

Increasing the transparency, participation and accountability of Public-Private Partnership infrastructure projects: Lessons learnt from CoST Honduras

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In 2017 CoST Honduras became the first member of the initiative to focus on heightening transparency, participation and accountability in Public Private Partnership (PPP) projects. In taking on this endeavour, a collaborative partnership with the World Bank alongside innovation and determination was key to bringing key issues to light. This led to important project and sectoral change, preventing an unsustainable project from moving forward and contributing to institutional reform. To use an infrastructure analogy, the pioneering experience of CoST Honduras in this area has been like building a bridge while crossing it. Many lessons can be learnt from this experience.

1. Government adopts PPPs to incentivise investment in infrastructure

In the 2000s as a low-income and natural disaster-prone country, Honduras faced a major infrastructure gap but was unable to mobilise sufficient public resources to finance public investments through traditional means. Public Private Partnerships (PPPs) emerged as an attractive option to fill this gap, where major infrastructure would be developed through a financed approach relying, in part, on users paying for the assets and spreading payments over a longer period.¹ As has been seen elsewhere, the predominant attraction of PPPs to the Honduran Government was the potential for postponing cash expenditure for major projects.

The CoST Honduras PPP experience

1. Government adopts PPPs to incentivise investment in infrastructure
2. Honduras demonstrates commitment to open government and transparency
3. CoST and World Bank collaborate to improve PPP transparency in Honduras and beyond
4. Evolution of PPP data disclosure
5. CoST approach amplifies and promotes action on key issues
6. Composite approach leads to institutional reform
7. Future endeavours can use lessons learnt to catalyse change



In 2017 CoST Honduras begins its journey to heighten PPP transparency

¹ This paper uses the OECD definition for PPPs as: “an agreement between the government and one or more private partners according to which the private partners deliver the service in such a manner that the service delivery objectives of the government are aligned with the profit objectives of the private partners and where the effectiveness of the alignment depends on a sufficient transfer of risk to the private partners”. See Brumby J., Kaiser K. & Kim JH. (2013), available at: www.tinyurl.com/yf3nkccb.

In 2010, the country passed a [PPP Promotion Law](#) which in hindsight exacerbated some of the risks inherent to the PPP modality. The law created 'Coalianza', a new unit in charge of promoting PPPs to contracting agencies and private investors as well as overseeing their implementation. The unit was entitled to collect a fee of up to 2% of the contract value for projects awarded which created skewed financial incentives and conflict of interest. Limited scrutiny was placed on Coalianza, where checks were restricted to ex-post evaluations of PPP projects by a body associated with the country's supreme audit institution, the PPP Superintendency (SAPP).²

By 2013, Coalianza had rapidly initiated 25 PPPs resulting in quantifiable PPP contingent liabilities reaching 6.6% of GDP and which exceeded the legally established threshold of 5%.³ Deepening the growing risk to financial stability, legislation was passed in early 2014 that permitted government-issued guarantees for debt contracted by private companies involved in PPP projects. Furthermore, the Honduran approach included the use of 'Fideicomisos' (Trust Funds) to accelerate the initiation of PPP projects. This involved domestic commercial banks administering Trust Funds awarded by Coalianza before projects were appraised. The Trust Funds were then assigned responsibilities for carrying out studies, project coordination as well as financial and contractual structuring of projects, a service paid for by the government. This approach created distortionary incentives and had negative implications on transparency and prudent project preparation.

This situation raised concerns in international institutions such as the Inter-American Development Bank (IADB) and the International Monetary Fund (IMF). An IMF Stand-By Arrangement negotiated with the IMF in 2014 included commitments to reform the PPP law,⁴ reducing Coalianza's role in the model by establishing a Fiscal Contingency Unit (FCU) within the Ministry of Finance to determine the feasibility of current and new PPP projects and their suitability for implementation under the PPP modality. The legislation which allowed government guarantees for debt contracted by private companies involved in PPP projects was also rolled back.⁵ These reforms gradually took hold during 2015 but regardless of the envisaged roles for SAPP and the FCU, Coalianza maintained the authority to both promote the uptake of PPPs, including through the establishment of Trust Funds, and oversee their implementation. In essence, this perpetuated institutional weaknesses, turf battles and conflict of interest and resulted in limited compliance with the reformed legal framework.⁶ Moreover, it did not change the fact that Coalianza had already committed Honduras to a significant number of PPPs on dubious grounds.

This background deeply reinforced the relevancy of CoST's endeavour to improve transparency and accountability of the PPP process and broaden awareness of the risks of the country's PPP project portfolio.



LESSON 1: Government is rarely an entirely homogeneous unit. Parts of government can exhibit poor practices, mismanagement or corruption whilst others work towards strengthening good governance and public finance management. This emphasises the importance of working with government-based 'champions' of infrastructure transparency. This is particularly pertinent concerning PPP projects given the risks they pose if poorly managed.



LESSON 2: The institutional framework for governing PPPs is vital and adequate division of roles and responsibilities must be ensured from the outset. As an initiative that seeks to improve infrastructure governance through increased transparency and accountability CoST can complement other reforms and encourage compliance with regulations.

