



# **HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT**

## **HONDURAS**

Public Investment Management Assessment –  
PIMA and Climate PIMA

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### High-Level Summary Technical Assistance Report Fiscal Affairs Department

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**The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.**

**ABSTRACT:** An IMF team conducted a Public Investment Management Assessment including the module on climate change in Honduras. It identified strengths related to the recent reforms in the National Public Investment System of Honduras (SNIPH), but also several weaknesses along the investment cycle that affect its efficiency, and its capacity to respond to climate change related challenges. The mission team identified six high-priority recommendations to improve public investment management, including from a climate change perspective.

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## Background

At the request of the Ministry of Finance of Honduras, a team from the IMF's Fiscal Affairs Department (FAD) conducted a Public Investment Management Assessment (PIMA) and with its climate component (C-PIMA) during January 29-February 16, 2024. There were a series of preparatory virtual meetings prior to the mission.

## Summary of Findings

This PIMA and C-PIMA evaluation identifies opportunities to improve the public investment management system of Honduras in terms of the strength of the institutional framework and its effectiveness which, if implemented, can increase spending efficiency and therefore economic growth.

Over the last decade, Honduras' real GDP per capita growth has been lower than that of its regional peers, resulting, among other reasons, from limited public investment and the impact of natural disasters. As a result, Honduras is one of the poorest and most unequal countries in the Western Hemisphere, with a GDP per capita of US\$2,500 and poverty rates around 70 percent. Over the past two decades, public investment spending - averaging 4 percent of GDP - has lagged comparable countries, at 5.7 percent on average in Latin America and the Caribbean and 7.5 percent in Low Income Developing Countries. In recent years, the COVID-19 crisis and two tropical storms increased the challenges. Aware of the considerable needs, the authorities are seeking to increase public investment in climate-resilient infrastructure projects.

There is scope to strengthen the efficiency of capital expenditure in Honduras - through better public investment management - and thus significantly increase the benefits generated with a given level of capital spending. Although Honduras outperforms its peers in terms of the perceived quality of public infrastructure (as measured through surveys), physical access to infrastructure is relatively low. Consistent with its limited capital stock, Honduras has a comparatively low level of access to educational, health, road, and electricity production infrastructure services. Comparing indicators of quality and physical access to infrastructure with the public capital stock, Honduras has an efficiency gap of 32 percent. This means that the same capital expenditure could generate almost a third more benefits than it currently provides. This PIMA assessment identifies weaknesses in the public investment management system, both in terms of institutional design and effectiveness, which, if improved, could reduce this efficiency gap.

Among the positive points, compared to Latin American and Caribbean countries, Honduras stands out for a comprehensive public investment management system. The National Public Investment System of Honduras (SNIPH) covers a large part of public investment projects, not only those in central government, but also those of public enterprises and other decentralized agencies. Other strengths are the detailed analysis of fiscal risks, published in an annual fiscal contingency report, and the limited extent of extra-budgetary operations, as a large share of investment has been recently incorporated into central government with the closing of public trust funds in 2022, which enhanced transparency and control.

However, there are also challenges in public investment management, mainly centered in the planning phase, leading to subsequent inefficiencies, such as delays in infrastructure construction, under-execution of spending and frequent reallocation of funds. The principal difficulties relate to the following: (i) Lack of sectoral planning as a framework for investment decisions. In the absence of concrete and costed national and sectoral infrastructure plans, there is currently no strategic orientation for public investment. (ii) Weakness in the preparation of large projects - especially ex ante evaluation - which implies that funds are allocated to immature projects. The current selection process generates incentives to submit investment projects as early as possible, without proper preparation, which can then cause delays in their implementation. (iii) Failures in the coordination of investment developed by the central government and municipalities. Although municipalities develop a third of the country's investments, there

is not yet a process in place to make coordinated investment decisions between them and the central government. (iv) Lack of a governing body to enable an effective, competitive and transparent public procurement system. Less than one third of the information on procurement is published on the public Honducompras portal, which limits competition and leads to delays. According to IDB estimates, inefficiency in public procurement spending is almost 2 points of GDP. (v) Although projects under execution are monitored, this does not systematically result in actions that accelerate the implementation of projects.

Climate risks and natural disasters are increasingly threatening Honduran public infrastructure, highlighting the need to integrate climate considerations into public investment management. Honduras is one of the first countries in the world to have published a budget annex with a climate change focus and has properly incorporated ex ante mechanisms for disaster financing. However, opportunities for improvement have been identified. First, there is a need to improve planning, especially the linkage between public investment strategies with the Nationally Determined Contribution (NDC) and the National Adaptation Plan (NAP). In addition, there is a need to strengthen coordination between the entities in charge of public investment with a climate focus, both at the central level and with municipalities and state-owned enterprises. Mechanisms for ex ante evaluation of climate-related projects are relatively weak, and projects with a climate change focus are not prioritized. There is also no methodology for assessing maintenance needs arising from climate change. Finally, there is room to improve the analysis of climate-related fiscal risks.

## Summary of Recommendations

Looking ahead, public investment management in Honduras needs to be strengthened to provide more and better public infrastructure, and to address climate change challenges. The mission team prepared a medium-term action plan, structured around the six high-priority recommendations listed below.

- Design a strategic framework for public investment to operationalize government priorities, including with respect to fighting climate change. Elaborate a national infrastructure development plan with costed projects that is aligned with the investment plan for the Nationally Determined Contribution (NDC).
- Strengthen transparency and coordination of public investment spending beyond the central government, particularly with municipalities. Establish a coordination process between central government and municipalities, with emphasis on the consistency of the infrastructure projects developed on both levels of government, as well as the discussion of climate-related aspects of public infrastructure.
- Improve the preparation of large infrastructure projects, notably by strengthening ex ante evaluations and assessing climate change adaptation and mitigation aspects. Require rigorous evaluations of projects prior to allocating funding to them and establish a pipeline of appraised and projects ready to be included in the budget.
- Strengthen the medium-term budget framework and the project selection process. Redesign the project selection process to include only the most strategic and mature projects in the budget. Strengthen the process to allocate fiscal space to projects on a multi-year horizon, based on a rigorous analysis of expenditure ceilings and baseline projections. Identify green infrastructure projects in the budget.
- Lay the foundations for more competitive, transparent and timely public procurement processes for large infrastructure projects, notably via a revised procurement law and a strong public entity in charge of governing the public procurement system.
- Fluidify the execution of investment projects through a proactive monitoring of the financial and physical execution of infrastructure projects - that identifies obstacles to execution, concrete solutions, and generates lessons learned - and a more forward-looking cash management that ensures timely disbursements.