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Honduras Country Assistance Evaluation



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Acronyms and Abbreviations

AAA	analytical and advisory assistance
CAE	country assistance evaluation
CAS	country assistance strategy
CFAA	country financial accountability assessment
COHDEFOR	Government Forestry Department
CPAR	country procurement assessment review
EFMC	economic and financial management credit
ESW	economic and sector work
FDI	foreign direct investment
FHIS	Honduran Social Fund
FSAP	financial sector assessment program
FPFSC	first programmatic financial sector credit
GDP	gross domestic product
GOH	Government of Honduras
HIPC	heavily indebted poor countries
HONDUTEL	the telecommunications company
IBRD	International Bank for Reconstruction and Development
ICR	implementation completion report
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
IMR	infant mortality rate
NPV	net present value
ODA	official development assistance
PIU	Project Implementation Unit
PROHECO	Programa Hondureño de Participación Comunitaria Honduras Community-Based Education Program
PRSC	poverty reduction support credit
PRSP	poverty reduction strategy paper
PSMSAC	public sector modernization structural adjustment credit
PSMC	public sector modernization credit
SIAFI	Sistema de Administración financiera Integrada Integrated Financial Management System
SME	small and medium enterprise
SOPTRAVI	Secretaría de Obras Públicas, Transporte y Vivienda Ministry of Public Works, Transport and Housing
TAC	technical assistance credit
UMCE	Unidad Medicion de Calidad de Educacion

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Preface

This Country Assistance Evaluation (CAE) provides an independent assessment of World Bank assistance to Honduras during the period FY95-05. The CAE examines whether: (i) the objectives of Bank assistance were relevant; (ii) the Bank's assistance program was effectively designed and consistent with its objectives; and (iii) the Bank's program achieved its objectives and had a substantial impact on the country's development during this period. Examining these questions allows the CAE to draw lessons and recommendations for future Bank assistance. Annex C describes the methodological approach.

The basis for the CAE consists of Independent Evaluation Group (IEG) background papers, sectoral reviews, project assessments, and interviews with senior government officials, representatives of the private sector and civil society, non-governmental organizations (NGOs), members of the donor community, Bank and International Monetary Fund (IMF) staff at headquarters and in Honduras. A list of those interviewed on mission is in Annex B. An IEG mission visited Honduras during October 2005.

The Management Action Record is attached as Annex D. Comments from the Bank's Regional Management have been incorporated in the report. The report was also sent to the Honduran authorities whose comments are reflected in the report and attached in Attachment 1.

This CAE was written by René Vandendries (Task Manager, Consultant, IEGCR) with contributions by John Johnson (IEGCR), James Fox and Gonzalo Salinas (Consultants). Yvonne Tsikata (IEGCR) was the peer reviewer. Adrian Kats and Jane Hwang (Consultants) provided research and data support. Agnes Santos (IEGCR) provided administrative assistance.

The report includes a contribution by the Independent Evaluation Group (IEG-IFC) of the World Bank's International Finance Cooperation (box 3.2), prepared by Anna Zabelina.

Honduras: Summary of CAE Outcome Ratings

COUNTRY PROGRAM OBJECTIVES	OUTCOMES OF IDA PROGRAM OBJECTIVES	RATINGS FOR IDA PROGRAM OUTCOMES
1. Growth		
Macroeconomic Stability and Debt Sustainability	Macroeconomic stability restored leading to external debt relief. Debt sustainability was achieved but with substantial delays.	Satisfactory
Public Sector Modernization	Quality and efficiency of public services improved little. Improvements in public administration and in public financial management reforms were slow to materialize and incomplete. Recent progress in public financial management is notable.	Unsatisfactory
Financial Sector Reform	Financial system was strengthened substantially.	Satisfactory
Agriculture and Rural Development	Forestry sector management has remained deficient although some progress was made recently in community-based programs. Efforts to improve agricultural production were piecemeal with little impact. A national land tilling and administration program was established.	Unsatisfactory
Trade Infrastructure and Facilitation	Infrastructure rehabilitation and development were successful. A maintenance Road Fund was established. The impact on export growth was disappointing.	Moderately Satisfactory
Overall for Growth		Unsatisfactory
2. Social Sectors		
Improve Reach and Quality of Education	Expanded primary education access, including targeting to rural areas. Introduced quality standards and measurements, including a student assessment system. Education quality remains deficient.	Moderately Unsatisfactory
Improve Reach and Quality of Health	Slow improvement in health indicators.	Moderately Satisfactory
Ministries' Reform	Ministries of Education and Health have not developed capacity to effectively manage their resources.	Unsatisfactory
Overall for Social Sectors		Moderately Unsatisfactory
OVERALL	The main areas of IDA efforts (Public Sector Modernization, Agriculture, Social Sector Development) had unsatisfactory outcomes	Moderately Unsatisfactory

Executive Summary

1. Honduras is one of the lowest income countries in Latin America, with a per capita income in 2004 estimated at \$1,030. The population of about seven million grows at a high 2.5 percent per year, and poverty is widespread, particularly in rural areas. The country is vulnerable to international trade developments and especially to natural disasters: Hurricane Mitch in late 1998 brought locally up to three feet of rain in a week, devastating the country.
2. The long-term economic growth performance has been poor: per capita growth over the past four decades was less than half the Latin America average. A reform process was initiated during the early 1990s, with emphasis on outward-oriented growth, but an inability to maintain fiscal discipline continued to put a brake on progress. Fiscal difficulties and periodic natural disasters are not the only challenges constraining Honduras' development prospects. The deep-seated long-term constraints to growth were found to be, in order of importance, a comparatively low level of human capital development, inefficient provision of public infrastructure, a poorly developed financial market, and governance issues, including deficient public financial management and a weak civil service.
3. This evaluation covers the period FY95-05. The International Development Association (IDA) has played a major role in Honduras' development efforts over these years, not only as a source of development assistance, but also through the contribution of its analytical work to the design of government reform efforts. IDA's strategy was presented in three country assistance strategies (CASs) over this period, all with the same two basic objectives: accelerated and equitable growth, and poverty reduction through investments in health, education and social safety nets.
4. The objectives were certainly relevant for Honduras. The CAS proposals, both in terms of lending and in terms of analytical work were largely implemented as planned. At the same time, the strategy was all-encompassing and lending was spread over a wide variety of sectors, suggesting a lack of focus. In particular, the strategy, as it evolved, placed much more emphasis on addressing the short-term needs of the poor than on tackling long-term growth opportunities in, for example, agriculture. On the other hand, the leadership provided by IDA in the area of analytical work was much appreciated by its development partners.
5. The specific objectives in the "growth" area were several: (i) macro-economic stabilization; (ii) modernization of the public sector through privatization, to improve public service delivery, through administrative reforms and through public financial management reforms; (iii) financial sector reforms through increased bank capitalization and a strengthened institutional framework; (iv) agricultural development through titling programs to improve land use, improvement in forest policies and management, agricultural policy planning, and more effective rural financial intermediation; and, (v) trade infrastructure development and trade facilitation.

6. The objectives in the social sectors were twofold: (i) improve the reach and quality of education and health services, give special attention to indigenous people, and develop rural infrastructure; and, (ii) strengthen the efficiency and operation of the ministries of education and health.

7. The outcomes were mixed, and, on balance, disappointing. Achievements in the “growth” area include cuts in public employment, recent progress towards fiscal stability, belated improvements in tracking of current expenditure and of revenues, and new laws on financial management, budgeting and corruption. The country’s financial system was strengthened substantially. A land titling program was established with some results and measures introduced to help improve the overall business climate, including through a trade facilitation project. A road maintenance fund was established, though currently underfunded, the country’s main port, Puerto Cortes, was partially modernized, and effective infrastructure and housing rehabilitation was provided following Hurricane Mitch. IDA’s assistance to help get the country back on its feet after Hurricane Mitch was especially successful. Rehabilitated roads and bridges were built to standards adequate to withstand future storms, and IDA’s technical guidelines became an example followed by other donors.

8. On the other hand, the outcomes in key areas vital for long-term sustainable growth were disappointing. Efforts to increase the quality and efficiency of utility services through privatization yielded little. The attempted rationalization of public sector wage and employment policies largely failed, in part, because the bulk of civil servants, especially teachers, would not have been affected, and, in part, for lack of broad support. Management of the forestry sector remained deficient and other efforts to improve agricultural production (planning, rural finance) were piecemeal, having little impact on total agricultural output.

9. Overall economic, agricultural, and export growth fell well below expectations, both in absolute and comparative terms. Part of this disappointing performance is attributable to exogenous factors, that is, Hurricane Mitch. Overall gross domestic product (GDP) growth over the period 1994–2004 was 2.9 percent per annum, below that in neighboring Central American countries, but above the average for Latin America. On a per capita basis, however, GDP grew at 0.2 percent per annum, far below the Latin American average. At the same time, there have been encouraging outcomes since 2002 – fiscal stability, higher growth – to which IDA contributed through its support for IMF-led programs and its budgetary and technical assistance. In a number of areas – financial sector strengthening, public sector financial management – recent progress has been promising. IEG rates the outcome of the IDA’s assistance program in the “growth” area as unsatisfactory for the period under review as a whole, but notes that outcomes have been improving since about 2002.

10. In the social sectors IDA’s assistance has played a primary role in expanding educational opportunities to remote and poor areas through its support of a community-based program, which promotes local control of schools. IDA was also successful in fostering the expansion of rural infrastructure through its support for the social safety net. At the same time, other primary objectives of IDA strategy – improvement in the quality of education, and an efficient functioning of the ministries of education and health were not achieved. IEG rates the overall outcome of IDA assistance in the social sectors as moderately unsatisfactory.

11. The overall outcome of IDA's assistance strategy is rated as moderately unsatisfactory. The essence and primary focus of IDA's strategy was to help modernize the public sector, promote agricultural development and management of the forests, and improve the reach and quality of education and health services and the efficiency of operation of the relevant ministries. These endeavors, together, absorbed more than 60 percent of IDA's assistance, and their outcomes are all rated less than satisfactory.

12. In the difficult Honduran environment, IDA's efforts were relevant, with some exceptions, and well-directed to help resolve the country's long-standing development constraints. IDA's analytical work, in particular, defined the main issues clearly and professionally, providing strong leadership on structural reforms. However, in several crucial areas, political resistance to reform, (in, for example, privatization, improvements in the education system, forestry reform), and capacity constraints derailed IDA initiatives.

13. The main recommendations from this evaluation are as follows.

Strategy: IDA needs to concentrate its assistance in fewer areas, more closely related to the growth objective.

- i. The greatest focus should be on decentralized delivery of quality *education* services. This will require restructuring the teacher employment regime (estatuto) to achieve greater accountability for performance and establish a sustainable sector pay policy.
- ii. The most urgent task in public *infrastructure* is to transform the power company into a reliable low cost provider, given that this is a leading obstacle to private sector investment. In view of the frequency of natural disasters, IDA should continue to ensure that all infrastructure projects are built to "disaster" standards.
- iii. In an effort to generate *agricultural* growth, emphasis must be placed on (a) improving access to credit and support services for low-income farmers and (b) rural roads.
- iv. In the area of *governance*, the highest priorities are strengthening internal expenditure and revenue control systems, professionalization of the civil service, establishment of fiscally sustainable compensation policies, and procurement reform. With regard to control systems, institutionalization of financial management, procurement, personnel management, and planning is critical. For procurement, urgent action is needed to introduce harmonized donor rules for transparent hiring and procurement in the Project Implementation Units (PIUs). Given capacity and ownership constraints within the Government of Honduras (GOH), procedural procurement reforms might preferably be piloted in one or two of the most important agencies, notably the Ministry of Public Works, Transport and Housing (SOPTRAVI) and the Honduran Social Fund (FHIS), which jointly account for the bulk of procurement spending.

Instruments and procedures used for delivering assistance need greater attention.

- v. The effectiveness of FHIS, the largest recipient of social sector assistance, needs to be examined. Long-term sustainable growth requires efficient line ministries, not special purpose organizations such as FHIS.

EXECUTIVE SUMMARY

- vi. Future economic and sector work (ESW) should intensify research on new economic opportunities for the poor, particularly in agriculture and export-oriented maquilas.
- vii. In line with the growing focus on “results,” IDA, as the agency with the greatest capacity among donors for producing high-quality documentation, should show leadership in helping to improve the unacceptably low quality of statistical information on the reality of trends in the economic and social conditions in Honduras.

Vinod Thomas
Director-General
Evaluation

1. Country Background

1.1 Honduras is one of five lowest income countries in Latin America. Its per capita income in 2004 was estimated at \$1,030 (Atlas method), slightly above that of Guyana, Bolivia and Nicaragua, though more than twice that of Haiti. The population of about seven million grows at 2.5 percent per year. Poverty is widespread, particularly in rural areas. National estimates of income poverty indicate that about two-thirds of the population lives below the poverty line; IDA estimates of consumption poverty, a generally more comprehensive measurement of poverty, suggest that about half of the population lives in poverty and close to a quarter in extreme poverty. But in rural areas, comprising 50 percent of the population, four out of ten people live in extreme poverty. Neither set of estimates shows any significant improvement over the past several years.

1.2 The country is vulnerable to international trade developments and natural disasters. The economy is open with the trade share of GDP around 90 percent. Over time exports have diversified partly because of the rise in maquila industries (free trade zones) and partly because of diversification within natural resource exports. Still the country remains vulnerable to commodity price shocks and especially to floods and hurricanes, which are common. During the 1990s for example, Honduras was seriously impacted by floods resulting from tropical storms in 1993, 1994 and 1996, and in late 1998 Hurricane Mitch brought locally up to three feet of rain in the course of a week, devastating the country with substantial loss of lives and physical damage. One of Mitch's impacts was an acceleration in emigration with the result that private net current transfers (primarily workers' remittances) increased from the equivalent of 6 percent of GDP in the mid-90s to an estimated 16 percent of GDP in 2004 (table 1.1).

1.3 Honduras is heavily dependent on foreign aid, which, while highly variable from year to year, averaged about 9 percent of gross national income during 1994-2003. The country is a heavily-indebted poor country (HIPC) and reached the completion point under the enhanced initiative in April 2005. It is one of the countries whose multi-lateral debt is to be cancelled as per an 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, \$215 million compact with Honduras.

Table 1.1: Select Balance of Payments Data
(in % of GDP)

	<i>GDP (US\$m)</i>	<i>Merchandise Exports</i>	<i>Value Added Maquila</i>	<i>Tourism Receipts</i>	<i>Net Current Transfers</i>	
					<i>Total*</i>	<i>Private</i>
1994	3,428	30	4	--	6	--
1995	3,960	33	4	3	7	--
1996	4,079	35	5	3	7	--
1997	4,708	33	7	3	7	--
1998	5,262	31	9	3	9	--
1999	5,424	22	10	4	14	--
2000	6,025	24	10	4	13	7
2001	6,400	21	9	5	15	9
2002	6,580	21	9	5	15	11
2003	6,945	20	10	5	16	13
2004	7,455	21	11	5	19	16

* Includes HIPC data, starting in 2000.

Source: IMF and WB data.

1.4 The long-term economic growth performance has been poor. The most recent economic report (Development Policy Review, November 8, 2004) estimates average annual per capita growth at 0.8 percent over the 1960-2000 period, less than half the Latin American average. The report examined the long-term determinants of growth and concluded that four key explanatory variables stood out as particularly important for Honduras. The single most important determinant of growth, by far, was found to be education: Honduras' continuing low level of human capital development has been the primary long term constraint. Public infrastructure was found to be the second most important determinant of growth. In Honduras, access to and efficiency and service quality of transport, electricity and telecommunications are all comparatively low. The two other determinants – financial market development, and governance issues, including in public financial management, the civil service and the judiciary – while of considerable importance, were found to be much less so than either education or public infrastructure.

1.5 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 GDP and Honduras was temporarily cut off from international borrowing, including from IDA. Following the 1990 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, primarily linked to the electoral

cycle, continued to put a brake on progress during the 1990s in spite of high levels of investment and foreign aid.

1.6 During the most recent government administration (2002-2006) there have been a number of positive developments on growth, stability and the social sectors. For the first time in many years, the electoral cycle (elections were held in November 2005) did not lead to a fiscal crisis in 2005, and inflation has been kept in check. Per capita GDP during the past three years grew at about 1.2 percent per annum and at 2.5 percent in 2004. While this recent growth performance has not been fully analyzed, recovery in agriculture, continued growth in tourism and maquila industries and spectacular growth in foreign remittances (with limited leakage into imports) appear to be the major explanatory variables. There has also been progress in outcomes in the social sectors: infant mortality has declined further and primary and preschool enrollments are up. Also, the Poverty Reduction Strategy Paper (PRSP) process, initiated in 2000, has become relatively institutionalized, with considerable outreach to civil society.

1.7 Fiscal difficulties and periodic natural disasters are not the only challenges constraining Honduras' development prospects. As discussed above (para 1.4) the more important constraints over the longer term are the low level of human capital development, inefficient provision of public services, comparatively low financial market development, and a number of governance issues. The 2005 Human Development Index is lower for Honduras than for any other Latin American country, except Guatemala and Haiti. Education is a case in point. While enrollment rates have increased, drop-out rates at the primary level are high, educational quality is low, even by Latin American standards, and coverage at the secondary level is low. Furthermore, poor teacher performance and absenteeism also lower internal efficiency.

1.8 Public sector inefficiency takes many forms. The government power company is a drain on the budget, public telephone service is poor and the social security system has large operational losses and provides inadequate service. The efficiency of the civil service is hampered by inconsistent salary regimes for different groups of service, and the hiring and firing process is highly politicized. Honduras rates poorly on most indicators of governance. Starting from a low base, much progress was made between 1996 and 2004 on five of the six governance indicators tracked by the World Bank Institute (WBI) (the exception was "Political Stability"). Still, by 2004, Honduras ranked well below Latin American averages on all six indicators. More significantly, compared to other lower middle income countries, it ranked even or above on "Voice and Accountability" and "Regulatory Quality," but ranked below on the other four, "Rule of Law," "Political Stability," "Government Effectiveness" and "Control of

Corruption,” and especially so on the latter three. This suggests that it is not laws or regulations which are lacking, but rather implementation and enforcement. The International Country Risk Group (ICRG) ratings also show Honduras lagging neighboring countries, although some progress has been made.

Table 1.2: Honduras Governance Indicators 1995 and 2005

	1995	2005
Political Risk Rating ψ		
Honduras	55.0	59.5
Costa Rica	74.0	72.3
El Salvador	66.8	67.1
Guatemala	58.5	66.3
Nicaragua	63.0	64.4

Source: International Country Risk Group as of May 4, 2006

Note: ψ Scale 0-100, 0 worst, 100 best

1.9 All of this translates into a difficult investment climate. In the World Bank/IFC “Doing Business in 2006” Honduras falls below other Central American countries (and Panama) on the ease of doing business. And, the Institutional Investor country credit risk ratings show Honduras trailing neighboring countries (except Nicaragua) on both current ratings and improvement over the 1994–2005 period. (See box 3.2).

2. IDA's Program and Strategy

2.1 IDA has played a major role in Honduras' development efforts over the last several years. During 1994-2003, IDA was the largest source of net Official Development Assistance (ODA) to Honduras, providing close to one-fifth of the total, followed by the U.S., Japan, the Inter-American Development Bank and Spain (see annex table 3.b). Taking account of repayments on earlier International Bank for Reconstruction and Development (IBRD) loans, net flows from IDA to Honduras were exceeded only by those from the U.S. and Japan. In addition, IDA made important intellectual contributions to the design of government reform efforts through its economic and sector work (ESW), policy dialogue and technical assistance.