2 Reyes-Tagle & Tejada, M (2015) The Fiscal Implications of Public-Private Partnerships in Honduras, Current Developments and the Road Ahead, Inter-American Development Bank, Discussion Paper No. IDB-DP-391.

3 Ibid.

4 IMF (2014): IMF Country Report No. 14/306, October 2014.

5 IMF (2015): IMF Country Report No. 15/283.

6 Reyes-Tagle & Tejada, M (2015).

BOX 1: PUBLIC PRIVATE PARTNERSHIPS, POTENTIAL BENEFITS AND DOCUMENTED RISKS

The PPP modality is a particularly attractive offer in contexts where traditionally procured publicly-funded infrastructure has long failed to meet community needs. Private sector drive, motivation, creativity and more efficient management systems have the potential to generate efficiency gains and guarantee long-term use of the investment through life-cycle cost savings. By taking a financed rather than a funded approach, governments do not need to pay upfront and identify capital expenditure in national budgets that has been committed elsewhere. A financed solution is often attractive when interest rates are low and finally, PPPs often rely on user fees which can be a reasonable alternative to funding infrastructure through general tax receipts. This may appear as though infrastructure is delivered for free especially if it has not been accounted for in government budgets and fiscal accounts.

The potential benefits however come with risks that can result in a huge cost for citizens and public funds. If the user fees collected fall short of projected amounts (for example a toll used on a stretch of road) the default payment is allocated to the government who in most cases carries the risk if a project turns out to be less commercially viable than expected. A PPP contract commits governments to a payment stream to the private partners for a defined but considerable period of time, creating both direct and indirect contingent liabilities that reduce fiscal space throughout the duration of the contract. If managed in a prudent and transparent manner this is no different to other budgetary commitments but if not, indirect contingent liabilities such as guarantees can lead to significant fiscal risk. In Portugal off-budget PPPs contributed significantly to a hike in debt to GDP from 76% in 2009 to 130% in 2014 and by late 2013 the estimated present value of central government's recorded financial commitments was around 6% of GDP.⁷



Cityscape view of Lisbon, Portugal

Regardless of how low the interest rate is, PPP projects are more expensive than publicly-financed projects. The only exception may be if the interest rate is negative, however, in low-income contexts with poor credit ratings interest rates will be higher. Such arrangements will often be made in foreign exchange which also adds a risk; if the currency of the country that has entered the PPP depreciates against the foreign currency in which the contract is made, the price of the assets goes up.

These risks underline the importance of PPP projects being subject to full transparency and a rigorous independent appraisal. Moreover, transparency and resulting accountability is increasingly recognised as critical to attracting private investment in infrastructure.

2. Honduras demonstrates commitment to open government and transparency

In parallel with the developments outlined, reformers within the Government of Honduras were committing the country to increased openness across different sectors. Honduras's [Transparency and Access to Information Law \(2006\)](#) implemented by the Institute for Access to Public Information (IAIP) had laid the foundation for this. In 2011 Honduras became a member of the Open Government Partnership and in 2014 it became a member of CoST, demonstrating its commitment to strengthening governance in the infrastructure sector.

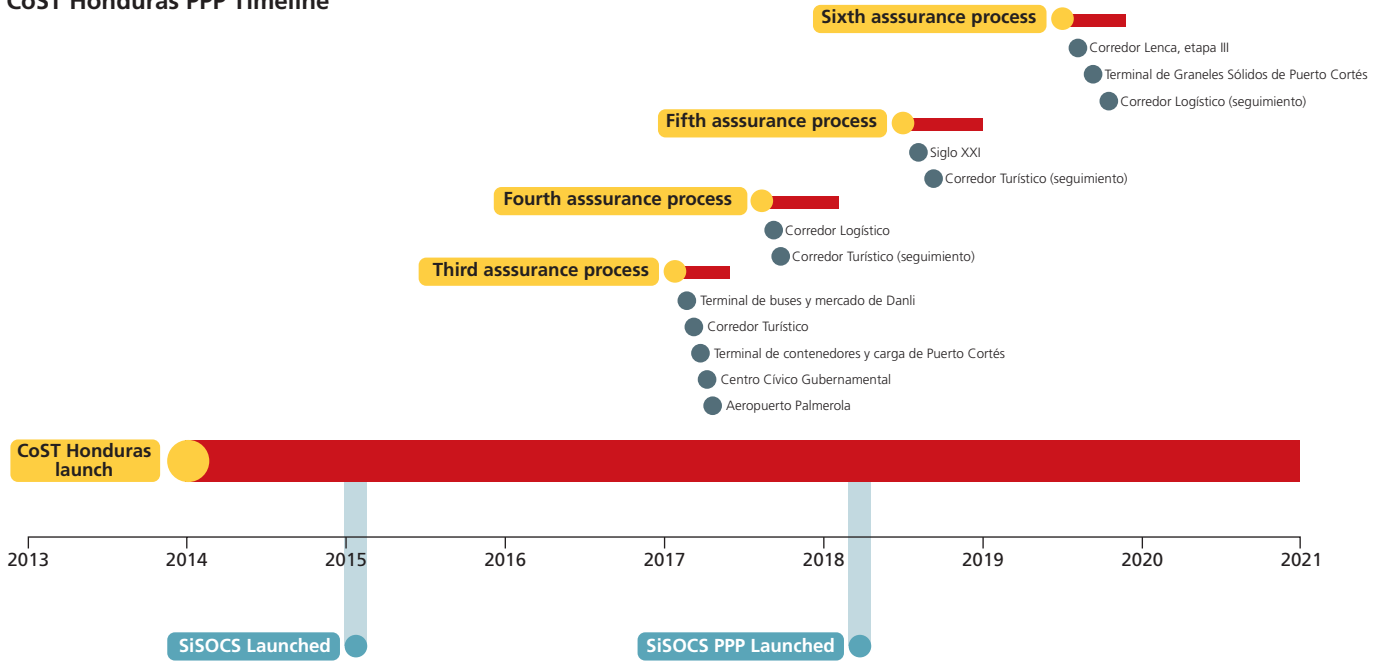
CoST Honduras initially focussed its approach on public infrastructure projects and in 2015, an online platform for data publication named [SISOCs](#) was set up. Two years later it began its focus on PPP projects, collaborating with Coalianza and SAPP to encourage data disclosure across five PPPs.

