

## Unfinished Highway Project Could Cost Honduran Taxpayers \$133 Million

- *As of July 2018, over a year after construction on the “Tourist Corridor” was to have been finished, only 26% of construction has been completed*
- *Even though only approximately \$44 million of works have been completed invested, the Honduran government may have to pay \$133 million to cancel the contract*
- *Irregularities in awarding and repeatedly modifying the contract have favored the concessionaire and affected state interests*

The expansion of a toll road from Honduras’ interior to its North Coast was intended to promote tourism. However, the project, granted to a private company in a 30-year concession, has suffered soaring costs, extensive delays, and serious questions about viability and transparency, the Association for a More Just Society (ASJ) stated in a report released Monday, September 3<sup>rd</sup>, 2018.

### Irregularities

ASJ’s report evidences many irregularities in the process of granting the concession contract to the company Autopistas del Atlántico, S.A. (ADASA).

First, the call for bids laid out a minimum number of works including the extension of an existing highway and the construction of additional mileage, but stated that the contract would be granted to the company that offered the highest number of additional works, without considering cost, and without defining a maximum total cost for the obligatory and additional works.

Second, the contract was awarded and signed without the support of independent technical and financial studies. ASJ found no evidence that either ADASA or the Honduran government had carried out a social impact analysis, environmental impact study, or economic viability study based on traffic flow analysis before signing the contract. ADASA supported its revenue projection with a traffic flow study performed after the contract had been signed that took into account just one week of traffic analysis. Best practice would require at least six months to one year of traffic data to support these numbers.

Despite these limitations, two government organizations responsible for public-private partnership – the Commission for the Promotion of Public-Private Alliance (COALIANZA) and the Office of Public-Private Alliance (SAPP) – granted ADASA the concession for \$162.5 million, and the contract was approved by Congress in December 2012. This concession was made at the request of the government public infrastructure ministry (SOPTRAVI, now INSEP), and with approval from the Ministry of Finance (SEFIN). It is worth noting that the contract was signed before the creation of SEFIN’s Fiscal Contingences Unit, which would have provided checks and balances to the approval process.

ADASA was to begin construction in December 2013, and complete construction in April 2017. However, ADASA twice requested an extension of the period to obtain financing from the nine months initially granted to 27 months, granted both times through modifications to the contract. ADASA was only able to obtain financing for the project after the Honduran government also agreed to guarantee the company’s debts to lending banks, illustrating that ADASA faced serious challenges in proving its financial capacity for such a large project,

and that rather than taking this opportunity to cancel the contract for noncompliance, the State instead assumed significant financial risk by modifying and extending it.

ADASA began construction on the highway, called the “**Tourist Corridor**” in May 2015, 17 months after scheduled, and as of July, 2018, they had completed only 26.38% of the highway. Nonetheless ADASA requested and was granted another modification to the contract which allowed them to begin to collect tolls in October 2016, despite the fact that under public-private agreements, toll collection should begin only after the total work or certain minimum works have been completed.

The advancement of toll collection has serious implications for the State’s responsibility towards the concessionaire. By collecting tolls, the highway is now considered “operational,” and canceling the contract will require a payment not only of the initial investment (approximately \$44 million) and other incurred costs, but also of a percentage of projected revenues. In conclusion, for an incomplete highway project with no guarantee of its true value, the Honduran government could pay \$133 million.

### **Responsible**

The project structured by Coalianza showed technical, financial, and logistical weakness, including ADASA’s need to extend the period to obtain financing from nine to 27 months, its inability to obtain financing without a guarantee from the government, its request to extend the construction period, and multiple modifications to projected revenue without accompanying studies of support. Furthermore, during the bidding process, Grodco (parent company of ADASA) did not declare a conflict of interest with the only other bidder, Autopistas del Valle, S.A., which shares associates with Grodco in public-private partnerships in the Dominican Republic and in Colombia.

In addition, state institutions COALIANZA, SAPP, INSEP and SEFIN are responsible for granting the concession without adequate impact and viability studies, and then repeatedly modifying the contract without supporting evidence, and without approval from the Honduran Congress. As the State made future financial commitments in the contract modifications, the edits should have been approved by Congress. By not carrying out adequate studies, state institutions limited their ability to negotiate good terms for the construction and operation of the toll road. These Honduran institutions should have taken greater measures to ensure the concessionaire’s technical and financial capacity in order to reduce the risks associated with executing the project under the agreed terms.

The private banks and multilateral organizations who provided funding for the initiative, including JP Morgan Chase, FICOHSA, and the World Bank, also share responsibility for supporting a high-risk initiative that lacked independent technical and financial studies. The experience and strong technical capacity of these financial institutions should have allowed them to detect the findings listed above; however, these institutions did not call for additional studies to ensure that the project they were funding would benefit Honduras, and they only ensured that their investment would be recovered even if through taxpayer money.

### **Recommendations**

ASJ’s report issued a series of recommendations to respond to irregularities in the contracting and implementation of the Tourist Corridor project. First, ASJ called for a detailed investigation into Public-Private agreements currently under revision and execution. There

are currently 11 projects worth \$1.7 billion being executed by the same institutions that were negligent in this case, and 15 more in the process of being structured – together these represent an enormous financial risk to the State. In both cases, authorities should determine administrative and legal responsibility (where applicable) by COALIANZA, SAPP, SEFIN, and other involved institutions for damages to the State. Projects with signed contracts should be supervised, and where applicable, modified to address clauses that disadvantage the State. Contracts that have not already been signed should be paused, reviewed and modified to eliminate clauses detrimental to the State.

| Investment in Public-Private Projects    |                        |
|--|------------------------|
| Public-Private Partnership Project       | Referential Investment |
| La Lima, City in Development             | \$2.9 million          |
| Lenca Corridor                           | \$28.6 million         |
| Bulk and Solids Terminal in Port Cortés* | \$52.8 million         |
| International Airports*                  | \$62.3 million         |
| San Pedro Sula 21st Century*             | \$76.1 million         |
| Palmerola International Airport*         | \$87.1 million         |
| <b>Tourist Corridor*</b>                 | <b>\$98.2 million</b>  |
| Logistical Corridor Goascorán            | \$121 million          |
| Government Civic Center                  | \$213 million          |
| Electric Energy of Honduras              | \$358 million          |
| Container Terminal in Port Cortés        | \$624 million          |
| <b>TOTAL</b>                             | <b>\$1.72 billion</b>  |

Table 1: Data from *sappgov.hn*. In projects marked with an asterisk, the project amount published by COALIANZA was higher

ASJ also called for High Auditing Court and the Attorney General's office to immediately begin investigation into the responsibility of public officials linked to the structuring, management, and supervision of this concession process, determining within the full extent of the law whether officials are responsible for administrative, civil, or criminal faults.

Furthermore, once projects currently in process of revision and implementation are reviewed, the legal framework and governance of all institutions involved in public-private contracting (COALIANZA, SAPP, SEFIN, etc.) should be reviewed, and necessary actions should be taken to strengthen these institutions and ensure their compliance with their mandate to develop projects that benefit the Honduran population.

## Response

After hearing ASJ's report, Honduran President Juan Orlando Hernández called on vice-minister of coordination Martha Doblado to investigate the Tourist Corridor Project and announced that all public-private agreements would be reviewed with technical support from the Inter-American Development Bank and restructured as needed. The director of COALIANZA also committed to finishing the Tourist Corridor project, either through a public-private agreement or through government funding. It remains to be seen if an adequate study will affirm the economic viability of this project for the Honduran people.

**September 28<sup>th</sup>, 2018**  
Tegucigalpa, Honduras