IDA Strategy

2.2 In response to concerted efforts by the Honduran Government to drastically reform its economy, the first country assistance strategy (CAS) was presented to the Board of Executive Directors in July 1993, as part of a proposed agricultural sector adjustment credit. This is the starting point for this evaluation, covering the period FY95-05.

2.3 There were two more CASs: the 1999 CAS, covering FY00-02 and the 2003 CAS, covering FY03-06 and in line with the October 2001 PRSP. The delay between the first two CASs was due to Hurricane Mitch. On the whole, the strategies in the CASs closely mirrored the Government's agenda. Given Honduras' many critical development constraints and the limited progress being made by the country over time, the objectives in all three CASs were wide-ranging and did not change much from CAS to CAS, even considering the occurrence of Hurricane Mitch. In the end, all three CASs pursued first, accelerated and equitable growth through various means: modernization of the public sector, financial sector reform, agricultural development, and transport and trade facilitation; second, poverty reduction through investments in health, education and social safety nets.

2.4 The country strategy in the early 1990s concentrated on helping the Government achieve three major objectives of its medium-term program: (i) poverty reduction and human resource development, through operations in education, health and social protection; (ii) modernization of the economy and the public sector, thereby creating a business environment conducive to private sector development; this would be

achieved primarily through a public sector modernization structural adjustment credit and technical assistance; and (iii) sustainable management of the country's natural resources through an agricultural sector adjustment credit.

2.5 Following the devastation caused by Hurricane Mitch, IDA aligned its strategy in the 1999 CAS in support of the Government's medium-term reconstruction program, organized around three themes: (i) poverty reduction through support for the social safety net, health, education and Indigenous and Afro-Honduran peoples development; (ii) revival of growth, through infrastructure development, technical assistance for economic and financial management and for the financial sector; and (iii) sustainability, including debt sustainability, through improvements in governance and in environmental management and disaster preparedness.

2.6 The 2003 CAS was in support of the six pillars of the PRSP, which was completed in September 2001. The pillars were: (i) acceleration of equitable and sustainable economic growth; (ii) reduction of poverty in rural areas; (iii) reduction of urban poverty; (iv) investment in human capital; (v) strengthening social protection for specific groups; and (vi) guaranteeing the sustainability of the strategy. In varying degrees, IDA's program was meant to contribute to all six pillars, but the emphasis was in three areas: (i) address structural and institutional barriers to growth, through financial sector lending and trade facilitation; (ii) invest in human capital and protect vulnerable groups, through urban services and nutrition projects as well as assistance to Indigenous and Afro-Honduran people; and (iii) support transparent and responsive functioning of the public sector primarily through preparation of a Country Financial Accountability Assessment (CFAA) and Country Procurement Assessment Review (CPAR).

Lending

2.7 IDA lending commitments in support of its strategy over this 12-year period totaled \$1,214 million, or \$100 million on average per year. There were a total of 29 projects, not counting supplements from IDA re-flows. Adjustment lending was 27 percent of the total.

Relevance

2.8 Lending was spread over a wide range of sectors (see table 2.1), with important shares for rural development (17.3 percent), hurricane reconstruction (16.5 percent), social protection (14.2 percent), public sector governance (13.1 percent), transport and trade (9.4 percent), and education and health (9 percent). This apparent lack of focus resulted primarily because IDA, in its efforts to fully support the government agenda, tried to respond with lending in as many areas as possible. However, this approach ignored the

Table 2.1: Composition of IDA Commitments, FY94-05
(in millions of US\$)

	1994-2005	% Share	CAS			CAS 1999		CAS 2003
			1994-1997	1998	1999	2000-2002	2003-2005	2006
CAS Proposals	--	--	200.0 ^{a/}	--	--	317.0	236.0	60.0
Actuals	1,213.7	100.0	330.1	14.2	283.7	316.9	268.8	
<i>Of which</i>								
Rural Development	209.5	17.3	148.2	--	--	16.3	45.0	
Hurricane Reconstruction	200.0	16.5	--	--	200.0	--	--	
Social Protection	172.5	14.2	30.0	--	45.0	82.5	15.0	
Public Sector Governance	159.5	13.1	111.1	14.2	--	26.2	8.0	
Transport and Trade	114.6	9.4	--	--	20.0	66.5	28.1	
Education and Health	109.0	9.0	30.0	--	10.4	68.6	--	
HIPC and Debt Relief	104.0	8.6	--	--	--	37.0	67.0	
Poverty Reduction	58.8	4.8	--	--	--	--	58.8	
Financial Sector Development	34.9	2.9	--	--	--	--	34.9	
Other ^{b/}	50.9	4.2	10.8	--	8.3	19.8	12.0	

a/ Upper Estimate

b/ Environment, Social Development, Urban Development

issue of comparative advantage.¹ In spite of the urgency of poverty reduction in Honduras and the finding discussed in the 1999 CAS that economic growth is the primary means to that end, in both the 1999 and 2003 CASs (Annex B9 in the CASs) virtually the only areas where IDA gave a lower priority to development initiatives than the Government were activities which are directly related to economic growth—economic policy, private sector development, infrastructure development, energy, mining. The reason given is that other donors have taken the lead in these areas. Yet, it can be argued that, given IDA's small in-country staff relative to other donors, — a country office was established only in 1999 — those are precisely the activities IDA would have a comparative advantage in. As an example, the very labor-intensive dealings with indigenous groups would seem to be much more appropriate for bilaterals with extensive local or regional knowledge.

Implementation

2.9 With a few exceptions and with some delays, the CAS proposals were largely implemented as planned. During the country assistance strategy in the early 1990s, Honduras' IDA allocation much exceeded original expectations but was spread fairly evenly across the planned interventions (table 2.1). Important additions to the program were the FY99 \$200 million hurricane reconstruction loan and HIPC (FY01) and debt relief (FY05) operations. The one major omission from the CAS program was a planned FY01 Municipal Watershed and Rural Development project, which was meant to

help reduce systemic long-term risks from natural disasters. The distribution of IDA's actual lending by primary objective is shown in table 2.2.

Table 2.2: FY94-05 IDA Lending by Primary Purpose
(Amount in US\$m)

<i>Public Sector Modernization</i>			<i>Agriculture</i>			<i>Social Sector Development</i>		
FY95	Environm	10.8	FY94	AgSAC	60.0	FY95	Basic Educ.	30.0
FY96	PSMSAC	55.0	FY94	AgSAC	27.9 (S)	FY96	SIF III	30.0
FY96	PSMSAC	26.4 (S)	FY95	AgSAC	26.3 (S)	FY99	Nutrition/Health	10.4
FY96	PSMTAC	9.6	FY97	Land Manag.	34.0	FY99	SIF IV	45.0
FY97	PSMSAC	20.1 (S)	FY01	Land Access	8.0	FY99	Profuturo	8.3
FY98	PSMSAC	14.2 (S)	FY02	Land Manag.	8.3 (S)	FY00	SIF	22.5 (S)
FY01	Econ/Fin Man	19.0	FY04	Forests	20.0	FY01	Educ.	41.5
FY01	PSMSAC	7.2 (S)	FY04	Land Admin.	25.0	FY01	SIF V	60.0
FY04	PRSC	56.0	Total		209.5	FY01	Profuturo	4.0 (S)
FY04	PRSC	2.8 (S)	<i>Financial Sector</i>			FY02	Tourism	5.0
FY04	PRS TA	8.0	FY03	Finance TA	9.9	FY02	Health Ref.	27.1
			FY05	Fin Sector Progr	25.0	FY03	COPAN	12.0
			FY04	Nuestras Raices	15.0			
Total		229.1	Total		34.9	Total		310.8
<i>Transport and Trade</i>			<i>Disaster Management</i>			<i>Debt Relief</i>		
FY99	Transport Rehab.	20.0 (S)	FY99	Mitch	200.0	FY01	HIPC	37.0
FY01	Road Reconstr.	66.5	FY00	Disaster Mgt	10.8	FY05	Debt Relief	67.0
FY04	Trade Facilit.	28.1						
Total		114.6	Total		210.8	Total		104.0

S=Supplement

Ratings for Closed Projects

2.10 Only 9 of the 29 projects approved during the period under review have been evaluated thus far by IEG. All but two (78 percent) of the rated projects had a satisfactory outcome rating, which is similar to the averages for IDA and the Latin American Region. A larger sample of the projects which exited during the period under review shows similar outcome ratings. This does not appear, at first, to be consistent with an important finding of this evaluation (discussed later below) that IDA's program has had limited impact on Honduran development. In large part, this seeming inconsistency can be explained by the timing of the evaluation of the project and/or by the more narrow nature of an implementation completion report (ICR) review or performance assessment. For example, at the time of the ICR review of an agriculture adjustment credit, the outcome was rated moderately satisfactory, based on short term gains in agricultural performance and institutional development. Over time, this proved to be overly optimistic. The sustainability had been rated uncertain and, as it turned

out, the hoped-for benefits never materialized. Similarly, an IEG performance assessment rated the outcome of an education project as satisfactory primarily based on achievements on inputs, while progress on results had been marginal. Furthermore, more recent information on results suggests that there has been no improvement in educational quality, the prime objective of the credit.

Table 2.3: Ratings for Projects Approved during FY95-05

	<i>Outcome % Sat</i>	<i>Inst. Dev. Impact % Substantial</i>	<i>Sustainability % Likely</i>
Honduras	77.8	55.6	71.4
Latin America and the Caribbean Region (LCR)	82.9	59.0	76.3
IDA	78.3	50.4	74.6

Source: Annex table 5a

Non-lending Services

2.11 IDA produced a large amount of analytical work (annex table 4) which served not only to underpin its own strategy, but also provided much of the intellectual input on structural reforms for other donors and the Government. The leadership of IDA in this area was much appreciated by its development partners. The work was of high quality, defining the issues clearly and professionally. Some of it was produced in partnership, such as the 1995 report on *“Reforming Public Investment and the Infrastructure Sectors: A Joint World Bank and Inter-American Development Bank Study.”* Other important pieces included a Poverty Diagnostic, Public Expenditure Reviews in 1995 and 2001, assessments of the PRSP and the progress reports (jointly with the IMF), the 2003 CFAA and the Financial Sector Assessment Program (FSAP [also jointly with the IMF]), a CPAR, and a comprehensive economic report in 2004: *“Development Policy Review: Accelerating Broad-based Growth.”*

2.12 In the social sectors also, IDA's strategy profited from a wealth of analyses on poverty and public expenditures, and from studies on education and health. Also, IDA supported preparation of a participatory assessment of indigenous peoples' issues: *“Perfil de los Pueblos Indigenas y Negros de Honduras”* (2002) prepared by the Regional Unit of Technical Assistance (RUTA). However, in contrast to analytical work on education and health, this has not been followed up in the development of a coherent indigenous peoples' strategy to guide IDA's support to this target group. Rather, IDA support remains fragmented along sectoral lines.

Aid Partnerships

2.13 IDA did not play a prominent role in aid coordination in Honduras over most of the period under review. Since the mid-90s, the responsibility for chairing consultative group (CG) meetings for Central American

countries has been assumed by the Inter-American Development Bank (IDB). One side-effect of the devastation caused by Hurricane Mitch in 1998 was stepped-up cooperation and coordination among donors. At a CG meeting organized by the IDB and the Swedish Government in Stockholm in May 1999, donors agreed to reorient their relief and reconstruction assistance towards long-term solutions to the root causes of poverty and vulnerability. Five bilateral donors were given the task of leading these efforts: the G-5. At a follow-up meeting, other donors joined this group, which is now known as the G-16, and comprises all major donors under the rotating leadership of one of the bilaterals.

2.14 The G-16 operates at three levels; there is the group of ambassadors and representatives, a technical group, and six sectoral groups which include donors, government and civil society. There are regular meetings where there is a candid discussion of the plethora of donor programs, as well as a frank exchange of views of the differences in donor objectives and in modalities of lending programs. The larger donors (IDA, IDB) support the G-16 because it brings all donors together, while the smaller donors see it as a vehicle to increase the impact of their assistance. As the post-Mitch reconstruction efforts wound down, the Poverty Reduction Strategy process, in which IDA does play a lead role, kept these donor coordination efforts going. Coordination between IDA and the IMF, in support of Honduras' poverty reduction efforts, has been especially close.

2.15 Still, partnerships have room for improvement. Some major programs are primarily donor-driven, there are important disagreements among donors on appropriate lending instruments to be used, such as for example, on the virtues of budget support, and more and more donors produce their own "CAS," which is taxing on the Government.² IDA was criticized for consulting with other donors during project preparation, but then abandoning such consultations once project execution starts. At the same time, IDA is universally regarded as the most strategic thinker among the donors, with the most experienced personnel and with a solid analytical base. These assets could possibly be exploited more fully. It was often suggested that if only the two largest donors (IDA and the IDB) were to be able to fully coordinate their assistance, other donors would more readily follow their lead.

NOTES

¹ In its comments (Attachment 1, page 79), the Government also notes that this high level of fragmentation makes it difficult to manage projects and meet their performance indicators.

² In September 2005, the Government released a consolidated matrix detailing 140 conditionalities required by donors in nine different policy-based operations, covering 16 themes and sectors.

3. IDA's Development Impact on Growth

Introduction

3.1 The CAS's pro-growth strategy proposed concerted action on five key sectors and themes: (i) macroeconomic stabilization, fiscal adjustment, and the restoration of external debt sustainability to increase the fiscal space required to improve services and generate needed levels of public investment in infrastructure; (ii) modernizing the public sector to streamline functions, support fiscal rationalization, and improve the delivery of key services; (iii) financial sector reform to shore up weak banks and oversight institutions, stimulate domestic savings mobilization, and expand credit in sustainable fashion; (iv) agricultural and rural development reform aimed at improving land use and conservation; and (v) promotion of international trade and the related infrastructure to provide a sustainable engine of growth.

(1) Macroeconomic Stabilization, Fiscal Adjustment, and Debt Sustainability

3.2 After nearly a decade of uneven macroeconomic policy management, and notwithstanding three Paris Club concessional reschedulings between 1992 and 1998 and special assistance after Hurricane Mitch, by the end of the 1990s, Honduras's external debt burden had reached unsustainable proportions. The total external public debt stock, in net present value (NPV) terms, amounted to about US\$3.3 billion, equivalent to 61 percent of 1999 GDP, 142 percent of exports of goods and nonfactor services and 322 percent of fiscal revenues. Although Honduras did not qualify for assistance under the general HIPC window (NPV of debt-to-export ratio above 150 percent), it did qualify under the fiscal window (NPV of debt-to-fiscal ratio above 250 percent), meaning that, even after the full use of traditional debt relief mechanisms, Honduras' external debt exceeded a level which was fiscally sustainable in the medium term.

OBJECTIVES

3.3 The strategy called for Honduras to fulfill three conditions to qualify for debt forgiveness, including: (i) the preparation of a full PRSP through a participatory process and satisfactorily implementing it for at least one year, as evidenced by a favorable Joint Staff Assessment (JSA) of the annual progress report; (ii) the maintenance of a stable macroeconomic framework; and (iii) the implementation of fiduciary and financial reforms.

LENDING AND NON-LENDING SERVICES

3.4 IDA conducted two major studies of Honduras's debt burden, one in 1998, which recommended terms for the Decision and Completion Points, the second in March 2005, which analyzed the sustainability of the debt after the HIPC Completion Point was reached.

3.5 Lending included a US\$37 million HIPC credit in FY01 and a follow-on Debt Relief Credit in the amount of US\$67 million in FY05.

OUTCOMES

3.6 Honduras reached its Decision Point under the Enhanced HIPC Initiative in July 2000, but subsequent difficulties in maintaining a stable macroeconomic framework and implementing a PRSP program led to a three-year delay in reaching the Completion Point, which had been originally envisaged for 2002.¹ The government garnered the required internal support to introduce strong macroeconomic corrective policies in 2003 and sustained this effort through 2005, thereby meeting that condition. By March 2005, Honduras had also fulfilled the remaining HIPC conditions, thus reaching the Completion Point. By sustaining this macroeconomic discipline and reform effort through early 2006, Honduras was one of only 17 HIPC countries to be declared eligible by IDA for additional debt relief under the first round of the Multilateral Debt Relief Initiative.

3.7 IDA's most recent debt sustainability analysis (DSA), also disseminated in March 2005, projected that, after all HIPC and bilateral debt relief have been granted, Honduras' NPV of debt-to-revenues at end-2003 will fall well below the HIPC threshold of 250 percent and will likely continue declining until at least 2023. The same would be true of the NPV of debt-and debt service-to-exports. Despite these favorable trends, the DSA sensitivity analysis emphasized the centrality of maintaining a prudent fiscal stance and a credible growth strategy, if the benefits of debt forgiveness were to be sustained.

3.8 Given Honduras' development policy experience during the CAE implementation period, these will not necessarily be easy requirements to meet. For example, the three-year delay Honduras experienced in reaching the HIPC Completion Point was occasioned by a surge in pre-election spending, including significant increases in wage-costs underpinned by the teacher and health professional special salary regimes (*estatutos*). The Maduro administration managed to break the electoral cycle, delivering an FY05 deficit of 1.9 percent GDP, well below the IMF program target. Wage costs have been kept under control through a standstill agreement with the teacher and health professional unions covering the period of 2004-06. However, this agreement will have to be renegotiated thereafter with results that, at this moment, are difficult to foresee. If this recent improvement in macroeconomic and growth-promoting policies can be consolidated over the next decade or so, the Enhanced HIPC Debt Initiative,

which provided the NPV equivalent of US\$65 million in IDA debt relief, will have been justified.

(2) Public Sector Modernization

OBJECTIVES

3.9 Starting in the mid-90s, the strategy for public sector modernization focused on achieving major reductions in the size of the public sector and major increases in efficiency. Success in these areas was expected to contribute toward macroeconomic stability and private sector-led growth. A Public Sector Modernization Credit (PSMC) had objectives which included: (i) improving the delivery of key services through greater private sector presence in the power, telecommunications and airport sectors; (ii) fostering administrative reforms to streamline public institutions and rationalize employee incentives; and (iii) advancing financial management reforms that would increase allocative efficiency while strengthening governance.

3.10 The Economic and Financial Management Credit (EFMC), approved in FY01, provided follow up. This operation focused on: (i) improving the transparency and accountability for the use and allocation of public resources, (ii) developing budgetary planning and evaluation capacity in key agencies, (iii) promoting institutional restructuring with the telecommunications, port, and postal service sectors, and (iv) strengthening the technical capacity of the regulatory entities.

3.11 Finally, the Poverty Reduction Support Credit (PRSC I) (see box 3.1), approved in FY04, had three components addressing modernization issues: (i) improving the integrated financial management system (SIAFI), (ii) restoring Executive Branch control over civil service wage management, and (iii) professionalizing the civil service.

LENDING AND NON-LENDING ACTIVITIES

3.12 Public sector modernization absorbed nearly 20 percent of total IDA lending. The assistance was channeled via six public sector management projects and their supplements (table 2.2).

3.13 The PSMC of 1996 and its related technical assistance credit provided the initial vehicles for a strategy that would be pursued for the next ten years. Follow up instruments included the EFMC and the PRSC I with its associated technical assistance credit (TAC).

3.14 Significant ESW preceded lending activity in every sub-area. It included a comprehensive audit of public sector needs in the areas of administrative reform, privatization, and public financial management; an investment climate assessment; and a study of the origins of growth.