The disclosure process used by CoST Honduras followed the [CoST Infrastructure Data Standard \(CoST IDS\)](#) consisting of 66 data points to be published across the project cycle. This comprised proactive (data published without official request) and reactive (published on request) disclosure. However, it was pointed out that disclosing data for PPP projects

⁷ IMF (2014): IMF Country Report No. 14/306, October 2014.

CoST lessons learnt

CoST Honduras PPP Timeline



in line with CoST IDS was not an optimal approach given the significant differences in the structure of public versus PPP projects (see **Box 2**). The CoST Honduras assurance team - an independent party who help validate and interpret the data disclosed - recommended that the CoST IDS be extended to capture data throughout the PPP infrastructure project cycle.

BOX 2: ADDING THE CoST APPROACH TO PPPs

A central feature of the CoST Infrastructure Data Standard (CoST IDS) and the [Open Contracting for Infrastructure Data Standard \(OC4IDS\)](#) is that disclosure is aligned with the project implementation cycle, from inception to completion, as well as with associated contracts which relate to public infrastructure. The CoST IDS therefore covers data across project identification, preparation and completion as well as contract procurement and implementation either for new build, rehabilitation or maintenance projects. The CoST approach does not cover operations.

The typical PPP differs substantially in its structuring, where the design-build-finance-maintain-operate stages are financed outside of the budget process. As a PPP project is financed, the structure and model of the financial ‘package’ is critical to ascertain the final cost to taxpayers and users of an asset and associated services. The acceptance of this package implies that upfront capital expenditure, maintenance and recurrent expenditure for operations are saved but must be held up against the size and structure of payments to the private contractor for the package. Sometimes this includes the incorporation of user fees but the ultimate responsibility for compensation of the contractor rests with the government. PPP contracts often have a duration of 30 years or longer which implies the acceptance of budget liabilities in the long-term. While possibly improving services to a significant

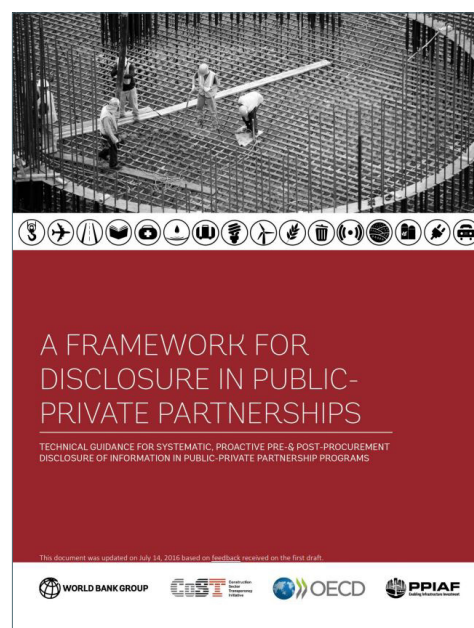


extent it can also substantially narrow fiscal space overall or for a certain sector (for example, a [PPP hospital in Lesotho](#) ended up becoming a considerable financial burden). PPP contracts will usually also contain clauses about the conclusion of the partnership, handover of the asset and grounds on which a contract can be terminated.

Ensuring PPP projects are well planned will further the delivery of infrastructure that is fit for purpose but relies on financing models that are realistic and advantageous to both the public and private entities involved and that associated, and often significant, risks are reasonably shared. Transparency should therefore be applied to the financial model, terms and contracts should be readily disclosed and subject to robust scrutiny by independent experts.

3. CoST and World Bank collaborate to improve PPP transparency in Honduras and beyond

As these events unfolded, the World Bank's Infrastructure Finance, PPPs & Guarantees (IPG) Group was in the process of developing a specific [framework for PPP disclosure](#). Under elaboration since 2014, the framework consisted of 53 data points covering 13 phases of a standardised PPP process. Based on the government's existing commitment to disclose data for PPP projects in Honduras through its membership of CoST, discussions were initiated with the World Bank to include Honduras alongside Ghana, Kenya and Nigeria in a pilot test of the tool. The framework focussed on the type of data or what to disclose, and by collaborating with CoST considerations were also taken onboard concerning how to disclose data. Additionally, an open data approach was opted for, drawing on the [Open Contracting Data Standard \(OCDS\) for PPPs](#). This change to the Bank's approach, moving towards an open data standard was subsequently implemented in the other World Bank pilot countries as well, demonstrating the benefits of World Bank and CoST collaboration.



