

**OPERATIONS EVALUATION DEPARTMENT**  
**HONDURAS: COUNTRY ASSISTANCE EVALUATION**  
**APPROACH PAPER**

**Background**

1. Honduras is one of the poorest countries in Latin America with a per capita income of \$970 (Atlas method) in 2003. It has a population of about 7 million, growing at 2.5 percent per year. An estimated two-thirds of the population lives below the poverty line and social indicators are among the worst in Latin America. Income distribution is highly uneven, with a Gini coefficient of .55 in 1999. The country is vulnerable to external trade shocks and natural disasters: in late 1998 hurricane Mitch devastated the country with substantial loss of lives and physical damage. Honduras is highly dependent on foreign aid, which, while highly variable from year to year, averaged about 9 percent of gross national income (GNI) during the past decade. During 1994–2003 the International Development Association (IDA) was the largest source of net Official Development Assistance (ODA), providing close to one-fifth of the total, followed by the U.S., Japan, the Inter-American Development Bank, and Spain.

2. Honduras is a highly-indebted poor country (HIPC) and reached the completion point under the enhanced initiative in April 2005. It is one of the countries whose multilateral debt was cancelled by agreement reached by the G8 finance ministers on June 11, 2005. Also, on June 13, 2005, the U.S., through the Millennium Challenge Corporation, signed a five-year, US\$215 million compact with Honduras, focused on alleviating two key constraints to growth: low agricultural productivity and high transportation costs.

3. The long-term economic growth performance has been poor. The most recent country economic memorandum (CEM) reports average annual per capita growth of 0.8 percent over the 1960-2000 period, less than half the Latin American average. The decade of the 1980s was especially difficult. Expansionary inward-looking policies resulted in unsustainable increases in fiscal deficits and external borrowing, which became a crisis in 1989 when external payment arrears reached the equivalent of 20 percent of gross domestic product (GDP) and Honduras was temporarily cut off from international borrowing, including from the World Bank. In the early 1990s, following presidential elections, Honduras changed course and initiated a reform process emphasizing outward-oriented growth policies. In September 1991 the country became IDA-only. But an inability to maintain fiscal discipline contributed to slow progress and stagnation in per capita incomes through 2003. During 2004, there was some rebound in growth, while a stable macro-economic framework was maintained. One bright spot has been the growth of net current transfers (primarily workers' remittances) which have increased from the equivalent of 6 percent of GDP in the mid-90s to 14 percent of GDP in 2003. In the early 1990s a country assistance strategy was presented to the Board as part of a proposed agricultural sector adjustment credit project. This is the starting point for the present country assistance evaluation (CAE), which will cover the period FY94-05.

## **Bank Strategy and Program**

4. The country assistance strategy in the early 1990s was followed by another assistance strategy in January 2000, the preparation of which had been delayed following hurricane Mitch, and then a Poverty Reduction Strategy Paper (PRSP) in September 2001, which was the basis for a new country assistance strategy in May 2003. With the partial exception of the country assistance strategy in 2000, when reconstruction was an added focus, the Government's strategy in the different country assistance strategies and in the PRSP has remained roughly unchanged: this is largely because the underlying development constraints have not changed. The overriding objective was invariably to reduce poverty, based on accelerated and sustainable economic growth, whose benefits would be distributed more equitably than in the past.

5. In support of this overall objective, the Bank in the early 1990s defined its assistance strategy as support for the objectives of (1) reducing poverty, including through human resource development and safety nets, (2) modernizing the economy and the public sector to support an improved environment for private sector development, and (3) managing the country's natural resources in a sustainable manner including through reform of forestry management and land tenure policies. The 2000 assistance strategy defined the Bank's objectives around the themes of (1) poverty reduction, (2) revival of growth, including infrastructure reconstruction and financial sector development, and (3) sustainability, both economic and environmental. The Bank's program in the 2003 country assistance strategy was aligned with the PRSP and contained three pillars: (1) address structural and institutional barriers to growth, (2) invest in human capital and the protection of vulnerable groups, and (3) support transparent and responsive functioning of the public sector. But the country assistance strategy also showed how the Bank's program was contributing, in varying degrees, to all six strategic areas of the PRSP.<sup>1</sup>