OUTCOMES

3.15 The objectives of the Public Sector Modernization Credit and its successors were relevant, for the most part, their instrumentalities less so. They addressed urgent issues in public sector management and the link between those issues and macro-stability and private sector growth was strong and clear. Moreover, the Government appeared to be fully committed, having carried out major prior actions in preparation of the Public Sector Modernization Project, including the passage of several laws. But the approaches for privatization and civil service reform contained serious flaws. And the commitment of the Executive Branch to these reforms proved, in the end, insufficient to overcome the inertia and opposition from strong vested interests in the public enterprises and the civil service.

3.16 So, for example, increased private sector participation in the provision of public services did not, for the most part, lead to the gains in quality, quantity, and cost-effectiveness which had been predicted. The airport was the only public asset to be fully privatized. But, even here, the initial concession had to be cancelled and rebid after years of inaction by the original owner. This delay paralyzed efforts to expand the airport's overstretched capacity, leading the public to conclude that the benefits of privatization had been oversold. This, in turn, intensified opposition to the privatization of other public facilities, such as the ports.

3.17 As for the power sector, much of the new generation was outsourced to the private sector, but distribution remained in public hands. Due to the small size of Honduras's market, it should have been recognized that only limited economies of scale or competition are possible. The cost of electricity supply remains very high due to the inefficiencies in distribution and the high cost of contracts with private power generation companies. Furthermore, an increasingly decrepit distribution network has caused recurrent outages, which, in turn, has posed a major deterrent to new investment.

3.18 Only in telecommunications did privatization provide major benefits, as the introduction of competition from foreign cell phone companies offered cheaper alternatives to the telecommunications company, HONDUTEL. Yet, even here, results have fallen short of what they might have been. For example, HONDUTEL was allowed an unnecessarily lengthy exclusionary period lasting ten years. This meant that competition on landline and international call rates only recently emerged, inflicting excessive interim costs on consumers. Meanwhile, CONATEL, the regulatory agency set up to preside over the opening of the marketplace, never issued the appropriate regulations. Finally, all three public enterprises have experienced declining financial health up to the present.

3.19 For the most part, administrative reforms failed to materialize. There was no reform of the social security retirement system, the premature elimination of the Secretariat of Planning created new problems of coordination, and the rationalization of employment and salaries neglected to

come to grips with a major obstacle—the preferential treatment accorded unionized teachers, health workers, and security personnel.² On the positive side, substantial cuts in the inflated ranks of civil servants made a modest contribution to rectification of Honduras's overstretched fiscal situation.

3.20 After several false starts, public financial management has been the one sub-area of public sector modernization where change for the better has recently materialized, at least in a few selected areas. A system supported by the PSMC to monitor the number of full-time civil service positions did not succeed, and the government still relies on censuses to ascertain the number of employees in the public sector, at least in some areas of government. The original PSMC design of the integrated financial management information system, SIAFI, proved to be too rigid and lacking in many related business process changes required as a complement to systems implementation. The 2004 CFAA and an IDA-commissioned study jointly concluded that the original SIAFI design was unworkable, and would have to be scrapped. Through technical assistance associated with EFMC and PRSC I, a complete SIAFI redesign has now been completed, and is being rolled out within the Central Administration during FY06. A complementary IDB credit is supporting implementation of certain related business process changes within the Ministry of Finance.

3.21 A database for investment planning, creation of a Public Procurement Directorate (ONCAE), and introduction of an electronic public procurement information system—all CPAR recommendations—were the principal achievements in the area of procurement. Despite these mostly recent gains, decentralized procurement within the ministries and agencies, which the CPAR also backed, has languished for lack of capacity and because perceptions of corruption make donors reluctant to channel resources through the regular civil service. Instead, a proliferation of Project Implementation Units (PIUs) has led to expensive and fragmented procurement managed under a host of balkanized rules and regulations.

3.22 The Maduro Administration authorized over 3,000 internal audits of Government expenditures by Price-Waterhouse (financed by a consortium of donors), in which roughly one-fourth of the reports noted procedural irregularities (and over 30 percent in FHIS and SOPTRAVI). As a result of this exercise, 12 cases have been referred by the Supreme Audit Court (TSC) for criminal investigation. However, for the most part, follow-up on audit recommendations has been poor. Finally, the database for investment planning has been replaced by the pluriannual budget exercise supported by SIAFI. It is unclear whether this instrument will prove more successful in enforcing budget predictability for public investment, given that budgetary allocations are often changed to meet immediate priorities, reflected in frequent and significant alterations to authorizations initiated by both Congress and the Executive.

Box 3.1: PRSC I and the PRS TAC

As a crosscutting operation, PRSC-I and the associated TAC supported a broad spectrum of sub-objectives which straddled the CAS's central focus on growth and social sector development. These included (i) accelerated pro-poor growth; (ii) enhanced impact and efficiency from the application of resources devoted to human development and social protection; (iii) strengthened governance, public sector and environmental management; and (iv) strengthened monitoring and evaluation. PRSC-I is the first of a planned series of programmatic loans intended to support the poverty reduction strategy.

All conditions in the following areas were satisfied by June 2004:

- An adequate macro-economic framework was maintained, expedited procedures for business registry approved, measures to improve airport and telecom efficiency implemented, and a unified property registry established.
- Education and health databases were restructured to enhance service efficiency and transparency.
- Two PRSP Progress Reports were issued.
- An improved financial management information system enhanced governance and public sector modernization, and environmental management of protected areas was strengthened. But, neither Executive Branch control over civil service wage policy, nor professionalization of the civil service, two measures designed to strengthen public sector management, were achieved.

Legislation aimed at professionalizing managerial and administrative posts in the civil service has not been passed, largely because such legislation would run counter to the interests of the political parties by limiting the scope for political appointments. Progress on professionalization of the civil service, either through the implementation of legislation or administrative measures, is a trigger for a follow-on PRSC. Professionalization is less of a concern in the education and health sectors, accounting for four out of five public employees, since these employees are already covered by specific statutes. However, the remuneration package negotiated for these employees in 1997 includes a range of benefits and a schedule of annual raises which are fiscally unsustainable. The Maduro administration managed to negotiate a temporary hold on automatic increments for 2004-06. However, a long-term solution to this problem is not yet visible, and remains a major threat to macro-economic stability.

Six out of eleven triggers for PRSC II have now been completed, with another two partially achieved. But the remaining three have encountered major political obstacles: (i) passage of a ports' law and its implementation; (ii) separation of the accounts of the electric public utility (ENEE) into different business units in order to prepare it for partial privatization; and, as noted above, (iii) passage of civil service reform legislation.

PRSC-I, together with a new Poverty Reduction and Growth Facility (PRGF) from the IMF, promoted fiscal stability and investor confidence, thereby strengthening the basis for growth. While the Honduran economy remains vulnerable to external and domestic shocks, there can be little doubt that PRSC-I mobilized considerable donor assistance around a participatory and unified development agenda.

3.23 Much of the training provided in the late 1990s to roll out the new financial reporting system, SIAFI, was wasted, once the Government and IDA concurred on the findings of the 2004 CFAA that the original SIAFI had been fatally flawed. Similarly, the impact of technical assistance provided to reorganize the Comptroller General's Office was negligible, since that agency was subsequently abolished.

3.24 Nevertheless, some potentially significant outputs were completed – such as enabling legislation for a new round of procurement and budgetary reforms in 2002-04. They included: (i) passage of new Laws on Financial Management, Organic Budgeting, and Corruption, (ii) improved budgetary classification and formats, (iii) redesign of SIAFI which appears to have greatly increased its programmatic functionality and expanded its coverage, (iv) improvements in Treasury's operational capabilities, including control over agency cash accounts, (v) completion of the first government-wide financial audit by the new Auditor General (Tribunal Superior de Cuentas), which also promulgated new regulations for external and internal audits, (vi) production and publication of detailed reports on budgetary execution and cash balances, (vii) production of regular projections of revenues and expenditures, (viii) an upgrade of the Government's accounting capabilities, and (ix) the introduction of multi-year programmatic budgeting presentations (albeit with no legal standing).

3.25 Financial management reforms supported by IDA also contemplated improved control over revenue and expenditure execution. As recently as 2003, tax collection procedures were so deficient that payments by taxpayers could not be reconciled with collections reported by banks, nor with the funds they transferred to the Treasury. The same was true in the tax and customs administration, which needed to improve the timeliness of revenue reporting and of revenue and collections forecasts for the annual budget. Fiscal management responsibilities were dispersed, and the routine reliance on negotiable checks made it impossible to track the identity of the ultimate recipients of government payments. In terms of internal and external auditing, controls were dispersed and uncoordinated. The TSC, an institution created in 2002 to consolidate external and internal audit functions, lacked qualified personnel, adequate resources, and the operational guidelines and regulations necessary to discharge its responsibilities.

3.26 While efforts to remedy these problems are ongoing, the current picture of compliance with best-practice standards in budgetary execution and reporting is mixed. On the one hand, a joint IMF-World Bank assessment of poverty reduction tracking systems³ found that, as of end-2004, Honduras fell short on 9 of 16 measures of budgetary execution, and had regressed overall. A more recent IDA report on the performance of the Honduran public financial management contends that more recent progress has been notable, with Honduras having made significant progress in several functional areas: improved budgetary classification; re-

deployment of SIAFI with expanded coverage and functionality;⁴ a strengthened Treasury in effectuating cash forecasting, account reconciliation, expenditure monitoring, and payment operations; higher quality financial reporting throughout most of the Central Administration; and enhanced audit regulations and standards. It accorded the public sector passing grades on 15 of 22 financial management performance indicators for which information was available. While impressive, additional time will be required to measure the impact of these reforms, since many have been in effect for less than 18 months. Moreover, before a reasonable level of transparency can be secured, significant reforms in related areas will also be required. For example, the IDA report concludes that the operational limitations highlighted in the 2004 CFAA remain to be addressed, including the need for more effective multiyear planning and budgeting, controls on non-salary expenditure, use of internal and external audits, and legislative oversight.

3.27 With respect to non-budgetary concerns, an impasse on passage of civil service reform legislation is one of several factors holding up processing of a follow-on PRSC operation. Other weaknesses, still uncorrected, include low capacity for fiscal policy formulation, limited strategic planning capacity (particularly at the ministerial and sectoral levels), weak investment planning capacity, rudimentary monitoring and evaluation systems, and high turnover among senior civil servants involved in policy formulation. Moreover, there is an urgent need for rationalization of service delivery and the streamlining of overlapping and duplicative programs. Finally, without corresponding improvement in the performance of public procurement, where transparency remains low and overhead costs high due to the proliferation of autonomous Project Implementation Units, the impact of financial management reforms will be limited. Weak procurement planning and management remain significant impediments to developmentally-effective public planning and investment.

(3) Financial Sector Reform

3.28 Financial sector issues were highlighted in the FY03 CAS, which in its first pillar (accelerating equitable and sustainable growth), called for a major emphasis on strengthening and deepening the financial sector. The IMF and IDA warned the GOH that, due to the impact of exogenous shocks, lax lending practices, a weak regulatory framework, and inadequate oversight, the banking system faced a heightened risk of a financial crisis.

OBJECTIVES

3.29 Key CAS objectives included (i) strengthening the banking system, which by the late 1990s faced severe problems of liquidity and solvency, and (ii) improving institutional oversight and supervision of all financial intermediaries.

LENDING AND NON-LENDING SERVICES

3.30 In 2001, the GOH asked the IMF and IDA to conduct a joint Financial Sector Assessment Program (FSAP), which was completed the following year. It identified two fundamental problems in Honduras: (i) low bank capitalization; and (ii) a weak institutional framework for financial sector transactions, regulation and supervision.

3.31 After some initial reluctance, the GOH eventually concurred with this judgment and starting in 2003, embarked upon a rapid-fire series of institutional, legal, regulatory, and financial measures, including creation of a "Bail-out" Fund designed to ease the liquidity requirements of several of the largest commercial banks. To that end, it sought IDA assistance for a programmatic operation of around SDR 32 million, half of which would be allocated to the "Bail-out" Fund.

3.32 IDA did not agree with the Government on the feasibility of creating a "Bail-out" Fund in 2004. Indeed, IDA's view was that there lacked both a consensus among key stakeholders about how to allocate losses, and the budgetary complement which the Government would need to supply to IDA's contribution. Instead, IDA envisioned a more drawn-out process, involving two sequential programmatic financial sector operations: the first aimed at supporting changes in the legal and institutional framework, the second at resolving insolvent or fragile banks and debtors, but only after the end-2005 election had lent greater clarity about the authorizing environment.

3.33 The GOH eventually accepted an IDA offer of a First Programmatic Financial Sector Credit (FPFSC) for SDR 16.2 million, which was approved in early 2005. A Financial Sector Technical Assistance credit had been approved earlier, in FY03. These two operations supported reforms in the following five areas: (i) development of a strategy for management of systemic risks, (ii) strengthening of the legal and regulatory framework, (iii) anti-money laundering and system for the prevention of financing of terrorism, (iii) strengthening of supervision and control of systemic risks, and (iv) strengthening of the payments system.

3.34 IDA anticipated that after the election, a second programmatic operation would be negotiated, contingent upon the satisfaction of key triggers, which included: (ii) reaching formal agreement between the GOH and a substantial part of the private financial system on a consolidation strategy, (ii) generalized compliance with prudential norms, and (iii) a diagnosis of the solvency position of the largest banks.

OUTCOMES

3.35 The GOH proceeded to satisfy all these triggers, but did not await a second IDA operation to begin shoring up weak banks. Aided by ongoing technical assistance, the institutional reforms supported by the FPFSC, two rounds of compulsory shareholder recapitalization, and the

benefits of a recovering economy on debtor repayment capacity, Honduras's banks have made progress toward emerging from the crisis, as exemplified by their achievement of minimum capitalization levels of at least 10 percent by end-September 2005, above Basel I requirements, and by the expectation that they will satisfy the even higher Basel II requirements (14 percent) by no later than end-September 2006. Between 1999 and 2005, commercial banks have increased their provisioning for non-performing assets from 25 percent to 60 percent. Beyond buying time, these measures, along with improved macroeconomic stability, have permitted a gradual decline of real lending rates from 2002 to the present, complemented by moderate real growth in banking credit to the private sector. However, lending spreads remained high (in the low double digits) throughout this period, presumably because of the still low level of competitiveness.

3.36 Overall, the GOH's decisive policy actions, supported by the FSAP, the FPFSC, the TAC, and favorable economic developments produced a major, ongoing turnaround in Honduras's banking system. In March 2005, IDA Management acknowledged that, while the financial sector trigger for achieving the HIPC Completion Point had not been fully complied with, the significant progress already made in ongoing financial sector reforms justified a waiver of the trigger.

(4) Agriculture and Rural Development

3.37 Agricultural and rural development remains critical to achieving growth and particularly poverty reduction in Honduras. Poverty is far more prevalent and severe in rural areas: with about one-half of the population, they account for 74 percent of the poor. Currently the agricultural sector makes up 13-14 percent of GDP, employs about a third of the labor force and generates more than 50 percent of merchandise exports.

3.38 Honduras is heavily forested and predominantly mountainous, with narrow coastal plains and many inland valleys. Arable land available for cultivation is limited. This, together with high concentration of land ownership and rapid population growth has led to increasing cultivation on marginal lands, to deforestation and soil erosion. It is estimated that about 40 percent of the country's forest lands have been deforested. Furthermore, deforestation and forest degradation affects a large share of the remaining forest. The reasons include conversion of forest for agricultural and livestock production, unmanaged exploitation for fuel wood and illegal logging. In addition, the government forestry department (COHDEFOR) generates income from timber extraction sales, in apparent conflict with its presumed role of forest management and environmental protection.

3.39 During the 1980s, the Government interfered heavily in agriculture, including through price and trade controls and various subsidies. The existing agrarian reform law paradoxically aggravated tenure

insecurity as land could easily be expropriated. COHDEFOR was weak, vested with the ownership of all forests and had a monopoly over timber exports. The state-owned agricultural development bank was highly inefficient. Reforms were initiated in the early 1990s, primarily in the areas of price and trade policy, which led to a short term boost in growth. A beginning was also made in restructuring the agricultural development bank. But it was clear that to ensure sustainable growth many more complementary reforms would be needed in many areas, including land and forestry property rights, management and utilization of land and forest resources, agricultural public sector management, production support and marketing.

OBJECTIVES

3.40 An IDA agricultural sector adjustment credit in FY94 was designed to address many of these issues. The focus of the credit was four-fold. (i) Improving land use through changes in the agrarian reform law. The sub-objective was to secure property rights and support the development of property markets through an acceleration of titling programs. (ii) Better forest policies and management through improvements in property rights and a restructuring of the Ministry of COHDEFOR, the forestry institute, by eliminating its production and marketing functions, while intensifying its attention to forestry management, protection and regulation. The ultimate objective was to address deforestation to maintain environmental quality and encourage sustainable development in the forestry sector. (iii) Strengthening agricultural sector policy planning by incorporating it tightly into the budgetary process. And, (iv) consolidating earlier IDA supported reforms to increase the efficiency of rural financial intermediation and enhance the access of small farmers to credit by divesting the agricultural development bank. Over time, as no progress was being made in the areas of agricultural sector policy planning and rural finance (see below), IDA's objectives narrowed to concentrate on effective land titling and on forestry management, including through promoting participation of local communities.

LENDING AND NON-LENDING

3.41 Lending for agricultural and forestry development comprised 17 percent of all IDA lending. The design of the policy package in the FY94 agricultural sector adjustment credit, which was to guide IDA strategy in agriculture for the next decade, was largely derived from the country economic memorandum (CEM) of November 1994. IDA support in the area of rural land titling continued throughout the period under review. The FY94 credit was followed by an FY97 rural land management project which, among others, piloted efforts to combine titling with registration, a key to ensure tenure security on a more solid basis. IDA further complemented these efforts with a pilot land access program in FY01, designed to support the acquisition of land by groups of landless peasants. And, in FY04 a land administration reform project, covering both urban and rural areas, mainstreamed the objective of combining titling with

registration. Also in FY04, IDA continued its forestry development support through a project focusing on community forestry, forest management and disaster preparedness.

OUTCOMES

3.42 It is difficult to evaluate the impact of the pre-FY04 efforts at titling rural land, because the availability of data on results is not systematic. Available evidence does suggest that, since 1997, IDA initiatives contributed to the registration of over 200,000 properties in urban and rural areas, including 27,000 ha of land belonging to indigenous communities. Nevertheless, the appraisal of the FY04 project describes the baseline situation at that time as follows: "The insecurity of land tenure, rural and urban, is one of the most critical constraints to increased investment. It is also a source of social instability, and a disincentive to sustainable land use. Insecurity from overlapping titles, violent disputes, and illegal occupation of lands arises largely as a result of poorly enforced land rights through weak and uncoordinated land administration institutions. Even titled lands suffer from irregularities, such as overlapping claims, which, until recently, led to an ever-growing backlog of lawsuits. Only about 30 percent of the estimated 2.6 million land parcels in the country (1.8 million urban, 0.8 million rural) are registered in the property registry."