World Bank PPP Disclosure Framework

The World Bank had been aware of the synergies between its approach and that of CoST's, particularly due to the establishment of SISOCs in 2015, and it was through a [World Bank diagnostic study](#) in 2017 that the process of integrating the CoST IDS and the [World Bank PPP Disclosure Framework](#) was formally initiated. A review of the two standards and areas of convergence was undertaken, results of which can be found in [annex 1](#). It showed significant overlaps and complementarities with almost 30 identical data requests but also that the World Bank PPP framework covered vital areas of the PPP process such as evaluation of PPP, risks, financial information, government support (payments), tariffs and pricing. The CoST IDS went into more detail on a number of issues such as contract documents, contract termination, and renegotiation. The refined framework contained a total of 53 World Bank data points that were complemented by 26 CoST data points as not all of the CoST IDS data points are relevant to PPPs. It allowed the PPP disclosure framework to be thoroughly reviewed and validated against a data standard that had already been applied on the ground, albeit on a different type of project.

At this stage, the World Bank established a sister platform for SISOCs, [SISOCs APP](#) which would incorporate PPP data disclosure. Both SISOCs APP and the diagnostic study were launched in April 2018 with the platform complying with the PPP disclosure framework, the CoST IDS and the OCDS for PPPs. A central element of this system is that it assigns unique IDs to each project, enabling tracking of the complicated network of stakeholders and the multitude of documents, from socio-economic impact studies to bank guarantees.



LESSON 3: The ground-breaking collaboration between the World Bank and CoST in Honduras was highly complementary. It improved the quantity and quality of data disclosed on PPP projects which represented a fundamental starting point for the impact documented below. This collaboration could be replicated elsewhere by the World Bank and other international financial institutions to heighten PPP transparency and see positive change.

4. Evolution of PPP data disclosure

The launch of SISOCs APP opened a pathway for procuring entities to disclose in line with the World Bank PPP disclosure framework. Disclosure requirements now provided greater clarity and the data disclosed could help to inform the choice of PPPs such as through evaluation reports outlining the rationale for using the PPP modality. Data disclosed could also provide financial information such as equity-debt ratio and terms of the debt (tenor, rate) and forecasted internal

rates of return. At an early stage, it became evident that data on the financial model behind the PPPs was unavailable even after financial closure. Given the differences between PPPs and traditionally procured projects this data could not be formally requested using the CoST IDS which emphasises just how important it was to move towards the joint PPP disclosure framework.

As the bar was raised, the key government agencies, Coalianza and SAPP became resistant and initially did not agree to disclose according to this new framework. Moreover, the reluctance to comply with the technical requirements was amplified by a creeping politization of Coalianza which gathered pace in the aftermath of a tight and contested general election in Honduras in 2018. This marked a shift in political economy and the previously constructive collaboration with Coalianza faced a strain.

In 2019, Coalianza did agree to publish according to the new framework, using SISOCS APP. However, it was facing institutional and financial issues and the CoST review of the data disclosed (known as [CoST assurance](#)) revealed that only limited data had been published.⁸ Whilst hard to compare levels of data disclosure due to the different data standard used prior to the CoST assurance process which assessed Coalianza, the disclosure rate was now only at 46.7% whereas previously it had been close to full compliancy with the CoST IDS. Moreover, it did not include data on the financial model.

The reason for low disclosure was likely due to the two factors outlined above; with the new standard being more demanding and the change in political context which had impacted on the governance of key institutions. Previously, the high standards of disclosure had built on strong political commitment but also strong and trusted relationships with disclosing entities and ongoing support.

Nevertheless, in many contexts the 46.7% compliance rate would be considered a strong starting point and increasing the demand for disclosure led to an incremental increase in the transparency environment, although more time is needed to determine if this change is lasting. The disclosure process began to shed light on the limited transparency of the PPP contracts that had been negotiated. In 2019 Coalianza was closed shortly after issues of concern on the entity were raised by the CoST assurance process and emphasised by the CoST Honduras Multi-Stakeholder Group and journalists trained by the initiative (further detail is [outlined below](#)). Other causes for its closure include poor management and a lack of personnel with the right technical skills and experience.

On the closure of Coalianza, the SISOCS APP, which was hosted on Coalianza's server, went offline and all disclosed data disappeared. What appears to be a limited handover process aggravated this issue as the government did not have full documentation of the architecture and design of the platform or how it is structured technically. Furthermore, a government mitigation plan could also have helped to ease the issue.

The content of SISOCS APP was only recovered after a complex and time-consuming process and has since been transferred to a new entity in charge of the second generation of PPPs in Honduras. CoST was central to the recovery of the platform as the World Bank had handed over the platform to the government in 2018 and did not have the same level of engagement as CoST who was providing technical assistance on the ground to support disclosure. Currently the platform contains data for 21 projects valued at US\$1.5 billion. Moreover, the design and programming of the platform has been secured through an official account for [CoST at GitHub](#), a site where open-source code can be placed in a repository. Through this site all documentation is made available in a format that is easy to understand and replicate.

