crisis Response Emergency Support Loan,” the Indonesia “Climate Change Program Loan II (to support economic stimulus)” and the Vietnam “Climate Change Program Loan (II) (including Economic Stimulus and Budget Support Loan)” (evaluated in FY2011), show that the loans promptly provided government funds of a necessary size for economic stimulus measures in each country, and the government of each country appreciated the size and promptness. If one of the purposes of emergency financial support is to provide funds without delay to encourage prompt response to a crisis, the timing of support provision is critically important. It is desirable to simplify the procedures for support provision to the extent possible, and to make systems expeditious and flexible. This lesson has been learned from the loans.

The results of the Ex-Post Evaluation of the Japanese ODA loans to Pakistan, “Energy Sector Reform Program” and “Energy Sector Reform Program (II)” (evaluated in FY2017), also pointed out that in order to specifically support the policy actions presented by a development policy loan, JICA’s combining technical cooperation in a specific sector with provision of a development policy loan and its implementation of these in parallel can lead to more effective policy improvement and reform.

In light of the above, the Project will ensure prompt provision by utilizing the policy matrix and the performance indicators, on which the Honduran government has already agreed with the IDB. In addition, in order to support steady implementation of the presented policy actions in the freight and logistics sector, we will ensure the effectiveness of policy improvement and reform, and promote the produced effects of the past financial cooperation projects by implementing the policy actions in combination with the past technical cooperation in the same sector. For the details of collaboration with the past

technical cooperation and financial cooperation, see “(7) Collaboration with Other Projects and Other Donors, 1) Japan’s Aid” above.

## **6. Evaluation Results**

The Project, which is agreeable to the development issues and development policies in Honduras as well as Japan's and JICA's cooperation policies, is meant to encourage recovery of the economy, affected by COVID-19, in Honduras, through financial support provided to the Honduran government, addressing the completion of policy actions toward reform of the freight and logistics sector by the end of the year. As it can be deemed that the Project can contribute to SDG 8 (Promote sustained, inclusive and sustainable economic growth, and full and productive employment and decent work for all) and SDG 9 (Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation), the necessity of supporting the implementation of the Project is high.

## **7. Plan for Future Evaluation**

### (1) Indicators to be Used

As shown in 4. above.

### (2) Timing

Ex-Post Evaluation 1 year after project completion

End