3.43 On the other hand, the FY04 project is progressing well. It goes to the heart of the issue, that is, combining titling with registration, and setting up a modern land administration system. It should help increase transparency in land transactions and reduce the scope for corruption. Still, the impact on agricultural output can only be expected in the longer run. While evidence on titling programs shows clear benefits – "owners" spend more of their income on investments in their property thereby increasing the value, and spend more on children's education – their impact on production and income will materialize only over time. The same evidence suggests that access to credit for example, did not increase after titling.⁵

3.44 IDA's involvement in the forestry sector, which also spanned the review period, has had mixed results. Significant governance issues within the forestry department – COHDEFOR – led IDA, recently, to shift part of its assistance towards support for decentralized, community-based forestry management, with IDB taking the lead on institutional issues. The community-based approach has had some success, as evidenced by reduced forest-fire incidents and improved agricultural and forestry practices in the project area. That said, COHDEFOR remains ineffective and is still being restructured; deforestation continues apace, and the volume of wood exports has been on a declining trend, even though the country has a sustainable wood production capacity much higher than the current one. Because of competing political, economic and social interests around the forestry sector, a new draft forestry law has been revised so many times that its eventual effectiveness is in doubt.

IDA and IDB are expected to continue to work closely together on forest sector issues in Honduras.

3.45 IDA assistance, initiated under the FY94 agricultural adjustment credit, to help strengthen agricultural sector planning and to increase the efficiency of rural financial intermediation and increase access of small farmers to credit facilities encountered resistance at different stages and was unsuccessful. An FY01 appraisal report says it best: "Government efforts to reform the state agricultural development bank have had little impact in expanding credit services to small-scale farmers and rural entrepreneurs." Following the early IDA efforts at direct production support, IDA eventually decided to concentrate its efforts on land titling and forestry.

Table 3.1: Growth Rates of GDP at Factor Cost
(in percent per annum)

	1994-2003
Total GDP	3.3
Agriculture	1.7
Manufacturing	4.3
All other sectors	3.7

Source: Annex table 2b

3.46 In sum, Honduras' rural development challenges have proven especially difficult to tackle and IDA's assistance has had limited impact. On the positive side, the land titling and administration program, after years of limited progress, is now being addressed in a fundamental way in both rural and urban areas, with IDA taking the lead among donors. It is a vital building block for development but its short term impact on production is marginal. In other important areas – forestry policy, sector planning, rural finance – little has been achieved. In terms of outcomes, the agricultural sector has been one of the slowest growing sectors of the economy over the period under review, with output growth below population growth.

(5) Transport Infrastructure and Trade Facilitation

3.47 Prompted by serious external disequilibria, Honduras started a trade liberalization program in the late 1980s, with support and guidance from IDA and the IMF. The bulk of the liberalization measures were implemented between 1987 and 1994. By 1995 enough progress had been made to allow the country to become a member of the General Agreement on Tariffs and Trade (GATT) and at the end of the liberalization process Honduras had one of the most open economies among a sample of comparator countries (annex table 2c).

OBJECTIVES

3.48 By the mid-90s the Government shifted its focus to trade facilitation through infrastructure development: specifically, it sought to introduce market reforms in the development and maintenance of transport infrastructure that facilitates international trade. This included institutional

reforms in the transport subsectors, investment, and the launching of concession programs for airports and ports. In support, IDA's objectives were to promote the privatization of airports and ports, to strengthen and provide finance to the Road Fund (maintenance), to strengthen the road sub-sector unit of the ministry (SOPTRAVI), and to provide trade facilitation support through a broad range of actions to improve the investment climate.

LENDING AND NON-LENDING

3.49 In 1995, a joint World Bank/Inter-American Development Bank sector report was published, "Reforming Public Investment and the Infrastructure Sectors," which contained strategic advice for IDA's assistance in infrastructure development in Honduras, along the lines of the analysis in the 1994 World Development Report (WDR): "Infrastructure for Development." In the case of transport infrastructure, the focus of the report was on increasing competition, increasing private sector participation (although a continuing and crucial role was envisioned for the public sector), reforming institutional and legal frameworks, and ensuring adequate finance for maintenance. Towards the end of the period under review, in 2004, IDA produced the report "Honduras Investment Climate Assessment," which identified the critical constraints on firms' productivity and growth in Honduras, and provided detailed policy recommendations for addressing them. The report provided advice on measures to accelerate business registration and operating procedures, taking advantage of the Administrative Simplification Law (June 2002), which directed every office of government to design and implement its own administrative reform program. The report also included recommendations to help develop Puerto Cortés into a regional hub, prepare Honduran airports for the expected increase in air traffic following the Central American Free Trade Agreement (CAFTA), and improve the reliability and efficiency of the country's land transportation system. To encourage quality certification and technology transfer in the context of CAFTA, the report provided suggestions to strengthen the metrology, standards, testing, and accreditation infrastructure, as well as to develop a more proactive and selective policy to attract foreign direct investment (FDI), and reform the vocational training system. Many of these suggestions have been taken up by the Government, which is in the process of implementing them with bank support, by means of the FY04 Trade Facilitation Project (para 3.50).

3.50 Lending in support of IDA's transport infrastructure and trade facilitation objectives included: elements of the FY96 Public Sector Modernization Structural Adjustment Credit/Technical Assistance Credit (PSMSAC/TAC); a supplement to an earlier Transport Rehabilitation Project (in response to Hurricane Mitch); an FY01 Road Reconstruction Project, focused on institutional issues (the Road Fund, SOPTRAVI); and an FY04 Trade Facilitation Project. The latter included such things as the development of a system of standards and the design of an industrial

sector diversification program in the free trade zones and industrial parks. The project sponsored the creation of a Business Simplification Committee composed of representatives of the public and private sectors and responsible for all initiatives related to simplifying administrative procedures that affect the operation of private businesses. Pilots projects have been started in selected municipalities (Tegucigalpa and San Pedro Sula) and a few public agencies with especially lengthy procedures (that is, the mercantile and property registries). The need for such action is obvious: as mentioned, in the World Bank/IFC's "Doing Business in 2006" Honduras still ranks below other Central American countries and Panama on the ease of doing business. Finally, lending also included a \$200 million emergency assistance credit following Hurricane Mitch in FY99 and an FY00 disaster management credit.

OUTCOME

3.51 IDA's involvement in the privatization of airports and ports through the FY96 public sector modernization credits was referred to earlier. While a private concessionaire took over operation of Honduras' four airports, the process has not been smooth. Popular opinion did not favor granting the airports concession to a foreign firm to begin with. In addition, largely for fiscal reasons, the Government was unable to meet its commitment to expropriate private land for runway extension at the Tegucigalpa airport; eventually, a new concessionaire had to be found, this time a Honduran investment group in cooperation with a foreign airport operator. As a result, the public's perception of private participation in infrastructure provision has grown even more negative over time and the concession program for ports suffered delay. IDA has continued its support for institutional restructuring of the ports sector through the FY01 Economic and Financial Management Project and a new Ports Law now awaits congressional approval. In addition, with support from IDA and other donors there have been considerable improvements in the operation of Puerto Cortez, Honduras' and Central America's major port. Private management and an injection of private capital could be expected to bring considerable benefits.

3.52 As mentioned, following Hurricane Mitch in 1998, and in order to help the country regain its capacity to export, IDA provided supplemental assistance to an earlier transport sector rehabilitation project, as well as emergency assistance with very good outcomes. Rehabilitated roads and bridges were built to standards adequate to withstand future storms, and IDA's technical guidelines became an example followed by other donors.⁶ IFC also moved quickly to assist Honduras after Hurricane Mitch. IFC's program is described in box 3.2.

3.53 On the institutional front in the roads sector, public funding tends to favor new investment over maintenance and the Road Fund is seriously underfunded: the Government does not transfer to the Fund all the legally earmarked monies from the gas tax. Institutional strengthening of

SOPTRAVI is essential, especially in its planning capacity. There is a clear need for a multimodal transport strategy. An infrastructure assessment planned in the 1999 CAS and intended to provide assistance in this respect unfortunately never materialized. SOPTRAVI now has prepared a strategy without IDA involvement.

3.54 On balance, IDA complemented its earlier involvement in trade liberalization with support for transport infrastructure and trade facilitation, following the recommendations of its ESW. Much has been achieved. There is now a clear separation of responsibilities in the road sector; improved aviation legislation; a draft Ports Law pending congressional approval; and significant private sector participation in roads maintenance and airport. Possibly the most successful IDA intervention in transport infrastructure has been the rehabilitation of roads and bridges after Hurricane Mitch. On the other hand, private participation in infrastructure services is politically in peril because of the unmet commitments in the airport concession in Tegucigalpa, and although the Road Fund is a major advance in ensuring the maintenance of Honduras' road network, it is currently underfunded. In the area of trade facilitation, possibly the most important achievement was the ratification of the U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR), which is expected to boost Honduras exports and ability to attract FDI by making access to the U.S. market more permanent, granting exporters and investors a fuller set of protection and dispute resolution rules, and acting as a catalyst for a broader set of economic reforms. In this context, IDA's involvement was crucial for the approval by Congress, in December 2005, of a new Competition Law. The new legislation provides the required legal guarantees against anticompetitive practices.

3.55 The impact of all these efforts on total exports, however, has been small. Although there has been significant progress in diversifying Honduran exports since the early 1990s, overall export (and output) growth have not been up to expectations. The growth of manufactured exports from the free trade zones has lowered exports concentration significantly. But, export and import growth in Honduras since the early 1990s were much lower than in all comparator countries.⁷ Some of the explanation lies in the lack of complementary structural adjustment policies: the recurring fiscal instability during the decade and the continuing poor investment climate. In addition, during most of the period under review, the real effective exchange rate appreciated considerably, as a result of large foreign aid inflows and foreign remittances, thereby contributing to the weak export performance (annex tables 2a and 2c). At the same time, Honduras still has one of the most underdeveloped transport networks among comparator countries and its natural resources – agriculture, forestry, tourism, fisheries – are geographically dispersed.

Box 3.2. IFC operations in Honduras, FY95-05¹

Strategy: IFC's strategy in Honduras involved selective interventions to assist Honduras in extending private participation in infrastructure; strengthening the financial sector and broadening access to capital; helping to improve the enabling environment for the private sector; and strategically providing direct financing, particularly in industry, services and agribusiness. Given Honduras' weak business environment during the period and consequent limitations on viable financing opportunities, IFC focused on providing a mix of investment and non-investment activities at both country and regional levels. In more recent years, IFC found that a regional approach increased investment opportunities for IFC in Central America due to economies of scale. Priorities for IFC support under the latest CAS include supporting the financial sector; helping improve the enabling environment; investment and advisory support in infrastructure; and technical assistance for small and medium enterprise (SME) capacity building through a regional facility.

Commitments: While IFC's commitments in Honduras during FY95-05 were small in absolute terms, they reflect the small size of the economy and are comparable to those in most neighboring countries during the same period as a percentage of GDP (0.12 percent in Honduras compared to 0.1 percent in Costa Rica and Guatemala and 0.08 percent in Nicaragua, significantly surpassed only by El Salvador with 0.21 percent). The scarcity of viable investment opportunities in Honduras, evidenced by a number of IFC investment project droppages, has been exacerbated by a difficult investment climate² and in particular by the prevalence of the public sector and the slow pace of privatization in power, telecommunications, and infrastructure, as well as by the higher frequency and damage cost of natural disasters compared to neighboring countries³ that deferred new private investment and entailed reallocation of resources to rehabilitation of damaged assets. In this context, IFC's current approach to investing in Honduras through regional projects appears justified, as does the focus on advisory operations.

Outcomes: IFC's total commitments in Honduras in FY95-05, excluding investments IFC made through regional projects, amount to US\$58 million in seven projects with four sponsors, and have been made largely in FY95-99. Financed projects include an independent power producer, a mixed hotel and retail outlet, a shrimp farm, and an integrated business group with interests in manufacturing and agriculture. On an aggregate basis, most of these projects yielded satisfactory development outcomes⁴ and for all of these, IFC overall work quality was rated satisfactory. It appears that sponsor quality and commitment, paired with sound structuring, were the main success drivers, while the difficult investment climate and the aftermath of Hurricane Mitch were the main obstacles to success.

Disaster response and regional approach: IFC moved quickly to assist Honduras after Hurricane Mitch with four investment project approvals in 1998-99, mainly trying to help existing clients restructure their operations, although only two of these were ultimately committed. Most of IFC's investments have been in foreign-owned subsidiaries of regional companies, and starting from FY2000, IFC moved from direct investments in Honduran companies and/or subsidiaries to investments in regional companies with operations in Honduras. This approach is continuing with current pipeline projects covering Honduras as part of regional operations.

Continued⇒⇒⇒

Box 3.2: (continued)

Technical Assistance and Advisory Services (TAAS): Meanwhile, starting from FY99, IFC and the Foreign Investment Advisory Service (FIAS) have maintained a continuing TAAS presence in Honduras, in particular seeking to quickly address post-Mitch rehabilitation in the SME and social sectors, and lately moving from isolated projects to a more comprehensive approach through regional project development and LCR TA Facility. While an early planned infrastructure advisory project was unable to proceed due to privatization hurdles, two other projects addressing disaster insurance legislation and support for the SME sector were successfully completed, and more projects aimed at SME and microfinance capacity building, assisting the agribusiness and wood sectors, and improving the enabling environment through simplifying municipal business registration procedures, were undertaken or are ongoing.

¹ Source: IEG-IFC using data from MIS, XPSR and desk review evaluations, Institutional Investor, WDI, and the WHO OFDA-CRED Emergency Events database (EM-DAT).

² Honduras trails neighboring countries except Nicaragua in terms of both current country risk ratings and aggregate improvement of these ratings in 1994-2005, which in turn led to Honduras having the lowest 1994-2003 FDI aggregate of the group.

³ Compared to neighboring countries, Honduras had a greater number of significant disasters, a higher average percentage of people affected, and higher aggregate damages as a percentage of the aggregate GDP over the period (the latter largely because of the much higher toll taken on Honduras by Hurricane Mitch). IEG's Evaluation of World Bank assistance for natural disasters (*Hazards of Nature, Risks to Development*, World Bank, 2006) ranks Honduras as fifth worldwide in terms of number of disaster projects in 1984-2005.

⁴ Three projects were follow-on investments that could not be evaluated separately (for example, an equity rights issue).

(6) Summary Assessment of Growth Outcomes, and Ratings

3.56 The direct outcomes of IDA's assistance program were very mixed. On the positive side, in the area of administrative reform there were substantial cuts in public employment, belated improvements in tracking of current expenditure and of revenues, and new laws on financial management, budgeting and corruption. The country's financial system was strengthened substantially. A promising land titling program was launched and measures introduced to help improve the overall business climate, including through a trade facilitation project. A road maintenance fund was established, though currently underfunded, Puerto Cortes partially modernized, and effective infrastructure and housing rehabilitation provided following Hurricane Mitch.

3.57 On the other hand, the outcomes in key areas vital for long-term sustainable growth were disappointing. Efforts to increase the quality and efficiency of utility services through privatization, yielded little. The attempted rationalization of public sector wage and employment policies

largely failed, in part, because the bulk of civil servants, especially teachers, would not have been affected, and, in part, for lack of broad support. Management of the forestry sector remained deficient and other efforts to improve agricultural production (planning, rural finance) were piecemeal, having little impact at the national level. Any future strategy to achieve long-term sustainable and equitable growth has to address these issues.

3.58 Overall economic, agricultural, and export growth fell well below CAS expectations, both in absolute and comparative terms. Part of this disappointing performance is attributable to exogenous factors, that is, Hurricane Mitch. Overall GDP growth over the period 1994-2004 was 2.9 percent per annum, below that in neighboring Central American countries, but above the average for Latin America. On a per capita basis, however, GDP grew at 0.2 percent per annum, far below the Latin American average. At the same time, there have been encouraging outcomes since 2002 – fiscal stability, higher growth – to which IDA contributed through its support for IMF-led programs and its budgetary and technical assistance. In a number of areas – financial sector strengthening, public sector financial management – recent progress has been promising.

3.59 IEG rates the outcome of IDA's assistance program in the growth area as unsatisfactory for the period under review as a whole. The essence and primary focus of IDA's growth-oriented objectives were public sector modernization and agricultural development. Neither one was attained, yet they absorbed the bulk of IDA's resources in this area, and 37 percent of all IDA assistance. A much smaller share of resources and effort were devoted to more successful interventions in financial sector reform (3 percent), trade facilitation and infrastructure (9 percent), and debt forgiveness (9 percent). IEG also notes that outcomes have been improving since about 2002.

Table 3.2: Major Growth Objectives and Outcomes

<i>Objectives</i>	<i>Outcomes</i>
Improved public services/privatization	Not achieved
Administrative reform	Not achieved
Public financial management reform	Partially achieved
Increase bank capitalization	Achieved
Strengthen financial inst. Framework	Achieved
Reduce debt as growth constraint	Achieved
Improve land use through titling	Partially achieved
Improve forest policies/management	Not achieved
Strengthen agric. policy planning	Not achieved
Strengthen rural fin. Intermediation	Not achieved
Develop infrastructure	Achieved
Facilitate trade	Achieved

(7) IDA and Borrower Performance

3.60 IDA based its strategy for growth in Honduras on a wealth of sound and comprehensive analytical work. The ESW defined the issues clearly and professionally, providing strong leadership on structural reform. Most of these studies were technically proficient and sound in the policy recommendations they proffered. However, occasionally, their findings and recommendations fell short of the mark. For example, the public sector management study excluded from its recommendation on civil service reform any action to deal with the unionized teachers, doctors, and security personnel, even though these groups accounted then and now for the bulk of the public employees and wage bill. The agriculture policy package advocated in 1994⁸ was largely implemented, but failed to deliver the promised sectoral growth dividend. The fact that no study of comparable importance has been undertaken since so as to better understand what was missing in the agricultural strategy constitutes a missed opportunity.

3.61 Some of IDA's lending, such as in the trade infrastructure and facilitation area, very well complemented earlier trade liberalization efforts with good results. But there were also design deficiencies, such as in privatization. For example, the ten-year exclusion period allowed for exposing HONDUTEL to landline competition was unnecessarily prolonged (10 years), and the privatization of power sector generation unsuitable for a market as small as Honduras's.

3.62 More generally, loan designs were often overly complex and demanding for Honduras's difficult environment. For example, the EFMC called for action on seven major components and nearly 40 sub-components. Prospective capacity constraints and political opposition were regularly underestimated. For example, IDA misjudged Honduras's willingness to implement civil service and salary reform, at a time when the governmental team negotiating the loan was simultaneously taking steps to increase, rather than reduce, the number and coverage of the laws carving out privileged employment and compensation regimes.

3.63 In policy-based operations, too often inputs, rather than results, were specified as the key triggers for disbursement, which meant that these credits disbursed even though their intermediate and long-term goals had not been achieved. The exception was the FPFSC. However, while grateful for IDA's extensive financial and technical help, core financial policymakers believe that, in not agreeing to finance the Bail-out Fund, IDA missed an opportunity to manifest solidarity at a time when Honduras faced considerable financial peril.

3.64 In the final analysis, if analytical and advisory assistance (AAA) and lending did not have a wider impact on Honduran development, the slow implementation of key reforms represents a key reason. Ultimately, the Client must also bear its considerable share of the responsibility. For example, much of the duplication and overlap of responsibilities within

the central administration, and between it and the autonomous institutes, remains unaddressed (and unresolved) to this day. Vested interests have so fragmented the public polity in ways that leave little "space", at present, for the donor community to support major initiatives.

¹ In its comments (Attachment 1, page 79), the Government notes that the evaluation does not adequately explain the importance of this achievement or the effort made to meet the matrix of conditions, which was established in order to attain that [decision] point.

² In its comments (Attachment 1, page 79), the Government adds that with regard to the premature elimination of the Secretariat of Planning it bears noting that the planning, monitoring of institutional management, impact evaluation, and management of external assistance functions were uncoordinated and weak in some institutions.