⁸ Dineirohn (December 13, 2018): *Coalianza gasto su presupuesto y se queda sin pagina en la web.*

The key lesson from this experience is to ensure the adequate management and supervision of platform developers, especially when initiated and funded by external stakeholders. This should include a clear and binding agreement in place with a government agency to ensure continuation and maintenance of the platform and a repository created to serve as a backup for programming. This agency should have full ownership of the platform as well as sufficient resources and capacity to take on the role as its caretaker. It is also critical for the credibility and sustainability of the disclosure process to carefully consider the relationship between different entities involved. The contracting agency is the provider of most of the data but also the entity most vulnerable to the publication of bad news and could therefore have incentives to avoid disclosing or could manipulate or remove existing data. It is therefore important that the platform is hosted and disclosure monitored and verified by a separate agency not directly involved in managing the PPP contracts (it could for instance be overseen by a CoST multi-stakeholder group).



LESSON 4: Building relationships and trust between stakeholders greatly increases the effectiveness of PPP data disclosure.



LESSON 5: When the PPP disclosure process is reinstated in Honduras, it should use and comply with the tailored PPP disclosure framework now firmly in place and make disclosure a routine practice throughout the lifecycle of PPP projects to increase the level of transparency and reduce risk.



LESSON 6: While an argument can be made for not disclosing financial information prior to financial closure it must be proactively disclosed immediately after. This should be made clear to all stakeholders and responsible entities held to account on that basis.



LESSON 7: External support to digital disclosure platforms must ensure adequate management and supervision of platform developers and the platforms should be fully owned by governments, ideally supported by multistakeholder oversight, to ensure sustainability and credibility.

5. CoST approach amplifies and promotes action on key issues

The [CoST approach](#) is designed to avoid transparency becoming an end in itself through the four core features of CoST that when applied establish strong synergies between data disclosure, stakeholder engagement and accountability mechanisms. In this section we look at how the CoST approach contributed towards the significant and positive changes that occurred.



ASSURANCE

The importance of the [CoST assurance process](#) for the outcomes of the PPP data disclosure experience in Honduras cannot be overemphasised. Assurance sees teams of independent experts review and verify the data, asking for missing data and using the data disclosed to scrutinise projects. The analysis undertaken, findings, conclusions and recommendations are presented in a non-technical language in a report which is published with the intent of raising awareness about potential issues of concern or good practices identified.

Assurance reports are targeted products with a specific set of objectives, but they also provide good data analysis which can be used by institutions such as the World Bank. In the case of PPPs, they can promote understanding on the status of PPP disclosure in the jurisdiction and beyond, such as in relation to strengthening public investment management or procurement reforms.

To date assurance processes have covered a total of nine PPP projects in Honduras. Of these projects one was carried over and covered in three assurance processes and one was covered twice (implying a total of 12 PPP projects subject to assurance). These are referred to as the [third](#), [fourth](#), [fifth](#) and [sixth](#) assurance processes as they had been preceded by

two assurance processes focussed on public infrastructure. The third assurance report was issued in 2017 and the sixth and most recent, in 2019. The assurance teams were composed of highly competent individuals, including experts with specialisation in fields that were of particular importance to the specific profiles or sectors of the PPP projects being assessed.



A CoST Honduras assurance team at a site visit

The broader skillset was particularly important to understand and explain issues related to the structuring and financing of PPPs. This included financial analysts looking at contentious aspects of PPPs including the financial model and future liabilities as well as legal experts with knowledge on the structuring of PPP contracts.

Continuity of the teams was also found to be important especially as the CoST approach needs to be well understood by people who are experts in other fields. This was possible except in the case of one assurance team, the fifth, which had a different composition to the other three. The composition and independence of the assurance teams was always endorsed by the CoST Honduras Multi-Stakeholder Working Group who formally appointed the teams.

The assurance teams also actively facilitate the disclosure process and increase the level of reactive and later proactive disclosure by going through the data points point-by-point, demystifying them and ensuring their availability. This was found to improve results at least in the early stages of the CoST Honduras experience with PPP data disclosure. The assurance teams highlighted that there was a need for a more relevant PPP disclosure standard, making particular reference to the need for financial information to be disclosed. The lack of this information initially prompted the assurance teams to conclude that they were unable to carry out value-for-money analysis with the objective of quantitatively comparing the adequacy of delivering the projects as PPPs or public projects. Whilst the attempts at increasing PPP data disclosure has not yet resulted in financial information being disclosed, the process has edged closer to adding scrutiny to ongoing projects based on more data being available, such as contractual information, which did lead to significant results.

The assurance teams undertook significant amounts of analytical work and attempted to profile the projects according to a set of criteria that prioritised the follow up of recommendations on different projects and resulted in a policy matrix of recommendations. This was based on the collection and analysis of information about financing, the project structure, nature of work, government entities involved and their mandates and relevancy to country strategies and plans. The team also sought to undertake a detailed analysis of the costs, benefits and risk profile of different projects through tools such as cost-benefit analysis, value for money analysis, eligibility index, economic-financial analysis model and multicriteria analysis.