6. Bank lending in support of its strategy totaled \$1,214 million over the 12-year period FY94–05, including supplements, for a total of 29 projects, not counting supplements. Adjustment lending was 27 percent of the total. The lending covered a wide range of sectors, with some concentration as follows: private sector development (the bulk of which was reconstruction), 19 percent; rural development, 17 percent; social protection, 14 percent; public sector governance, 13 percent; transport infrastructure, 7 percent; education and economic policy, each 6 percent. The program was supported by a substantial amount of economic and sector work (ESW), including a Poverty Diagnostic, a Development Policy Review (CEM), Public Expenditure Reviews in 1995 and 2001, as well as a Country Financial Accountability Assessment (CFAA) and a number of working papers.

## **General Approach to the Evaluation**

7. The above brief review of the country assistance strategies showed that the Bank's strategic objectives, in support of the ultimate goal of poverty reduction, were

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<sup>1</sup> The six strategic areas were: (1) accelerate equitable and sustainable economic growth; (2) reduction of poverty in rural areas; (3) reduction of urban poverty; (4) investment in human capital; (5) strengthen social protection for specific groups; and, (6) guaranteeing the sustainability of the strategy.

wide-ranging and designed to alleviate a large number of constraints. The 2004 CEM, furthermore, defined the major constraints to growth in Honduras as: human capital, public infrastructure, financial market development, and governance, in that order. In accordance with all of the above, the evaluation will be guided by a review of progress towards the following three interrelated objectives, which encompass the pillars and objectives set in the three country assistance strategies and the PRSP.

- (1) Accelerated and equitable growth, through the pursuit of macro-economic stability, public sector modernization, a strengthened financial system, infrastructure rehabilitation and development, and an improved environment for the private sector; in addition, a special focus on rural infrastructure and improvements in land tenure policies was meant to make growth more inclusive.
- (2) Human resource development, through investments in health, education and social safety nets.
- (3) Economic and environmental sustainability, through progress towards debt sustainability, improved governance and transparency in public management, a strengthened judiciary, civil service reform, as well as programs to strengthen environmental protection and natural resource management.

### **Methodology**

8. The evaluation will entail a review of all project and program documentation and ESW since FY94, as well as past and ongoing Operations Evaluation Department (OED) work such as for example, the Project Performance Assessment Reports (PPARs) for Honduras projects. The study will also draw, as appropriate, on findings of previous OED evaluations such as the Poverty Reduction Strategy Initiative, the HIPC Initiative, Community Driven Development and Social Funds, the ongoing Natural Disaster study, as well as on work done by the Quality Assurance Group.

9. For each of the main objectives, the CAE will evaluate the relevance of the objective, the relevance of the Bank's strategy towards meeting the objective, including the balance between adjustment and non-adjustment lending and between lending and non-lending instruments, the efficacy with which the strategy was implemented and the results achieved. The ultimate goal is to assess whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. The CAE will also assess the relative contribution to the results achieved by the Bank, other donors, the Government, and exogenous factors.

10. Major specific evaluation questions will include:

- (1) Was the Bank's strategy to promote macro-economic stability, modernize the public sector and strengthen the financial system successful in creating an improved environment for the private sector? Did it contribute to increased investment and economic growth? Did the Bank's efforts to spread growth more equitably across the country yield results and did the Bank analyze and take into account the social and political economy factors in its strategy? Did

the Bank strategy adequately take into account the potential impact of recurring natural disasters?

- (2) Did the Bank's interventions in the education and health sectors lead to tangible outcomes in terms of coverage and quality? How successful have the Bank's interventions been to support Honduras' social safety net?
- (3) Did the Bank's assistance program integrate support for the growth objective and support for social programs into a comprehensive strategy for poverty reduction?
- (4) What progress has been made in governance and transparency in public management? What steps have been taken to strengthen environmental protection and disaster preparedness and how successful have they been?
- (5) How has the Bank dealt with donor coordination issues and with the aid dependency problem? Was the Bank selective in its choice of areas of assistance and how did it achieve that selectivity?

### **CAE Outputs and Timetable**

11. The CAE will be sent to CODE in FY06. The main mission will be in the fall of 2005. The Task Manager is René Vandendries (Consultant, OEDCR). Peer reviewers are Lily Chu (OEDCR) and Ali Khadr (AFCO7).