³ "Update on the Assessments and Implementation of Action Plans to Strengthen Capacity of HIPC's to Track Poverty-Reducing Public Spending." IMF-World Bank. April 12, 2005;

⁴ From January 1, 2006, the United States Millennium Challenge Corporation (MCC) began relying on the revamped SIAFI system for management of its program in Honduras, a notable achievement given the strictness of that agency's oversight requirements.

⁵ Still to be published research conducted in Argentina by two Argentine universities and Harvard Business School.

⁶ IDA's response to the disaster was in line with the recommendations contained in IEG's March 7, 2006 Report: *Hazards of Nature, Risks to Development. An IEG Evaluation of World Bank Assistance for Natural Disasters.*

⁷ While Honduras' overall GDP growth over the 1994-2004 period, at 2.9 percent per annum, was higher than the Latin American (LCR) average, on a per capita basis it was a marginal 0.2 percent per annum, much below the LCR average.

⁸ *Honduras – Country Economic Memorandum: Poverty Assessment.* Report No. 13317. November 1994.

NOTES

4. IDA's Development Impact in the Social Sectors

(1) Strategic Objectives

4.1 Each Honduran CAS was unambiguous in stating a strong commitment to poverty reduction. It was to be achieved through operations in health, education, social protection, and assistance to ethnic groups identified as disadvantaged. Several pre-FY94 projects, which were implemented during the period under review, had the same emphases and there is, in essence, no clear difference between earlier strategies and those pursued during FY94-05. There was always a distinct emphasis on two basic strands: improving the reach and quality, particularly in rural areas, in health, education and social services; and improving the efficiency of operation of the relevant ministries.

4.2 In basic education, the focus was on improving the quality of learning and student performance, inspiring better teaching, increasing school attendance, as well as strengthening the Ministry of Education's institutional capacity to deliver basic education services at higher levels of efficiency and fiscal accountability. IDA also sought to expand the reach of the Honduras Community-Based Education Program (PROHECO), which promotes local control of schools. In health, the objective was to support improvements in the planning and regulatory capacity of the Ministry of Health and the Honduran Social Security Institute (IHSS), and strengthen health service delivery through better information systems, equipment and training. The emphasis in social safety net assistance was on demand-driven small-scale social and economic investments, including special programs for indigenous communities. It was also to promote decentralization, development of the local contracting industry, an increase in the sustainability of subprojects, and targeting of scarce resources to poorer areas. The assistance was in support of the Honduran Social Fund (FHIS) and included efforts to establish a better social data base and to assist municipalities on environmental matters. Finally, in FY04, IDA approved a stand-alone project for indigenous and Afro-Honduran peoples (Nuestras Raices) to promote economic and social development in these communities.

(2) Lending and Non-lending Activities

4.3 Actual lending closely adhered to the assistance programs laid out in the CASs. Social sector operations, strictly defined as such, represented

25 percent of all IDA operations during the period (see table 2.2). A somewhat broader definition could include the response to Hurricane Mitch, HIPC and debt relief funding, and the PRSC for which the conditionality largely addressed poverty and social sector issues, in which case the "social sector" share of IDA lending would rise to 55 percent.

4.4 IDA's lending strategy was supported by a significant amount of ESW in the social area, also closely following proposals laid out in the CASs. It included poverty updates, public expenditure reviews, and studies for Central America on education policy, health reform and indigenous people. At the same time, there were important gaps in IDA's ESW. Two issues stand out. First, the assessments of poverty and indigenous people overall failed to address the general issue of how IDA assistance might best increase productivity by the target population. There is no evidence that any serious analysis of the likely increases in productivity and incomes arising from interventions being considered by IDA was undertaken. Second, there was no ESW to underpin funding of the several "indigenous people" elements of the social safety net operations and later on of the stand-alone operation for this purpose. Nevertheless, an impact evaluation of the Nuestras Raices program was carried out prior to the preparation of the stand-alone operation. IDA documents suggest that all ethnic groups are among the poorest: some are, but others, notably English-speaking blacks and garifunas, are relatively better educated and less poor.

(3) Relevance of the Objectives

4.5 Clearly, IDA's objectives in the social sectors were relevant for Honduras. Most Hondurans were poor, not just in income, but also in terms of education and health outcomes and access to basic social services like water, electricity, roads and social protection. The major social sector objectives were central to improving the well-being of ordinary Hondurans. The remedy proposed was to strengthen the government institutions providing social services, particularly with respect to under-served rural areas and ethnic minorities. It is less certain that the objectives were realistic. First, given previous IDA experience with the ministries of health and education, there was little basis for "believing" that a strategy based on strengthening these ministries, establishing efficient units to monitor performance, track trends and provide useful performance evaluation, was likely to be successful through project lending. Second, in terms of overall development strategy, the adequacy of IDA's instruments for the social sectors cannot be addressed without major attention to Honduran economic growth. In the context of a "pie" that was not growing appreciably, distributional politics was likely to play an important role. As the group most easily organized for political action, government workers were the most likely beneficiaries of such distributional politics. The teachers in particular, representing about half of all government workers, were crucial. The rapid rise in their wage bill as a share

of GDP put enormous strain on the budget. With IDA support, the Government tried both ignoring the teachers' union and confronting them, with little success. Given that the low level of human capital development has been identified as the main constraint to growth, addressing the teacher salary regime and conditions of employment issues should take precedence over all other actions.

(4) Development Outcomes

4.6 There were three main areas of concentration of lending – education, health and social protection through the FHIS. The FHIS absorbed more than half of social sector lending, in part because of the high infrastructure needs generated by the emergency reconstruction needs. IDA's response to this challenge was channeled in large part through FHIS. The FHIS can have only an indirect role on outcomes as the institution is only a means for reducing poverty and for attaining improvements in health and education through its small-scale investments. Thus, its contribution to outcomes can be seen mainly in changes in health and education status and in changes in poverty. Rigorous ex-post evaluations of FHIS have shown that FHIS improved living standards in benefited communities compared with similar communities not assisted by FHIS. This section examines outcomes with respect to health, education, poverty, and social protection.

4.7 In *health* two outcome indicators are widely accepted as useful in characterizing a country's health situation: the infant mortality rate and overall life expectancy. Unfortunately, Honduras does not offer consistently reliable statistics on these outcome measures and the evidence presented below is selective. Honduras does have estimates for a third indicator, child malnutrition, through periodic measurement of height for age of young children.

4.8 Using World Development Indicators (WDI) data, Honduras was an outstanding performer on reducing the infant mortality rate (IMR) during the 1960-95 period, with the IMR falling by 73 percent. Only Chile, Costa Rica and Trinidad had larger declines over this period. In 1994, Honduras was an outstanding performer, with its health indicators well above those expected for a country at its per-capita income level. For progress from 1995 to 2003, however, the WDI data put Honduras near the bottom. Its IMR decline of 14 percent during the period was better than only four of the 23 countries in the group: Belize, Jamaica, Trinidad and Paraguay (see annex table 2e). WDI data also show that Honduras

Table 4.1: Honduras and LCR: Average Infant Mortality Rates

	1960	1995	2003	% Change 1960-1995	% Change 1995-2003
Honduras	137	37	32	-73	-14
LCR	102	35	27	-66	-23

Source: World Development Indicators

had the fourth-worst performance among 26 LCR countries between 1992 and 2003 on life expectancy, with its 1 percent increase in life expectancy besting only Haiti, Belize and Trinidad, and having a life expectancy in 2003 higher than only Haiti, Guyana and Bolivia in the hemisphere. A combination of this evidence with United Nations (U.N.) data suggests a slowdown in the decline in infant mortality and in the rise in life expectancy during the period of this evaluation. While this slowdown could be attributed to the fact that the stage of "easy" improvements is over, the evidence would suggest that Honduras did really lag behind other countries in recent years.

4.9 On the other hand, Honduras does have measurements for child malnutrition going back to the 1980s. In contrast to the other outcome indicators discussed above, there is evidence of steady acceleration of the reduction of malnutrition over time. During the late 1980s, malnutrition fell by less than 1 percent per year; this accelerated to 2.3 percent during 1991-96, and then to 2.7 percent per year in 1996-2001. IDA's ICR on a nutrition credit for 1992-2001 provides no analysis of the role of IDA in this reduction.

4.10 There has been progress in some other health areas, including increased immunization levels, and greater rural health coverage, though the PRSP tracking database suggests a decline during the 2000-04 period in births in health units or by trained midwives. Recently, there have been major improvements in the operation and management of the Honduran Social Security Health System, with support from IDA. On the other hand, IDA has been able to achieve only very limited progress in improving the operation of the *Ministry of Health*. The ministry continues to be an institution unable to monitor performance, to provide incentives for productivity throughout the system, to effectively decentralize operations, or to track progress in improving basic health conditions in the country.

4.11 There were three basic outcomes sought in the *education* sector: increased enrollments, increased quality, and reduced repetition, all at the primary level. Table 4.2 shows available data on trends in the first of these variables, on both a gross and net basis, along with trends in pre-school enrollments.

4.12 While many of the data sources give conflicting information, there is general agreement that enrollment rates increased. The IDA-supported PROHECO schools, targeted at more remote rural areas, saw a significant increase in gross enrollment of some 60,000 students over the period under review.

Table 4.2: Honduras Basic Education Indicators, 1994 and 2003

<i>Indicator</i>	<i>1994</i>	<i>2003</i>
Pre-School Enrollment (thousands)	56	198
Gross Primary Enrollment rate (%)	97	106
Net Primary Enrollment rate (%)	86	89

Source: Ministry of Education and World Bank estimates

4.13 IDA support has helped improve testing of primary school children, carried out by Unidad Medicion de Calidad de Educacion (UMCE), an educational quality unit of the national pedagogical university. Overall median test scores from 1997 to 2004 are shown in table 4.3. The numbers represent percent of correct answers on the test, for which a score below 30 is rated as very low, 31-59 as low, 60-79 as average, and 80 or above as good.

4.14 As shown, median scores on the mathematics portion of the test have been stagnant, since 1998, while those for Spanish have actually declined, particularly since 2000. It should be noted, however, that during the same period enrollment continued to increase, as primary education became more accessible in more remote rural areas. Additionally, primary completion rates have increased from 68 percent to 78 percent between 2001 and 2004.

Table 4.3: Honduras Standardized Test Scores
Median Percent of Correct Responses

	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2002</i>	<i>2004</i>
Spanish						
Grade 3	40	41	42	41	38	39
Grade 6	46	47	n.a.	46	44	44
Mathematics						
Grade 3	36 *	43	43	43	43	44
Grade 6	34 *	40	n.a.	39	39	39

Source: UMCE

* Note: Methodological questions have been raised about the 1997 mathematics testing, and the IDA's recent study of Central American education makes an upward adjustment in the 1997 UMCE-reported scores to 43 for grade 3, and to 40 for grade 6. With this adjustment math outcomes have been essentially flat throughout the entire period.

4.15 The low quality of the Honduran educational system has been attributed in part to poor school attendance, poor learning environments and frequent teacher absences. IDA and other donors have sought to address these issues, most recently through an Education for All initiative. The PRSP established ambitious goals for reduction in repetition rates, targeting a reduction in repetition in first grade from 17 percent in 2000 to less than 1 percent in 2015. Data on results thus far differ so widely (from 14 percent to 30 percent) as to be useless.

4.16 The picture that emerges is of some improvement in coverage of basic education over the 1994-2005 period, but with no evident increase in the low quality. It is difficult to avoid the conclusion that IDA operations undertaken during the period studied made little contribution to the capacity of Honduras for sustained economic growth.

4.17 Operations early in the period under review attempted to strengthen the Ministry of Education, promoting particularly greater efficiency in resource allocation, and better oversight and performance monitoring. In particular, IDA had sought to link teacher pay to performance. These efforts produced little, due in part to the political influence of the teachers' union. In 1997, a set of automatic pay increases was negotiated for teachers and health workers that led to rapid increases in their wage bill as a share of GDP.

4.18 IDA came to see the teachers' union as an obstacle to quality *education*, and promoted a new model—linked closely to reform in neighboring countries—to strengthen oversight of teachers. The vehicle was PROHECO, a program to extend schools to more remote areas. Supported by school construction by the FHIS, PROHECO staffed schools in rural areas overseen by a local school board: hiring and firing of teachers was the responsibility of the school board, not the Ministry of Education. From its start in 1998 to September 2005, 2,136 PROHECO schools were established, providing primary education to 103,000 students—about 10 percent of total primary school enrollment. Results have been very satisfactory. PROHECO teachers teach more days than those in standard Ministry of Education schools, and educational outcomes are better than in standard schools: slightly so in Spanish, significantly so in math and science, despite the fact that PROHECO schools draw on a poorer population. IDA also promoted greater local control through the ADEL program (Asociaciones de Desarrollo Local), which promotes tripartite entities (parents, teachers, students) to oversee standard schools. While many ADELs have been created, they are proving to be much less effective than the boards in PROHECO schools, as parents have much less control.

4.19 In spite of the PROHECO schools' success and their growing importance, the overall state of affairs in Honduras' education system is described as follows in the 2004 PRSC document: "At present, overly centralized management of the education system has led to poor accountability, high teacher absenteeism and an inadequate teaching and learning process in the schools."

4.20 Unlike for education and health indicators, Honduras has an apparently consistent time series for *income-poverty* measurements, based on household surveys, from 1991 to 2004. The data show a rapid decline in poverty during the early 1990s, coinciding with stabilization measures and a short term boost in economic growth. Since 1994 the trend has been mixed, though gradually downward (table 4.4). On the other hand, re-

cent IDA analysis of consumption-poverty, a generally more comprehensive and accurate measurement of poverty, shows a statistically insignificant decline in poverty over the past several years.

Table 4.4: Honduran Poverty Rates, percent falling below poverty lines (Income-based)

	<i>Indigent</i>	<i>Poor</i>	<i>Total</i>	<i>Change from Previous Year</i>
1991	54.2	20.6	74.8	
1992	47.4	22.5	69.9	-4.9
1993	45.1	22.4	67.5	-2.4
1994	47.0	20.4	67.4	-0.1
1995	47.4	20.4	67.8	0.4
1996	53.7	15.0	68.7	0.9
1997	48.4	17.4	65.8	-2.9
1998	45.6	17.5	63.1	-2.7
1999	49.0	17.0	66.0	2.9
2000	47.4	17.1	64.5	-1.5
2001	47.4	17.0	64.4	-0.1
2002	45.2	18.1	63.3	-1.1
2003	44.7	18.8	63.5	0.2
2004	44.6	19.6	64.2	0.7
Memo item:				
2004	23.7	27.0	50.7	Consumption based data

4.21 The FHIS operations, which absorbed a large amount of IDA resources, have proven very popular, useful in delivering economic and social infrastructure, and in strengthening communities. They represent a flexible vehicle for investment in poor areas in small-scale projects that create employment and improve local infrastructure. Nevertheless, there is some evidence of relatively high costs for some FHIS investments, and of periods during which politics intruded into FHIS operations. Such concerns are likely to continue over the long term, as the FHIS lacks a clear rationale for where and how it operates. There is no strategy for mainstreaming the FHIS investments. In principle, ministries or autonomous government agencies, rather than the FHIS, might build and maintain schools, clinics, roads, and water systems—the bread-and-butter of FHIS. Alternatively, transfers to municipalities could be an appropriate vehicle for such investments. FHIS falls somewhere in between these two potentially sustainable mechanisms for delivering such investments. FHIS views itself as gradually shifting from project planner and implementer to facilitator for municipal initiatives. Under FHIS V, it has supported the preparation of participatory Municipal Development Plans, in collaboration with bilateral agencies. Such plans now include nearly all

of the 298 municipalities, complemented by regional plans in many areas through informal associations of neighboring municipalities. FHIS has sought to decentralize its project cycle; nearly half of all municipalities now take the lead in project identification and supervision, with FHIS staff assuming a technical support function. Nonetheless, FHIS still controls financing of such projects, a role that has not yet been reconciled with the decentralization strategy.

4.22 IEG evaluated social funds in 2002 and found a very high proportion of satisfactory outcome ratings. Decisions about where to place social-fund projects were found to have been generally pro-poor. Community involvement in investment choice tended to be high, community resources were mobilized, and beneficiaries were generally pleased with the outcome. Staffing and maintenance of social-fund facilities appear in general to have been at least as good as comparator facilities. The FHIS experience closely tracks this world-wide experience. Major IEG recommendations included the following: (i) the rationale and objectives of IDA support should be clear and should drive the choice of instrument rather than the other way around; (ii) social fund projects should not displace policy reform and should be designed as part of a package of IDA support rather than as isolated interventions; and (iii) the continuation or extension of IDA financing to a social fund should be based on evidence of that project's development impact.

4.23 Considering recommendation (i), there is no suggestion in any of the CASs that more than half of IDA support for the social sectors should flow through the FHIS. The operations with the FHIS appear to have been more of the nature of targets of opportunity: FHIS is a competent organization that can move money rapidly and efficiently in support of poor communities. IDA found FHIS to be a willing and able partner, avoiding the difficulties in dealing with the bureaucracy of the Central Government. Regarding recommendation (ii), there is again no significant evidence that the FHIS operations were closely integrated with IDA policy reform objectives. With regard to recommendation (iii), the appraisal reports for the most recent FHIS operations do not suggest much consideration for development impact, but rather emphasize inputs.

4.24 In sum, the FHIS performance indicators are favorable and there is some evidence that its investments have helped improve the lives of poor Hondurans. It has helped raise rural school enrollment and improve access to health services. It would appear that IDA, discouraged by the difficulties of improving the line ministries and decentralized agencies responsible for the various tasks, chose to support a "can-do" institution. But the implications of such an approach for Honduran development, or the path by which Honduras will eventually arrive at competent government institutions in the many areas where government leadership is essential, is not articulated in IDA documentation.

4.25 IDA's involvement with *indigenous and Afro-Honduran people* has targeted the key issues of concern to these communities, but has lacked a coherent strategic framework. Indigenous peoples' issues rose to prominence in Honduras in 1994, with a march on Tegucigalpa by indigenous groups to demand more effective representation and protection of their lands and culture. In 2001, IDA and other donors contributed to preparation of a participatory assessment of the status, organization and goals of indigenous and Afro-Honduran peoples, following up on many long-standing grievances of these groups.¹ This was followed up in 2005 by a study on Afro-Hondurans as part of a regional IDA/IBRD project and the inclusion of an ethnic dimension in the 2004 household survey. Indigenous peoples and Afro-Hondurans account for between 7 and 12 percent of the population, depending on classification, spread across 16 of the 18 departments. According to the household survey, 71 percent of the indigenous population live below the poverty line (compared with 51 percent for all Hondurans, and 70 percent for the rural population), 60 percent of the indigenous people self-identify as Lencas with very high levels of poverty (84 percent). In contrast, Afro-Hondurans are relatively prosperous. Virtually all indigenous peoples speak Spanish, only the Lencas have lost their traditional language and for the remainder language is an important part their cultural identity. IDA has supported the introduction and institutionalization of bilingual education, with 250 schools currently operating under this modality. Recognition and protection of indigenous land rights, and protection of their environmental assets on which their lifestyles depend, has featured prominently in the Land Administration and Forestry and Rural Productivity Projects. Pilot land regularization and titling activities have recently started with Garifuna and Misquita communities, using a participatory approach. These projects address the primary concerns of the indigenous and Afro-Honduran communities. However, the *Nuestras Raíces* Project, dedicated to the support of indigenous and Afro-Honduran communities, while targeted to some of the poorest members of Honduran society, shows little evidence of helping them to a more sustainable path to development. Instead, IDA has become a source of subsidies and protection for these particular groups.