Regardless of the restricted amount and quality of data disclosed, this rigorous and continuous work resulted in an unprecedented level of scrutiny on PPP projects and served as a constant reminder and applied pressure on the government. A person closely involved in the assurance process compared this to the advice received from “an honest brother” not just telling you what you want to hear but pointing to the shortcomings, risks and actions needed to address them.

The Touristic Corridor Project

A particularly troublesome PPP project concerns the Design, Finance, Build, Operate and Transfer (DFBOT) of Honduras's [Touristic Corridor](#) (Corredor Turístico El Progreso) - a toll road on a popular tourist route which serves four sections of toll road connecting three northern provinces. The project investment cost was valued at US\$162.5 million (whilst the negotiated full value of the contract remained undisclosed) with a supervision contract adding an additional US\$3.3 million. This project was covered by the third, fourth and fifth CoST Honduras assurance processes.

The third assurance process highlighted that the economic viability study that had informed the project had several shortcomings as available statistics for the use of the road were highly restricted. In effect, potential revenue from the project was grossly overestimated. The concessionaire was held free of risk as the government was tied to cover any financial shortfalls due to the inclusion of a Minimum Guarantee Revenue (MGR) clause in the contract. According to this, the concessionaire has the right to be compensated directly by government for differences between the estimates and actual figures of revenue collection. Moreover, the project was found to have a highly regressive social profile as almost 60% of revenue was supposed to be derived from a tollbooth located in an area where more than 60% of the population was of low-income earning US\$300 per month, with a significant proportion earning \$150 per month. It affected transit towns where, for the most part, people came to spend one night and for trips that were necessary for work or education. At this stage the project encountered serious problems and the supervising company complained about unpaid invoices.

The tolls also led to civic protests that in some cases became violent. It did not help an already unpopular measure that these were introduced prematurely to help finance the project before works had been completed. Protests included a boycott, with around 8,000 cars a day passing through toll booths without paying. Of all the PPP projects covered in the assurance process, the Touristic Corridor project took the longest time to be negotiated and for works to be initiated. It took almost 30 months, almost three times longer than any other project, between the signing of the contract to the initiation of works. Additional analysis carried out by the assurance team showed that the project scored lowest on a number of efficiency and effectiveness indicators and was the project that was in most need of additional attention.

The third assurance report recommended that future project viability studies should be of a substantially higher



Tollbooth on fire as protests against the project and its negative social impact became heated



After the PPP was cancelled by the government the tollbooth was removed

quality and not based on piecemeal statistics and that solutions should be identified to make the project economically viable to reduce the cost to the government. Later reports recommended specific improvements to data collection such as road usage and publication of viability studies prior to contract signage. It was also recommended to strengthen stakeholder engagement through multi-stakeholder roundtable discussions and other participatory methods and readjusting the project to lessen the burdens of the project on the poor segments of the population.

Several of these findings were reconfirmed and reinforced in the recommendations of the fourth assurance process. At this point the protests became heated and the financial situation of the project was coming to a crunch. This required the government to step in and make an upfront advanced payment to allow works on the project to continue. However, much of this information remained undisclosed with institutions unwilling to assume responsibility for making the information available, which led to opacity over the revenues collected or the amounts paid by the government to compensate for the lack of toll revenue through the MGR. This was also pointed out in the fourth assurance report.

A correlation was seen between the limited stakeholder engagement that had taken place in project preparation and implementation stages and where there were extensive and persistent civic protests. Thus, participatory methods were recommended to help ease the protest and the regressive social impact of the tolls. The assurance report recommended that the government, in particular SAPP, disclose information about the fiscal implications of the MGR as well as to renegotiate the contract to reduce the costs of the project both to the government and affected communities.

The fifth assurance report included the project again in the sample of projects selected. It found that only a quarter of the works had been completed after 71% of the contract time had elapsed. It noted that the project was therefore on hold, being renegotiated in line with previous CoST recommendations.

The case was picked up by a [journalist](#) who reported the story drawing on the assurance reports and SISOCS APP platform in an excellent example of how the four core features of CoST complemented each other in the Honduran PPP experience.

After the findings of the assurance report was published in 2018, the government followed its recommendation to begin re-negotiating the contract and to commission a new study to assess traffic levels and costs more accurately. After several months of deliberations, they were able to cancel the PPP project, reducing the damage and costs of this failed



LESSON 8: For countries interested in engaging in PPP projects, assurance reports provide a valuable tool to inform stakeholders including multilaterals, investors and concessionaires about the quality of infrastructure governance and the transparency environment.



LESSON 9: The independence and inclusion of experts with relevant skillsets tailored to the profile of the projects assured is of critical importance to the quality of assurance reports. Likewise, training and ensuring continuity of well-performing teams is critical so that specific expertise is married with a conceptual understanding of the CoST approach and what it seeks to achieve.



LESSON 10: Assurance teams can play a facilitating role in building disclosure capacity by going through the data point-by-point, helping to interpret the data and further ensure its availability.



LESSON 11: Disclosure of financial information is the most essential part of data disclosure for the assurance of PPP projects. Having this data available as early as possible enables scrutiny and understanding on the viability of PPP projects over traditionally procured infrastructure. However, this cannot stand alone; data disclosed in accordance with the PPP disclosure framework must reach a high level.

investment. This saved the government from paying the US\$517 million it was committed to pay for the project over a 15-year period. How much of this amount the government had already paid or had to pay to get out of the contract remains undisclosed.

Underpinning the importance of strengthening the institutional framework and ensuring better preparation of PPPs in a transparent and accountable manner, the Touristic Corridor project was deemed suitable for the PPP modality in the initial assurance report covering PPPs. This indicates that weak governance and poor design was predominantly to blame for the fate of the project.

More broadly, the impact of disclosure and assurance of financial information on government decision-making can be somewhat limited as governments, such as Honduras, find themselves between a rock and a hard place when

it comes to paying for the expansion of public infrastructure. Oftentimes domestic revenue is largely consumed by recurrent expenditures, leaving limited amounts for capital expenditures which are typically cut when fiscal consolidation is needed. This implies that when PPPs are on offer, it is almost impossible to pursue a different route regardless of the quality of the institutions in charge of managing them. This is an issue that is highly relevant in the context of the Covid-19 pandemic which both increases the need for infrastructure and has led to growing fiscal deficits worldwide.



SOCIAL ACCOUNTABILITY

The CoST [social accountability feature](#) helps empower civil society, media and other stakeholders to use the disclosed data and assurance findings to hold decision-makers to account. In the case of Honduras, its Citizen Transparency Commissions (CTCs) and the School of Social Audit in Infrastructure (EASI) were two key entities which helped enable change in PPP infrastructure project delivery. The former includes more than 500 citizens across Honduras who have been trained to monitor projects and the latter has provided monitoring training to academia, the media, civil society and citizens groups. Before CoST started providing this kind of training very little was known or understood about PPP projects within the target groups. Some of the pragmatic measures adopted to address this included CTCs being invited to participate in assurance site visits which led to a more holistic approach in assessing projects.

CoST has seen [direct impact](#) from enabling greater public participation and as the example of the Touristic Corridor project clearly illustrates, protests can easily boil over causing damage to projects that have not been subject to sufficient stakeholder engagement. The government has learnt some lessons in this regard, including by taking onboard assurance recommendations to increase participation in a PPP bus terminal and market project in Danli.

Media engagement played an important role in the Honduran PPP experience. CoST Honduras works with journalists, training them to report on infrastructure issues and holding journalism awards to celebrate their success. One courageous journalist, Josué Quintana used published assurance reports, SISOCS APP, lessons from CoST training and his skills in investigative journalism to [shine a light](#) on the Touristic Corridor story.



LESSON 12: Even with imperfect information, the assurance process adds value through the rigorous and systematic scrutiny it provides. Its value in doing so is amplified when assurance findings are promoted by CoST's influential multi-stakeholder groups.



LESSON 13: Adding assurance to disclosure enables real impact. It can compel governments to renegotiate or even cancel poorly prepared projects and provides them with evidence needed to enter into difficult negotiations.



LESSON 14: Assurance can foster systemic and institutional change in cases where there is clear evidence that certain government agencies have not made a commitment to improve transparency and scrutiny in PPPs.



Reporter Josué Quintana

Josué was motivated by the hardships and uncertainty faced by the affected people and the opacity of the terms the government had negotiated. He used the technical findings of the assurance reports coupled with testimonies and field reporting to allow the real-life impact of the project to be felt and to give a voice to the affected communities. This included people exasperated about tolls being introduced before the new road was complete, complaints about the lack of toll-free alternatives, and small business owners pointing out that the tolls meant traders from one town on a common merchant route were taxed more heavily than those from other towns. Information from the police confirmed that there were more accidents on the road after the initiation of the works and that traffic delays had become a severe challenge. His news piece [won a CoST Honduras journalism award](#) but has since been removed from the internet for unknown reasons.



LESSON 15: Engaging communities affected by PPPs is vital to their success and in the interest of all stakeholders.

The Touristic Corridor shows the detrimental impact of when this is neglected. Coordinated stakeholder engagement should be carried out across project cycle stages and consideration given to involving varied civic stakeholders.



LESSON 16: Social accountability amplifies the voice of the public, complementing the technical facts presented through the assurance reports.



MULTI-STAKEHOLDER WORKING

CoST programmes are guided by [multi-stakeholder groups](#) comprising experts from government, private sector and civil society. This allows complex issues to be solved in an effective manner and helps to secure the credibility of the initiative.

In a highly politicised context in Honduras, the multi-stakeholder group provided credibility to the appointment of the assurance team and the endorsement of assurance reports which was of central importance to the results achieved. The added value of multi-stakeholder working is recognised by the World Bank who is now considering how to incorporate it as an element into the PPP disclosure framework. In particular, CoST's multi-stakeholder approach can add continuity to the World Bank's work promoting PPP data disclosure which tends to be based on teams visiting countries for shorter periods of time, through for example, technical assistance missions. In some countries there is an opportunity to build on this CoST-World Bank approach to multi-stakeholder working and, in these instances, the collaboration should take place from the outset of engagement on PPPs to ensure an equal partnership.