4.26 IDA's assistance to *rural infrastructure* development, primarily through the FHIS appears to have been valuable, although no reliable time-series data are available. Fragmentary evidence suggests that rural access to clean water and sanitation, electricity and roads have all increased over the period under review.

4.27 In conclusion, social improvements in Honduras have been modest over the FY94-05 period. While IDA has made an impact through the PROHECO schools, the major concern remains the continually low quality of education. Much "hardware" has been provided by IDA, particularly through the FHIS, but "software" issues have not been resolved: neither the Ministry of Education nor the Ministry of Health have developed a capacity to effectively manage the resources at their disposal.

(5) Summary Assessment of Social Sector Development Outcomes, and Ratings

4.28 IDA's assistance played a moderate role in helping improve health standards, and the outcome is rated moderately satisfactory. IDA played a primary role in expanding educational opportunities to remote and poor areas through its support of the PROHECO program, thereby increasing the reach of education, especially for the poor. At the same time, the primary objective of IDA's strategy – improvement in the quality of education – was not achieved, suggesting a moderately unsatisfactory rating. Finally, efforts to increase the efficiency of the functioning of the ministries of education and health were unsuccessful. Hence, IEG rates the overall outcome of IDA assistance in the social sectors as moderately unsatisfactory. In future, much more attention needs to be paid to the ultimate economic impact of IDA's program and on resolving "software" issues, that is, effective management of the ministries of education and health, teacher absenteeism and performance, and provision of non-salary items such as textbooks and medicines. IDA's ESW should be re-oriented from a concern about the "needs" of the poorest Hondurans to a concern about "opportunities" to find a way out of poverty.

Table 4.5: Major Social Sector Objectives and Outcomes

<i>Objective</i>	<i>Outcome</i>
Improve provision of education services	Partially achieved
Improve quality of education	Not achieved
Improve provision of health services	Partially achieved
Reduce poverty	Not achieved
Support indigenous people	Partially achieved
Develop rural infrastructure	Partially achieved
Strengthen ministries of education and health	Not achieved

(6) IDA and Borrower Performance

4.29 IDA's contribution to the pursuit of the social sector objectives was substantial. The analytical work accurately diagnosed the major issues, whose relevance was unquestionable. IDA also made strong efforts to spread education into the rural areas through the support for PROHECO schools with considerable success.

4.30 While progress on the outcomes sought by IDA at the national level was, with few exceptions, modest, this result is more easily understood within the context of Honduras's fragmented political and economic dynamics, weak institutional capacity, and pervasive corruption.² IDA underestimated the difficulties likely to be encountered in attempts

to strengthen the ministries of health and education. IDA's efforts were further undermined by the teacher's unions who have proven to be a major obstacle to educational progress in Honduras. Additionally, following the destruction caused by Hurricane Mitch, including to education and health infrastructure, IDA reoriented its priorities to rehabilitation.

¹ *Perfil de los Pueblos Indigenas y Negras de Honduras* (2002) prepared by RUTA (Regional Unit for Technical Assistance).

² In its comments (Attachment 1, page 79), the Government clarifies that, "while the country does not have a set agenda for effectively combating corruption and providing quality assurance in the area of public management, during the period reviewed, progress was made in a number of areas, namely, the establishment of the Office of the Public Prosecutor, the establishment and commencement of operations of the Anti-corruption Council, the approval of the new Law on government procurement and contracting, the subordination of the military to civilian authority through the creation of the Ministry of Defense, the design and development of such important public management systems as SIAFI, approval of the new budget law, SIARDH (for human resources in the field of pedagogy) and Integrated Indicator System for the Poverty Reduction Strategy (SIERP) (for ERP follow up). At the same time, political reforms were facilitated with a view to increasing the autonomy of the Judiciary and lending greater transparency to electoral processes. In order to move ahead in this area, the current administration, headed by President Manuel Zelaya Rosales (2006-2010) has established State reform, good governance, and combating corruption as some of the main priority areas of the new Government. One of the first steps taken by the new Government was approval of the Law on Citizen Participation and the submission to Congress, for approval at a later date, of the Law on Transparency and Access to Public Information, which will facilitate the broad dissemination of information at all levels as well as active participation by civil society in tracking and monitoring public activities.

5. Overall Assessment, Findings and Recommendations

Overall Assessment

5.1 The overall outcome of IDA's assistance strategy is rated as moderately unsatisfactory. The essence and primary focus of IDA's strategy was to help modernize the public sector, promote agricultural development and management of the forests, and improve the reach and quality of education and health services and the efficiency of operation of the relevant ministries. These endeavors, together, absorbed more than 60 percent of IDA's assistance, and their outcomes are all rated less than satisfactory.

5.2 The sustainability of the limited achievements depends crucially on maintaining a prudent fiscal stance and a credible growth strategy. This is central, in particular, for the benefits of debt forgiveness to be sustained. A credible growth strategy will require efforts to address issues in education, public infrastructure, agriculture and civil service reform.

Findings

5.3 Among the more important findings of this evaluation are the following:

- IDA was effective in helping Bank restructuring, providing debt relief and emergency assistance following Hurricane Mitch.
- IDA's overall effectiveness was hurt by its involvement in too many areas.
- IDA's objectives were relevant, but results did not follow, largely because of inadequate recognition of vested interests, a tendency to not pursue truly major development constraints (reform in the power sector, the teachers' issue), and a piecemeal approach to agricultural development.
- Honduras' data systems are inadequate to measure major outcomes comprehensively.
- Aid partnerships have strengthened considerably since Hurricane Mitch, but participation of sector specialists tends to tail off once projects are approved, with the field office assuming most of the responsibility for coordination, even on technical issues.

- Reallocating resources from existing projects, a common IDA approach following natural disasters (such as Hurricane Mitch), affects the ability to attain long-term development goals and may be less effective than specific reconstruction lending.

Recommendations

5.4 The main recommendations from this evaluation are as follows.

Strategy: IDA needs to concentrate its assistance in fewer areas, more closely related to the growth objective.

- i. The greatest focus should be on decentralized delivery of quality *education* services. This will require restructuring the teacher employment regime (estatuto) to achieve greater accountability for performance and establish a sustainable sector pay policy.
- ii. The most urgent task in public *infrastructure* is to transform the power company into a reliable low cost provider, given that this is a leading obstacle to private sector investment. In view of the frequency of natural disasters, IDA should continue to ensure that all infrastructure projects are built to “disaster” standards.
- iii. In an effort to generate *agricultural* growth, emphasis must be placed on (a) improving access to credit and support services for low-income farmers and (b) rural roads.
- iv. In the area of *governance*, the highest priorities are strengthening internal expenditure and revenue control systems, professionalization of the civil service, establishment of fiscally sustainable compensation policies, and procurement reform. With regard to control systems, institutionalization of financial management, procurement, personnel management, and planning is critical. For procurement, urgent action is needed to introduce harmonized donor rules for transparent hiring and procurement in the PIUs. Given capacity and ownership constraints within the GOH, procedural procurement reforms might preferably be piloted in one or two of the most important agencies, notably SOPTRAVI and FHIS, which jointly account for the bulk of procurement spending.

Instruments and Procedures used for delivering assistance need greater attention.

- v. The effectiveness of the Honduran Social Fund (FHIS), the largest recipient of social sector assistance, needs to be examined. Long-

- term sustainable growth requires efficient line ministries, not special purpose organizations such as FHIS.
- vi. Future ESW should intensify research on new economic opportunities for the poor, particularly in agriculture and export-oriented maquilas.
 - vii. In line with the growing focus on “results,” IDA, as the agency with the greatest capacity among donors for producing high-quality documentation, should show leadership in helping to improve the unacceptably low quality of statistical information on the reality of trends in the economic and social conditions in Honduras.

Annex A: Statistical Annex

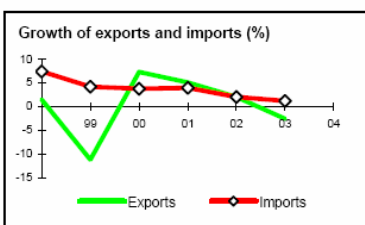
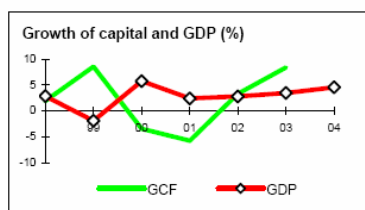
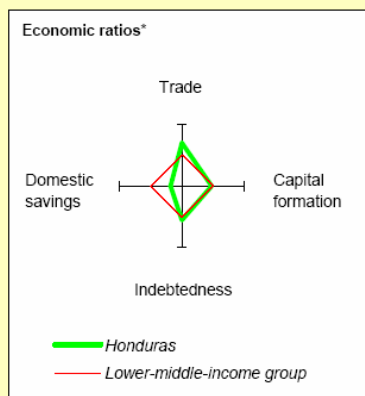
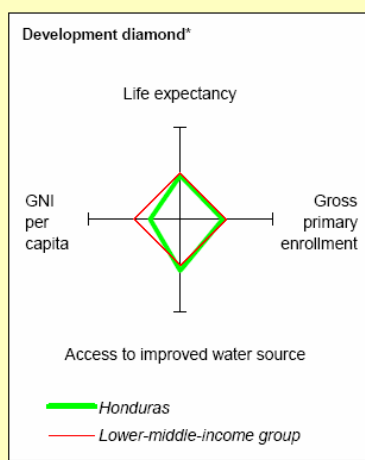
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Annex Table 1. Honduras at a Glance

8/25/05

	Honduras	Latin America & Carib.	Lower-middle-income		
POVERTY and SOCIAL					
2004					
Population, mid-year (millions)	7.1	541	2,430		
GNI per capita (Atlas method, US\$)	1,030	3,600	1,580		
GNI (Atlas method, US\$ billions)	7.4	1,948	3,847		
Average annual growth, 1998-04					
Population (%)	2.6	1.4	1.0		
Labor force (%)	2.9	0.9	0.7		
Most recent estimate (latest year available, 1998-04)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	46	77	49		
Life expectancy at birth (years)	66	71	70		
Infant mortality (per 1,000 live births)	32	28	33		
Child malnutrition (% of children under 5)	17	..	11		
Access to an improved water source (% of population)	90	89	81		
Literacy (% of population age 15+)	80	89	90		
Gross primary enrollment (% of school-age population)	106	123	114		
Male	105	126	115		
Female	107	122	113		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1984	1994	2003	2004	
GDP (US\$ billions)	3.3	3.4	6.9	7.4	
Gross capital formation/GDP	17.4	37.7	29.4	..	
Exports of goods and services/GDP	24.7	35.7	36.7	..	
Gross domestic savings/GDP	10.1	27.0	12.0	..	
Gross national savings/GDP	6.0	23.8	20.5	..	
Current account balance/GDP	-11.4	-13.9	-7.6	..	
Interest payments/GDP	2.7	5.2	1.3	..	
Total debt/GDP	68.9	136.8	82.1	..	
Total debt service/exports	22.4	32.2	11.9	..	
Present value of debt/GDP	50.8	..	
Present value of debt/exports	100.5	..	
	1984-94	1994-04	2003	2004	2004-08
(average annual growth)					
GDP	3.5	3.0	3.5	4.6	..
GDP per capita	0.5	0.3	0.9	2.1	..
Exports of goods and services	1.4	1.8	-2.5

	1984	1994	2003	2004
STRUCTURE of the ECONOMY				
<i>(% of GDP)</i>				
Agriculture	20.8	24.3	13.6	..
Industry	25.8	28.8	31.0	..
Manufacturing	15.4	17.3	20.4	..
Services	53.3	46.9	55.5	..
Household final consumption expenditure	76.7	63.3	74.2	..
General gov't final consumption expenditure	13.2	9.6	13.8	..
Imports of goods and services	32.0	46.4	54.1	..
	1984-94	1994-04	2003	2004
<i>(average annual growth)</i>				
Agriculture	3.5	2.1	9.0	..
Industry	3.8	3.6	4.4	..
Manufacturing	3.6	4.4	3.8	..
Services	3.4	3.9	0.4	..
Household final consumption expenditure	2.9	3.5	3.2	..
General gov't final consumption expenditure	0.0	7.7	1.4	..
Gross capital formation	10.8	1.6	8.4	..
Imports of goods and services	3.6	3.3	1.3	..

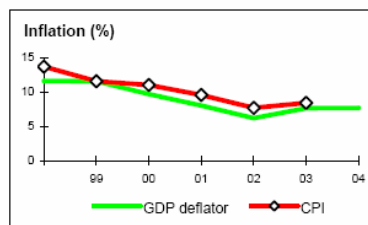


Note: 2004 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

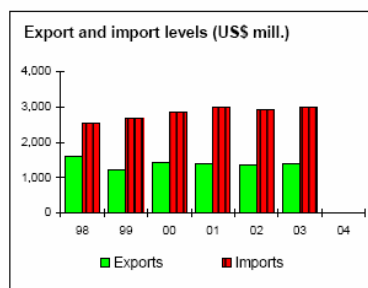
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices				
<i>(% change)</i>				
Consumer prices	..	21.7	8.4	..
Implicit GDP deflator	3.4	28.9	7.7	7.7
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	14.7	15.9	20.1	..
Current budget balance	-1.6	1.3	1.4	..
Overall surplus/deficit	-11.0	-4.7	-4.1	..



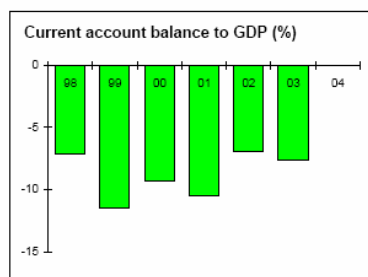
TRADE

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total exports (fob)	737	1,017	1,396	..
Bananas	232	155	..	..
Coffee	169	200	..	..
Manufactures	..	..	..	..
Total imports (cif)	960	1,498	2,994	..
Food	129	189	..	..
Fuel and energy	180	191	..	..
Capital goods	171	345	892	..
Export price index (2000=100)	86	104	..	..
Import price index (2000=100)	93	92	..	..
Terms of trade (2000=100)	93	113	..	..



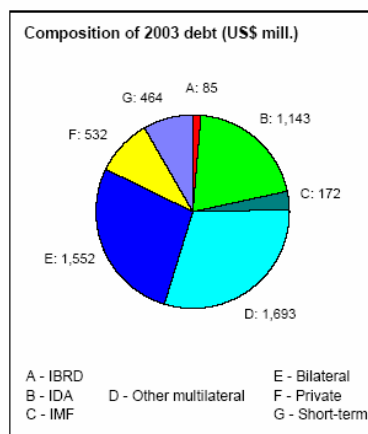
BALANCE of PAYMENTS

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Exports of goods and services	847	1,226	2,550	..
Imports of goods and services	1,066	1,591	3,758	..
Resource balance	-219	-365	-1,208	..
Net income	-178	-194	-165	..
Net current transfers	19	83	849	..
Current account balance	-377	-477	-524	..
Financing items (net)	362	502	524	..
Changes in net reserves	15	-25	0	..
Memo:				
Reserves including gold (US\$ millions)	133	205	1,492	..
Conversion rate (DEC, local/US\$)	2.0	8.4	17.5	18.4



EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	2,286	4,695	5,641	..
IBRD	273	469	85	..
IDA	81	307	1,143	..
Total debt service	198	473	414	..
IBRD	32	90	28	..
IDA	1	3	17	..
Composition of net resource flows				
Official grants	98	83	128	..
Official creditors	214	77	96	..
Private creditors	-28	13	-58	..
Foreign direct investment (net inflows)	21	35	198	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	20	28	22	..
Disbursements	62	69	45	..
Principal repayments	11	53	29	..
Net flows	50	16	15	..
Interest payments	22	40	15	..
Net transfers	29	-24	0	..



Annex Table 2a. Economic and Social Indicators for Honduras and Comparisons, 1994-2004

Series Name	Honduras											Averages 1994-2004					
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Honduras	Costa Rica	El Salvador	Guatemala	Nicaragua	LCR
Health and Sanitation																	
Immunization, DPT (% of children ages 12-23 months)	94.0	94.0	94.0	93.0	97.0	95.0	95.0	95.0	95.0	92.0	..	94.4	88.4	93.5	77.7	88.7	85.3
Improved water source (% of population with access)	..	77.0	..	..	..	81.0	..	..	90.0	81.0	88.0	83.4	97.0	82.0	95.0	81.0	88.9
Improved sanitation facilities (% of population with access)	..	..	..	..	..	70.2	..	..	68.0	68.6	75.0	70.5	92.0	63.0	61.0	66.0	74.5
Life expectancy at birth, total (years)	..	..	..	65.9	..	..	..	..	66.1	66.1	..	66.0	77.3	70.0	65.4	68.5	70.4
Mortality rate, infant (per 1,000 live births)	..	37.0	36.0	36.0	..	..	33.0	34.0	32.0	32.0	..	34.3	10.7	34.7	41.0	35.0	27.7
Population, total (millions)	5.5	5.6	5.8	6.0	6.1	6.3	6.5	6.6	6.8	7.0	7.1	6.3	3.7	6.1	11.1	4.9	504.1
Urban population (% of total)	41.9	42.3	42.7	43.1	43.5	43.9	44.4	44.8	45.2	45.6	46.0	43.9	58.5	57.0	44.7	55.9	74.9
Population growth (annual %)	2.9	2.8	2.8	2.8	2.7	2.7	2.6	2.6	2.5	2.5	2.5	2.7	1.9	1.9	2.6	2.7	1.5
Education and Human Capital																	
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..	..	..	80.0	74.6	80.0	80.0	78.7	95.8	79.7	69.1	76.7	88.9
School enrollment, preprimary (% gross)	..	..	..	..	..	..	21.3	21.4	..	..	..	21.4	74.9	44.2	47.3	26.3	59.1
School enrollment, primary (% gross)	97.0	..	..	..	..	..	105.8	105.8	..	106.0	..	103.7	107.3	111.8	100.9	104.2	123.2
School enrollment, secondary (% gross)	..	..	..	..	..	..	..	..	..	18.9	21.3	..	60.2	54.1	36.4	54.5	83.5
Growth and Wealth																	
GDP (current US\$ millions)	3,432.4	3,960.2	4,080.5	4,715.6	5,262.5	5,424.3	5,962.8	6,400.0	6,509.5	6,868.0	7,371.4	5,453.4	14,719.4	12,321.1	19,512.5	3,697.3	1,848,025.3
GDP growth (annual %)	-1.0	4.0	4.0	5.0	3.0	-2.0	6.0	2.0	3.0	3.0	5.0	2.9	4.5	3.2	3.5	4.0	2.5
GDP per capita growth (annual %)	-4.0	1.0	1.0	2.0	0.0	-4.0	3.0	0.0	0.0	1.0	2.0	0.2	2.4	1.5	0.8	1.2	1.1
GNI per capita, PPP (current international \$)	2,140.0	2,210.0	2,270.0	2,360.0	2,390.0	2,310.0	2,440.0	2,490.0	2,530.0	2,600.0	2,710.0	2,404.5	7,760.0	4,431.8	3,727.3	2,898.2	6,690.9
GNI per capita, Atlas method (current US\$)	620.0	640.0	660.0	720.0	740.0	770.0	860.0	890.0	910.0	960.0	1,030.0	800.0	3,748.2	1,908.2	1,661.8	681.8	3,553.6
Gross capital formation (% of GDP)	37.7	31.6	31.1	32.2	30.1	36.1	30.6	29.9	27.8	29.4	..	31.7	19.1	17.0	16.3	31.9	20.7
Foreign direct investment, net inflows (% of GDP)	1.0	1.3	2.2	2.6	1.9	4.4	4.7	3.0	2.7	2.9	..	2.7	3.3	1.9	1.1	5.0	3.1
REER Index*	76.0	82.3	81.9	92.7	103.5	108.9	116.9	124.2	122.9	115.2	111.2	..	..	..	..	..	..
Production and Commerce																	
Agriculture, value added (% of GDP)	24.3	21.5	22.3	23.0	19.1	15.9	16.4	14.0	13.4	13.5	13.7	17.9	11.0	11.0	23.2	19.2	7.4
Industry, value added (% of GDP)	28.8	30.7	30.8	29.9	30.7	32.3	32.1	31.4	30.6	30.7	31.3	30.8	30.0	29.2	19.7	24.8	28.8
Services, etc., value added (% of GDP)	46.9	47.8	46.9	47.1	50.2	51.7	51.5	54.6	56.0	55.8	55.0	51.2	59.0	59.8	57.2	56.0	63.9
Exports of goods and services (% of GDP)	35.7	43.8	46.9	46.1	46.6	41.2	41.9	38.0	37.2	36.5	35.4	40.8	43.3	24.4	18.1	21.8	20.5
Imports of goods and services (% of GDP)	46.4	48.3	52.1	52.0	54.3	56.2	55.9	54.7	52.8	53.8	51.2	52.5	45.4	38.3	26.5	45.8	20.7
Current account balance (% of GDP)	-10.0	-5.1	-8.2	-5.8	-2.8	-4.4	-4.6	-5.3	-3.7	-4.1	..	-5.4	-3.9	-2.2	-4.7	-22.5	..
Government and Finances																	
Total debt service (% of exports of goods and services)	32.5	34.0	29.2	22.9	20.5	18.9	13.0	11.3	12.1	11.6	..	20.6	10.0	8.5	9.5	23.4	31.4
External debt (% of GNI)	145.0	129.6	123.3	107.8	101.0	104.9	95.9	81.2	85.5	85.4	..	106.0	31.0	33.9	22.8	232.1	40.2
Total reserves in months of imports	1.1	1.5	1.2	2.5	3.2	4.7	4.5	4.7	5.0	4.4	..	3.3	2.2	3.7	3.4	2.1	5.8
Current revenue, excluding grants (% of GDP)	15.9	17.4	16.7	16.9	18.7	19.4	18.0	18.2	18.3	20.1	..	18.0	20.5	5.9	..	16.7	15.5
Current expenditure, total (% of GDP)**	10.6	10.3	11.5	11.6	15.1	16.7	17.6	18.6	19.9	18.1	..	15.0	20.4	5.6	..	14.8	..
Overall budget balance (% of GDP)**	-6.3	-3.4	-3.6	-3.1	-0.9	-3.8	-5.7	-6.1	-5.3	-6.1	..	..	-2.1	-0.6	..	-2.6	..
Gross domestic savings (% of GDP)	27.0	27.1	25.9	26.3	22.4	21.1	16.9	13.1	12.1	11.9	13.7	19.8	17.2	3.1	7.9	8.0	20.1
Inflation, consumer prices (annual %)	21.7	29.5	23.8	20.2	13.7	11.7	11.1	9.7	7.7	7.7	8.1	15.0	12.9	4.8	7.8	9.0	..

Source: World Bank Global Development Finance (GDF), WDI Database, PRSP 2004, PRSP 2005, UNDP Statistics as of 1/18/05

* Real Effective Exchange Rate Index. Source: IMF. A decline in the index reflects depreciation.

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Annex Table 2b. GDP at Factor Cost: 1994-03 (in millions of 1978 Lempiras)

	Total	Agric.	Manuf.	All Other Sectors
1994	5,294	1,416	798	3,080
1995	5,583	1,540	842	3,295
1996	5,583	1,578	881	3,295
1997	6,049	1,667	935	3,447
1998	6,195	1,614	967	3,614
1999	6,134	1,477	992	3,665
2000	6,551	1,650	1,047	3,854
2001	6,762	1,642	1,101	4,019
2002	7,006	1,723	1,143	4,140
2003	7,242	1,768	1,185	4,289

Source: IMF. Honduras: Statistical Annex, Various Issues.

Annex Table 2c. Main Trade-Related Indicators: Honduras and Comparator Countries (1985-2004)

FIX ELSAL/NIC	Exports growth (%)	Imports growth (%)	Trade (% of GDP)	Current account balance (% of GDP)	Agric. raw exports (% of merch. exports)	Food exports (% of merch. exports)	Fuel exports (% of merch. exports)	Manuf. exports (% of merch. exports)	Exports Concentration (Herfindahl-Hirschmann Index)	GDP growth (%)
1985-90 Honduras	2.7	2.4	58.3	-3.7	5.0	84.8	0.5	5.9	0.47	3.3
LCR	5.3	6.5	29.6		2.8	23.7	30.0	34.0	0.41	1.9
LMIC*			32.0		5.1	19.7	15.4	51.0		4.3
Bangladesh	7.7	6.8	18.5	-2.1	9.2	17.8	1.5	71.2	0.26	3.6
China	4.4	7.8	27.2	-0.9	5.0	14.0	9.1	65.7	0.14	8.9
Costa Rica	8.7	11.3	69.2	-5.0	3.9	66.3	1.2	24.4	0.33	4.0
El Salvador	8.7	11.3	69.2	-5.0	3.9	66.3	1.2	24.4	0.54	4.0
Nicaragua	3.0	-3.1	56.8	-27.3	20.4	69.0	0.5	9.0	0.39	-3.3
Philippines	5.6	11.6	53.7	-1.5	4.0	23.1	1.6	32.9	0.27	2.7
Sri Lanka	6.5	0.8	63.4	-5.6	9.0	38.0	3.7	46.0	0.30	3.7
Tunisia	8.8	3.8	79.7	-3.0	0.9	11.3	23.9	61.2	0.25	3.5
1991-1995 Honduras	1.7	5.1	77.1	-7.4	3.5	82.6	0.2	12.1	0.44	3.6
LCR	8.6	12.2	33.2		2.7	20.1	18.3	50.8	0.33	3.5
LMIC*			43.3		3.0	15.9	11.6	63.2		5.1
Bangladesh	13.9	11.2	22.6	0.1	3.6	11.9	1.0	83.2	0.27	4.4
China	13.9	21.4	40.6	0.8	2.2	10.5	4.7	80.3	0.07	12.0
Costa Rica	9.7	8.6	75.7	-3.4	5.0	62.5	0.6	25.6	0.31	5.5
El Salvador	9.7	8.6	75.7	-3.4	5.0	62.5	0.6	25.6	0.30	5.5
Nicaragua	4.9	11.9	62.9	-29.6	8.3	76.3	1.1	12.1	0.28	1.8
Philippines	9.5	10.0	70.2	-3.4	1.4	15.8	2.0	47.6	0.29	2.2
Sri Lanka	8.5	9.1	75.2	-5.5	4.0	23.9	0.2	69.0	0.23	5.4
Tunisia	5.1	3.2	89.2	-5.5	0.6	11.8	11.8	74.4	0.21	3.9
1996-2000 Honduras	1.4	3.3	98.7	-5.2	3.3	68.3	0.3	22.0	0.35	3.1
LCR	8.7	9.4	40.2		2.3	18.5	15.3	56.5	0.32	3.2
LMIC*	8.9	4.3	47.2		2.4	12.7	13.8	65.6		4.3
Bangladesh	10.7	5.9	31.3	-0.9	2.1	8.6	0.3	88.8	0.29	5.2
China	15.0	12.5	42.2	2.5	1.3	6.7	3.2	86.7	0.07	8.3
Costa Rica	12.5	8.1	91.4	-3.6	4.3	43.2	0.6	51.0	0.27	5.0
El Salvador	12.5	8.1	91.4	-3.6	4.3	43.2	0.6	51.0	0.26	5.0
Nicaragua	12.2	11.6	70.2	-22.7	3.1	78.6	0.9	16.6	0.28	5.0
Philippines	6.4	3.4	104.1	2.0	0.8	7.0	1.2	88.9	0.39	4.0
Sri Lanka	7.7	9.3	81.0	-3.8	2.0	21.1	0.0	75.4	0.23	5.0
Tunisia	5.2	4.8	88.9	-3.0	0.7	9.5	9.1	79.3	0.21	5.6
2001-2004 Honduras	1.8	2.0	89.8	-4.4	11.6	64.0	0.2	19.5	0.26	3.3
LCR	4.8	2.1	45.4		2.2	16.8	17.0	57.6	0.26	1.8
LMIC*	13.4	12.8	59.0		2.0	10.6	15.5	67.7		5.8
Bangladesh	6.5	3.7	34.8	0.3	1.7	7.4	0.4	90.6	0.31	5.1
China	22.9	23.2	62.2	2.5	0.8	4.9	2.8	89.7	0.08	8.7
Costa Rica	0.5	1.5	91.1	-5.1	3.3	31.3	0.8	63.8	0.20	3.7
El Salvador	0.5	1.5	91.1	-5.1	3.3	31.3	0.8	63.8	0.13	3.7
Nicaragua	3.7	1.3	72.8	-19.3	2.8	79.2	1.5	14.9	0.24	2.5
Philippines	2.0	5.1	101.3	3.9	0.5	5.6	1.2	91.0	0.39	4.2
Sri Lanka	2.6	4.6	78.9	-1.2	1.7	21.3	0.0	75.4	0.24	3.6
Tunisia	3.6	3.6	93.6	-3.3	0.8	7.4	9.1	81.3	0.19	4.5

Source: World Development Indicators and UNCTAD's Online Database

* LMIC – Lower Middle Income Countries

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Annex Table 2d. Basic Infrastructure Indicators in Honduras and Comparator Countries (1991-2000)

	<i>Honduras</i>	<i>LCR</i>	<i>LMIC</i>	<i>Bangladesh</i>	<i>China</i>	<i>Costa Rica</i>	<i>El Salvador</i>	<i>Nicaragua</i>	<i>Philippines</i>	<i>Sri Lanka</i>	<i>Tunisia</i>
<i>1991-1995</i>											
Air transport, freight (million tons per km)	7	3,256	6,384	111	1,418	39	14	6	345	116	17
Air transport, passengers carried	495,667	67,889,159	123,054,779	1,126,540	32,668,600	692,860	1,163,580	82,960	6,426,380	1,030,920	1,322,460
Aircraft departures	12,667	1,346,580	1,766,760	13,920	275,140	18,100	16,260	2,040	62,940	8,800	13,480
Passenger cars (per 1,000 people)	4.5	71.6	13.8	0.4	2.3	67.2	22.6	15.9	8.2	8.8	25.6
Road traffic (vehicles per km)	3,288	..	..	..	..	..	2,852	184	7,285	6,303	..
Roads, paved (% of total roads)	20.0	22.0	54.9	7.6	..	16.2	17.7	10.5	16.7	36.8	76.5
Roads, total network (km)	13,761	2,860,686	5,444,446	201,405	1,333,008	35,564	10,839	15,661	160,871	98,086	21,232
Roads, total network (km per sq km)	0.123	0.143	..	1.504	0.143	0.702	0.523	0.130	0.540	1.515	0.137
Vehicles (per 1,000 people)	28.9	96.5	33.5	0.9	6.4	102.5	45.0	32.9	16.7	19.5	54.0
Vehicles (per km of road)	11.2	..	..	0.5	5.6	9.5	23.2	8.8	6.9	3.4	22.0
<i>1999-2000</i>											
Passenger cars (per 1,000 people)	51.1	..	16.6	0.5	6.3	..	..	11.9	10	..	52
Roads, paved (% of total roads)	20.4	26.9	54.7	9.5	..	22	19.8	10.4	20.5	..	64.3
Roads, total network (km)	13,603	2,508,862	5,025,090	207,486	1,377,195	35,884	10,029	19,439	201,013	..	18,997
Roads, total network (km per sq km)	0.122	0.125	..	1.549	0.148	0.708	0.484	0.162	0.674	..	0.122
Vehicles (per 1,000 people)	60.4	..	38.6	1.1	11.85	..	..	29.8	31.5	32.85	77
Vehicles (per km of road)	28.4	..	..	..	10.85	..	..	7.9	11.5	..	..

Source: World Development Indicators (2005)

Annex Table 2e. Infant Mortality Rates, 1960-2003: Latin American Countries

	1960	1970	1980	1990	1995	% Change, 1960-95	2000	2003	% Change, 1995-2003
Argentina	60	59	33	25	22	-63	17	17	-23
Belize	74	56	54	39	36	-51	34	33	-8
Bolivia	152	147	112	85	70	-54	59	53	-24
Brazil	115	95	67	50	41	-64	35	33	-20
Colombia	79	69	39	30	24	-70	20	18	-25
Chile	118	78	34	17	12	-90	11	8	-33
Costa Rica	87	62	22	15	14	-84	10	8	-43
Dominican Republic	102	91	71	50	42	-59	33	29	-31
Ecuador	107	87	64	43	34	-68	27	24	-29
El Salvador	130	111	84	46	38	-71	34	32	-16
Guatemala	136	115	97	60	49	-64	39	35	-29
Guyana	100	81	65	65	61	-39	55	52	-15
Haiti	169	148	132	102	91	-46	81	76	-16
Honduras	137	116	75	44	37	-73	33	32	-14
Jamaica	56	49	28	17	17	-70	17	17	0
Mexico	94	79	56	37	30	-68	25	23	-23
Nicaragua	130	113	85	52	41	-68	34	30	-27
Panama	58	46	34	27	23	-60	20	18	-22
Paraguay	66	57	46	30	28	-58	26	25	-11
Peru	142	115	89	60	46	-68	32	26	-43
Trinidad and Tobago	61	49	35	21	16	-74	17	17	6
Uruguay	48	48	37	20	20	-58	15	12	-40
Venezuela, RB	56	47	34	23	22	-61	20	18	-18

Source: World Bank, World Development Indicators

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Annex Table 3a. IDA Lending, by Sector, FY94-FY05 (US\$m)

	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	Total FY94-05
Economic policy												67.0	67.0
Financial sector										9.9		25.0	34.9
Private sector development						200.0					28.1		228.1
Public sector governance			91.0	20.1	14.2			26.2			8.0		159.5
Rural	87.9	26.3		34.0				8.0	8.3		45.0		209.5
Education		30.0						41.5					71.5
Health, nutrition and population						10.4			27.1				37.5
Poverty reduction											58.8		58.8
Social development										12.0			12.0
Social protection			30.0			45.0	22.5	60.0			15.0		172.5
Energy/mining													-
Global info/communication													-
Transport						20.0		66.5					86.5
Environment		10.8				8.3		4.0	5.0				28.1
Gender													-
Urban							10.8						10.8
Water supply and sanitation													-
Unknown								37.0					37.0
Total	87.9	67.1	121.0	54.1	14.2	283.7	33.3	243.2	40.4	21.9	154.9	92.0	1,213.7
Number of credits	2	3	4	2	1	5	2	8	3	2	7	2	41
Number of projects	1	2	3	1	0	3	1	6	2	2	6	2	29

Note: The difference between number of credits and number of projects is supplements, of which there were a total of 12 during the period.

Annex Table 3b. Yearly Average Net Receipts from All Donors: CY1994-2003 (US\$m)

Honduras: Total Receipts (US\$ million)											
Donors	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
ALL Donors	299.5	382.8	212.6	321.4	368.5	785.7	513.9	428.8	441.1	477.2	4,231.6
IDA	62.1	75.9	50.0	93.1	62.0	270.9	35.9	113.4	95.1	35.8	894.2
United States	36.0	81.0	1.0	68.0	53.8	58.1	166.9	39.4	124.1	120.3	748.7
Japan	45.2	62.9	51.8	54.2	24.7	69.8	49.8	78.5	94.9	32.0	563.6
IDB	73.0	43.9	25.4	27.3	33.5	54.1	34.0	80.8	20.2	46.0	438.1
Spain	34.0	21.3	17.8	29.1	75.1	36.5	29.9	33.0	36.4	57.6	370.8

Source: OECD, Development Assistance Committee, Total Receipts, as of 1/19/06

Honduras: Total Private Net (US\$ million)											
Donors	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
All Donors	2.26	-14.35	-20.23	76.66	97.41	-1.23	116.09	-173.38	19.98	136.05	239.26
DAC Countries	2.64	-16.84	-20.23	76.66	97.20	-1.23	115.58	-177.23	15.04	126.15	217.74
EU Members	9.06	-18.45	18.96	21.41	89.01	20.45	87.94	-17.75	4.47	69.87	284.97
G7	-1.34	-17.78	-18.02	78.20	50.30	-33.82	49.89	-159.28	62.68	127.79	138.62
Non-DAC Bi-lateral Donors	-0.38	2.49	-	-	0.21	-	0.51	3.85	4.94	9.90	21.52
Total	12.24	-64.93	-39.52	252.93	334.13	-15.83	370.01	-523.79	107.11	469.76	902.11

Source: OECD, Development Assistance Committee, Private Direct Investment and Other Private Capital, as of 1/19/06

Honduras: Other Official Flows (OOF) Net Disbursements (US\$ million)											
Donors	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
United States	-	22.00	-	-2.00	-3.40	-0.98	35.61	1.16	3.89	-0.79	55.49
IFC	11.75	1.07	-0.77	9.23	14.19	10.02	-22.87	-2.46	-1.13	-2.82	16.21
DAC Countries	0.39	26.09	26.76	-16.83	-9.27	11.15	20.17	-34.51	-6.75	-1.71	15.49
G7	2.07	27.40	25.55	-18.28	-9.27	11.15	17.39	-34.51	-7.90	-3.76	9.84
Denmark	-	-	1.26	2.04	-	-	-	-	-	-	3.30
Netherlands	-0.02	-	-0.05	-0.59	-	-	-	-	1.15	2.05	2.54
Spain	-1.66	-1.31	-	-	-	-	2.78	-	-	-	-0.19
France	-	-0.32	-	-	-	-	-	-	-	-	-0.32
Japan	-	-0.52	-	-1.62	-0.74	-	-	-	-	-	-2.88
Germany	0.44	7.67	0.71	-3.07	4.87	-0.39	-6.98	-1.84	-1.88	-2.49	-2.96
Korea	-	-0.65	-0.73	-0.89	-3.88	0.23	-0.65	-0.79	-	-	-7.36
Non-DAC Bilateral Donors	-	-0.65	-0.73	-0.89	-3.88	0.23	-0.65	-0.79	-	-	-7.36
Italy	-	-1.03	-	-2.54	-	-	-5.79	-	-	-	-9.36
Canada	2.00	-0.40	-	-2.30	-2.20	19.80	0.09	-26.63	-0.91	-0.02	-10.57
United Kingdom	-0.37	-	24.84	-6.75	-7.80	-7.28	-5.54	-7.20	-9.00	-0.46	-19.56
EU Members	-1.61	5.01	26.76	-10.91	-2.93	-7.67	-15.53	-9.04	-9.73	-0.90	-26.55
IDB	36.51	16.22	-91.90	6.35	-1.32	-5.80	-15.95	-15.37	-20.25	-26.07	-117.58
IBRD	-46.43	-51.15	-59.20	-49.66	-48.24	-46.87	-32.86	-23.83	-22.42	-20.63	-401.29
All Donors	2.22	-8.42	-125.84	-51.80	-48.52	-31.27	-52.16	-76.96	-50.55	-51.23	-494.53
Multilateral	1.83	-33.86	-151.87	-34.08	-35.37	-42.65	-71.68	-41.66	-43.80	-49.52	-502.66