LESSON 17: Multi-stakeholder working provides legitimacy and credibility to the entire CoST approach and particularly to the assurance process. The multi-stakeholder group provides a unified voice on key issues which is particularly important in a highly politicised context.



LESSON 18: Multi-stakeholder working can help ensure the continuity of a PPP disclosure process through a presence on the ground and regular, pre-planned meetings.

6. Composite approach leads to institutional reform

As mentioned Caolianza was closed shortly after key issues on the projects it had overseen had been raised by the CoST Honduras assurance processes and its four assurance reports published. Whilst difficult to give direct attribution to its closure, given the additional scrutiny provided by CoST Honduras it seems unlikely that Coalianza would have easily continued to operate. In addition to the agency being closed down, some of the reforms initiated back in 2015 were given new impetus.

In early 2020 an institutional reconfiguration took place in Honduras with a new specialised technical PPP unit (UTEPP-APP) set up within the Ministry of Finance with support from the Inter-American Development Bank to improve governance in the management of PPPs. The role of UTEPP-APP will be to assess the eligibility of projects for the PPP modality rather than public infrastructure investments and conduct technical feasibility and cost-benefit studies at all stages of the project cycle. The reform has been backed by the IMF as a structural benchmark associated with a loan (Stand-By-Arrangement and Standby-Credit-Facility).

It will be critical to continue and reinitiate the disclosure and assurance process as soon as possible disclosing through the reinstated SISOCS APP platform and fully in line with the PPP disclosure framework.



LESSON 19: The Government of Honduras and its international partners should learn from past experience and complement institutional reconfigurations with a mandate on disclosure and assurance in line with the PPP disclosure framework and terms of reference of assurance teams.



LESSON 20: International development partners are well placed to consider supporting governments and complementing their standard operating procedures through engagement with CoST. Such partners include multi-lateral development banks and the IMF.

7. Future endeavours can use lessons learnt to catalyse change

The overarching conclusion from this note is that transparency and independent scrutiny is of vital importance to avoid the pitfalls and ensure the potential of PPP projects. Lessons from the Honduras experience can be used by others to avoid mistakes from early stages and rapid acceleration of PPP projects.

Despite the mistakes, largely driven by distortionary incentives, the note also clearly depicts a **government** that embraced different transparency initiatives based on high level political commitment to increased openness. A vibrant **civil society** used its experience and expertise to successfully engage in government strategies, policies and public finances and **external partners** committed to support these efforts. This note has documented how the **combination of these forces** through the application of the CoST approach and the PPP disclosure framework saved Honduras millions of dollars in current and future liabilities in response to emerging evidence of a failed project and flawed institutional setup. It has clearly illustrated that disclosure led to more tangible impact when combined with continuous, rigorous scrutiny of PPP projects by independent experts through the CoST assurance processes, broad civic and media engagement through social accountability as well as the presence of an initiative on the ground dedicated to continuous support and follow up.

With the cancellation of the Touristic Corridor project, the shutting down of Coalianza and adoption of a new set of reforms, Honduras has reached a watershed moment. CoST engagement in the area has been on pause for almost two years and it is now of critical importance that the disclosure process is reinitiated for second generation PPP investments as all evidence points towards the reforms being less effective if not subjected to continuous scrutiny within and outside government.

CoST lessons learnt

CoST can play a critical role as convenor in this process bringing stakeholders together and providing technical support. With the PPP disclosure framework firmly in place the next phase must aim to disclose in line with this, institutionalise and level up disclosure as a routine practice throughout the lifecycle as well as full-fledged assurance of PPP projects and associated social accountability activities. The government will be in a strong position to deepen transparency and accountability of the institutions in charge by gradually increasing the level of disclosure from the levels achieved in 2019 and particularly emphasising disclosure of financial information covered by the PPP disclosure framework.

The Honduran experience provides a valuable lesson for any country in Latin America and beyond that is initiating or already has a portfolio of PPP projects. The first and admittedly hardest lesson is to give greater consideration to the reasons behind engaging in PPPs. It can turn into a costly affair if engagement is pursued without the necessary institutional and regulatory framework in place.

Another important lesson is to acknowledge the added value of transparency and accountability to ensure that projects perform as expected and the financial cost is fully transparent and on-budget. Whilst it is key to get the institutional setup right, with adequate division of roles and responsibilities, the process can be spearheaded by a reform-oriented champion within government aiming to put in place checks and balances as well as a commitment to disclosure. CoST can facilitate this type of commitment and help to build trust between different stakeholders which ensures compliance with the commitments made. Tailored training of key stakeholders in the specificities of PPP projects as compared to public infrastructure projects is essential to delivering effective disclosure, assurance and social accountability.

A number of lessons have been derived from the Honduran experience and while providing good general guidance they must be tailored to the contexts in which they are applied to be effective. CoST stands ready to support authorities and other stakeholders in embarking on this journey.

This note is based on documentary review and seven in-depth interviews carried out in March 2021. The note is dedicated to the late [Mr Alfredo Cantero](#), a passionate government reformer, who was instrumental to the undertakings reported, and Honduran civil society and media who continuously denounced poor practices at great personal risk. It is in the merging of such forces that change can happen.



Ministry of Foreign Affairs of the Netherlands

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