Source: OECD, Development Assistance Committee, Total OOF (Gross, Net) as of 1/19/06

Honduras: Total Net Official Development Assistance (ODA) and Official Aid (OA) (US\$ million)											
Donors	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
ALL Donors	295.04	405.55	358.65	296.53	319.59	818.23	449.96	679.18	471.70	392.40	4,486.83
IDA	62.07	75.93	50.00	93.13	62.00	270.87	35.93	113.37	95.05	35.80	894.15
United States	42.00	46.00	27.00	28.00	49.18	86.08	110.29	201.26	97.25	70.11	757.17
Japan	45.61	74.79	63.75	42.03	27.01	66.31	50.14	76.31	94.85	31.99	572.79
IDB	36.46	27.71	117.30	20.96	34.77	59.92	49.92	96.15	40.46	72.02	555.67
Spain	31.71	22.85	17.48	26.67	31.32	34.93	34.90	33.04	36.36	57.61	326.87

Source: OECD, Development Assistance Committee, Total Net ODA/OA, as of 1/19/06

Note: The numbers for IDB refer only to the IDB's Special Fund

Honduras: Financial Flows by Type (US\$ Million)											
Donors	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
ODA/OA	295.04	405.55	358.65	296.53	319.59	818.23	449.96	679.18	471.70	392.40	4,486.83
OOF	2.22	-8.42	-125.84	-51.80	-48.52	-31.27	-52.16	-76.96	-50.55	-51.23	-494.53
Private Net	2.26	-14.35	-20.23	76.66	97.41	-1.23	116.09	-173.38	19.98	136.05	239.26
Total Receipts	299.52	382.78	212.58	321.39	368.48	785.73	513.89	428.84	441.13	477.22	4,231.56

Source: OECD, Development Assistance Committee, as of 1/19/06

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Annex Table 3c. Aid in Latin America as a Share of GNI

<i>Rank</i>	<i>Country Name</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>Average</i>
1	Nicaragua	23.9	23.1	31.2	13.2	17.8	19.0	15.0	24.4	13.3	20.7	20.2
2	Guyana	16.4	15.2	21.8	39.3	14.3	12.5	16.2	15.3	9.7	12.5	17.3
3	Haiti	24.8	23.8	12.4	9.8	10.9	6.3	5.3	4.7	4.5	6.9	10.9
4	Bolivia	9.8	11.1	11.5	9.1	7.5	7.0	5.8	9.3	8.8	11.9	9.2
5	Dominica	8.4	11.9	19.8	6.4	7.9	4.1	6.4	8.2	12.9	4.5	9.1
6	Honduras	9.1	11.0	9.4	6.6	6.3	15.6	7.7	10.9	6.9	5.9	8.9
7	Suriname	10.1	11.2	12.6	8.3	5.3	4.9	3.9	3.4	1.3	1.1	6.2
8	St. Vincent and the Grenadines	4.1	18.7	9.7	2.1	6.7	5.3	1.9	2.6	1.4	1.8	5.4
9	St. Lucia	5.7	9.3	7.3	4.7	1.0	4.1	1.7	2.7	5.4	2.3	4.4
10	Grenada	7.2	4.1	4.2	3.1	2.0	2.9	4.4	3.3	2.8	3.0	3.7
11	Belize	5.2	3.1	3.3	2.2	2.3	6.7	1.9	2.7	2.6	1.2	3.1
12	St. Kitts and Nevis	2.3	1.8	3.0	2.9	2.6	1.7	1.3	3.5	9.2	0.0	2.8
13	El Salvador	3.8	3.2	2.9	2.5	1.5	1.5	1.4	1.8	1.7	1.3	2.2
14	Aruba	1.5	..	..	..	..	..	..	..	..	..	1.5
15	Antigua and Barbuda	0.9	0.5	2.3	0.8	1.7	1.8	1.5	1.3	2.0	0.7	1.4
16	Guatemala	1.7	1.4	1.2	1.5	1.2	1.6	1.4	1.1	1.1	1.0	1.3
17	Paraguay	1.2	1.5	0.9	1.1	0.9	1.0	1.1	0.9	1.0	0.8	1.0
18	Ecuador	1.2	1.2	1.3	0.7	0.8	1.0	1.0	0.9	0.9	0.7	1.0
19	Peru	0.8	0.7	0.6	0.7	0.9	0.9	0.8	0.9	0.9	0.9	0.8
20	Jamaica	2.4	2.0	0.9	1.0	0.3	-0.3	0.1	0.8	0.3	0.0	0.8
21	Dominican Republic	0.6	1.0	0.7	0.5	0.8	1.2	0.3	0.5	0.7	0.5	0.7
22	Colombia	0.1	0.2	0.2	0.2	0.2	0.4	0.2	0.5	0.6	1.0	0.4
23	Panama	0.4	0.5	0.5	0.5	0.2	0.1	0.1	0.3	0.2	0.3	0.3
24	Trinidad and Tobago	0.5	0.5	0.3	0.6	0.2	0.4	0.0	0.0	-0.1	0.0	0.2
25	Barbados	0.0	0.0	0.2	0.2	0.7	-0.1	0.0	0.0	0.1	0.8	0.2
26	Uruguay	0.4	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2
27	Bahamas, The	0.0	0.1	0.0	0.1	0.6	0.3	0.1	0.2	0.1	..	0.2
28	Chile	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.0	0.1	0.2
29	Costa Rica	0.8	0.3	-0.1	-0.1	0.2	-0.1	0.1	0.0	0.0	0.2	0.1
30	Argentina	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
31	Venezuela, RB	0.0	0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1
32	Brazil	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0
33	Mexico	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: Data not available for Cuba, the U.S. Virgin Islands, Puerto Rico, the Netherlands Antilles, and the Cayman Islands.

Source: World Bank DDP as of 1/19/06

Annex Table 4. Honduras Economic and Sector Work, 1994-2005

<i>Document Title</i>	<i>Date</i>	<i>Report No</i>
<u>Country Assistance Strategy</u>		
Honduras - Country assistance strategy (English)	11/19/1999	19893
Honduras - Country assistance strategy (English)	1/27/2000	20072
Honduras - Country assistance strategy (English)	5/29/2003	25873
<u>Economic Report</u>		
Honduras - Country economic memorandum : poverty assessment (English)	11/17/1994	13317
Honduras - Poverty diagnostic 2000 (English)	6/29/2001	20531
Honduras - Investment climate assessment (2 Volumes): Main report (English)	11/27/2004	31458
<u>Sector Report</u>		
Honduras - Reforming public investment and the infrastructure sectors : a joint World Bank and Inter-American Development Bank study (English)	9/12/1995	14084
Honduras - Improving access, efficiency, and quality of care in the health sector (English)	10/31/1997	17008
Honduras - Public expenditure management for poverty reduction and fiscal sustainability (English)	6/28/2001	22070
Honduras - Development policy review : accelerating broad-based growth (English)	11/8/2004	28222
<u>Poverty Reduction Strategy Paper</u>		
Honduras - Interim poverty reduction strategy paper and assessment (English)	4/18/2000	20544
Honduras - Poverty reduction strategy paper and joint assessment (English)	9/17/2001	22661
Honduras - Poverty Reduction Strategy Paper First Annual Progress Report and Joint IDA-IMF Staff Assessment of the PRSP Progress Report (English)	2/2/2004	27648
Honduras - Poverty Reduction Strategy Paper (PRSP) Second Annual Report and joint staff advisory note (English)	3/7/2005	31732
<u>Country Financial Accountability Assessment</u>		
Honduras - Country Financial Accountability Assessment (English)	1/3/2004	28418
<u>Country Procurement Assessment Report</u>		
Honduras - Country procurement assessment report (CPAR) (English)	2/1/2005	32791
<u>Publication</u>		
The participation of nongovernmental organizations in poverty alleviation : a case study of the Honduras social investment fund project (English)	8/31/1995	WDP295
Costs, benefits, and farmer adoption of agro forestry : project experience in Central America and the Caribbean (English)	12/31/1995	15334
Honduras - Toward better health care for all (English)	4/30/1998	17731
World Bank HIV/AIDS interventions - ex-ante and ex-post evaluation (English)	6/30/1998	WDP389
Cultivating peace : conflict and collaboration in natural resource management (English)	1/1/1999	20007
The political economy of water pricing reforms (English)	4/30/2000	20401
Poverty and policy in Latin America and the Caribbean (English)	6/30/2000	WTP467
The challenge of urban government policies and practices (English)	1/31/2001	21642
Optimizing the allocation of resources among HIV prevention interventions in Honduras (English)	6/1/2002	28860
Reducing maternal mortality - learning from Bolivia, China, Egypt, Honduras, Indonesia, Jamaica, and Zimbabwe (English)	4/30/2003	25953
<u>Departmental Working Paper</u>		
Issues and options in the design of GEF-supported trust funds for biodiversity conservation (English)	4/30/1995	18266
A cost analysis of the Honduras community-based integrated child care program (Atencion Integral a la Ninez-Comunitaria, AIN-C) (English)	5/1/2003	28869
<u>Policy Research Working Paper</u>		
Total strangers or soul mates? - antidumping and competition policies in Latin America and the Caribbean (English)	8/31/1998	WPS1958
Measuring the impact of minimum wages : evidence from Latin America (English)	4/30/2001	WPS2597
Dealing with the coffee crisis in Central America - impacts and strategies (English)	3/31/2003	WPS2993

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<i>Document Title</i>	<i>Date</i>	<i>Report No</i>
Investment climate and international integration (English)	6/1/2004	WPS3323
The forest-hydrology-poverty nexus in Central America : An heuristic analysis (English)	10/1/2004	WPS3430
Assessing the impact of the investment climate on productivity using firm-level data : methodology and the cases of Guatemala, Honduras, and Nicaragua (English)	6/1/2005	WPS3621
<u>Working Paper (Numbered Series)</u>		
Social funds : strengths, weaknesses, and conditions for success (English)	1/31/1995	20840
Interactive radio instruction : impact, sustainability, and future directions (English)	1/1/1999	19766
A social assessment - family, gender & identity : influences & opportunities for children in Honduras (English)	10/31/1999	21828
Catastrophes and development : integrating natural catastrophes into development planning (English)	6/30/2002	26279
Gender and social funds : challenges and opportunities (English)	3/31/2003	25988
Social safety net assessments from Central America : cross-country review of principal findings (English)	8/1/2003	27871
Multinational enterprises and training revisited: do international standards matter? (English)	3/1/2005	32546
<u>Working Paper</u>		
A partnership for environmental progress : the World Bank in Latin America and the Caribbean (English)	9/30/1994	17509
Community participation in education: what do we know? (English)	1/1/1999	24670
Promoting good local governance through social funds and decentralization (English)	5/1/2000	30354
Estimating chronic risk from natural disasters in developing countries: A case study on Honduras (English)	6/26/2000	28756
Honduras - The climate for foreign direct investment and how it can be improved (English)	9/1/2001	32702
Thinking out loud IV : innovative case studies on participatory instruments (English)	4/1/2003	26969
<u>LCR Human & Social Development Group Paper Series</u>		
Primary education efficiency in Honduras: what remains to be done? (English)	1/31/1997	16297
The impact of school quality on the level and distribution of earnings - evidence from Honduras (English)	5/31/1997	17122
<u>UNDP Water and Sanitation Program</u>		
Making rural water supply sustainable : recommendations from a global study (English)	1/1/1997	17918
Decentralization of rural water and sanitation services: new roles for rural water associations and boards in Honduras (English)	9/1/2004	31717
<u>Newsletter</u>		
Deregulation and reform of petroleum markets - from monopolies to new regulated markets (English)	9/30/1995	17622
Costs, benefits, and farmer adoption of agro forestry : lessons from project experience in Central America and Caribbean (English)	4/30/1996	18298
The end of charity : how social funds empower communities (English)	1/1/2000	23008
Promoting good governance with social funds and decentralization (English)	1/31/2001	24827
Promoting good governance with social funds and decentralization (English)	4/30/2001	22083
Small and medium enterprise focus 2 (2) (English)	4/30/2001	22056
Hurricane Mitch - the gender effects of coping and crises (English)	9/30/2001	24840
Farmer experimenters : self-developed technology (English)	10/31/2002	25139
Guiding the way to new opportunities in the Copan valley, Honduras (English)	12/1/2002	26725
Including the disabled : the Chiminike Interactive Learning Center in Honduras (English)	4/1/2003	26910
Empowering autochthonous peoples in Honduras : The Nuestras Raices (Our Roots) Program (English)	8/1/2003	28429
Barriers to better quality education in Central America (English)	3/1/2005	33196
Increasing the participation of Afro-descendants in IDA-funded projects in Honduras, Nicaragua and Panama (English)	5/1/2005	33227
A comparative analysis of school-based management in Central America (English)	6/1/2005	34205

Source: World Bank Imagebank as of 12/23/05.

Annex Table 5a. IEG Project Ratings for Honduras, Exit Year 1994-2005

<i>Exit FY</i>	<i>Approval FY</i>	<i>Proj ID</i>	<i>Project Name</i>	<i>Sector Board</i>	<i>Total Evaluated (\$M)</i>	<i>IEG Outcome</i>	<i>IEG Sustainability</i>	<i>IEG ID Impact</i>
1994	1989	P007379	Ag Credit Iv	Rural Sector	25.0	Moderately Satisfactory	Unlikely	Modest
1994	1991	P007386	Sal II	Economic Policy	90.0	Moderately Satisfactory	Uncertain	Modest
1994	1991	P007389	Social Fund	Social Protection	19.7	Highly Satisfactory	Likely	Substantial
1995	1984	P007363	Water I	Water Supply and Sanitation	18.4	Moderately Unsatisfactory	Uncertain	Negligible
1995	1986	P007366	Ind Credit III	Financial Sector	33.4	Unsatisfactory	Unlikely	Modest
1996	1987	P007373	Rural Primary Education	Education	4.3	Unsatisfactory	Likely	Modest
1996	1993	P007374	Morazan Dam Emergency	Energy and Mining	12.7	Satisfactory	Likely	Substantial
1996	1992	P007384	Energy Sector	Energy and Mining	119.8	Moderately Satisfactory	Uncertain	Modest
1996	1992	P007394	Soc Inv Fund II	Social Protection	10.5	Satisfactory	Uncertain	Modest
1997	1994	P007377	Agriculture Sector Credit	Rural Sector	120.8	Moderately Satisfactory	Uncertain	Modest
2000	1996	P034607	Hn Pub Sec Mod TAC	Public Sector Governance	8.7	Moderately Satisfactory	Likely	Substantial
2000	1996	P037709	Hn/Soc Inv Fund III	Social Protection	27.4	Satisfactory	Non-evaluable	Modest
2000	1999	P064083	Ho Hurricane Emergency	Private Sector Development	196.1	Satisfactory	Likely	Negligible
2001	1993	P007392	Hn/Nutrition/Health	Health, Nutrition and Population	35.8	Moderately Satisfactory	Likely	Modest
2001	1995	P007396	Environ. Development	Environment	9.7	Unsatisfactory	Unlikely	Modest
2002	1996	P007387	Hn Pub Sec Mod SAC	Public Sector Governance	112.8	Moderately unsatisfactory	Likely	Substantial
2002	1995	P007399	Hn- Basic Education	Education	25.7	Satisfactory	Likely	Substantial
2003	1993	P007388	Transport Sector Rehab.	Transport	83.9	Satisfactory	Likely	Substantial
2003	1999	P048651	Hn Fourth Social Investment Fund	Social Protection	66.8	Satisfactory	Non-evaluable	Substantial
2003	1999	P064634	Transport Rehb (Suppl.)	Transport	0.0	Satisfactory	Likely	Substantial

Source: Business Warehouse 4.a.6 as of 12/23/05.

	<i>Total Evaluated (\$M)</i>	<i>Total Evaluated (No)</i>	<i>Outcome % Sat (No)</i>	<i>Inst Dev Impact % Subst (No)</i>	<i>Sustainability % Likely (No)</i>
Honduras	1,021.5	20	75.0	40.0	55.6
LCR	62,785.6	620	79.5	50.3	68.7
IDA	240,823.7	3,117	73.1	42.5	61.7

Source: Business Warehouse 4.a.5 as of 12/23/05.

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IEG Project Ratings for Honduras, Approval FY94-05

<i>Approval FY</i>	<i>Exit FY</i>	<i>Proj ID</i>	<i>Project Name</i>	<i>Sector Board</i>	<i>Total Evaluated (\$M)</i>	<i>IEG Outcome</i>	<i>IEG Sustainability</i>	<i>IEG ID Impact</i>
1994	1997	P007377	Agr Sctr Credit	Rural Sector	120.8	Moderately Satisfactory	Uncertain	Modest
1995	2001	P007396	Environ. Development	Environment	9.7	Unsatisfactory	Unlikely	Modest
1995	2002	P007399	Hn- Basic Education	Education	25.7	Satisfactory	Likely	Substantial
1996	2002	P007387	Hn Pub Sec Mod SAC	Public Sector Governance	112.8	Moderately Unsatisfactory	Likely	Substantial
1996	2000	P034607	Hn Pub Sec Mod TAC	Public Sector Governance	8.7	Moderately Satisfactory	Likely	Substantial
1996	2000	P037709	Hn/Soc Inv Fund III	Social Protection	27.4	Satisfactory	Non-evaluable	Modest
1999	2003	P048651	Hn Fourth Social Investment Fund	Social Protection	66.8	Satisfactory	Non-evaluable	Substantial
1999	2000	P064083	Ho Hurricane Emergency	Private Sector Development	196.1	Satisfactory	Likely	Negligible
1999	2003	P064634	Trnsprt Rehb (Suppl)	Transport	0.0	Satisfactory	Likely	Substantial

Source: Business Warehouse 4.a.6 as of 12/23/05.

	<i>Total Evaluated (\$M)</i>	<i>Total Evaluated (No)</i>	<i>Outcome % Sat (No)</i>	<i>Inst Dev Impact % Subst (No)</i>	<i>Sustainability % Likely (No)</i>
Honduras	568.0	9	77.8	55.6	71.4
LCR	38,633.8	342	82.9	59.0	76.3
IDA	133,506.4	1,586	78.3	50.4	74.6

Source: Business Warehouse 4.a.5 as of 12/23/05.

Annex Table 5b. Honduras- Projects at Risk (in USD millions) FY06

<i>Fiscal year</i>	<i>Honduras</i>	<i>Costa Rica</i>	<i>Guatemala</i>	<i>Nicaragua</i>	<i>El Salvador</i>	<i>LCR</i>
# Proj	18	3	12	13	9	263
Net Comm Amt	412.9	76.6	593.7	321.2	524.0	17,185.1
# Proj At Risk	2	1	1	1	1	49
% At Risk	11.1	33.3	8.3	7.7	11.1	18.6
Comm At Risk	53.1	14.0	3.0	70.0	18.2	3,156.9
% Commit at Risk	12.9	18.3	0.5	21.8	3.5	18.4

Source: Business Warehouse as of 1/5/05.

Annex Table 6. Honduras - Millennium Development Goals

	1990	1994	1997	2000	2003	2004
Goal 1: Eradicate extreme poverty and hunger						
Percentage share of income or consumption held by poorest 20%	..	..	..	2.7	..	..
Population below \$1 a day (%)	37.8	23.7	23.8	20.7	..	..
Population below minimum level of dietary energy consumption (%)	..	..	21	..	22	..
Poverty gap ratio at \$1 a day (incidence x depth of poverty)	16.8	9.5	11.6	7.4	..	..
Poverty headcount, national (% of population)	..	53	..	..	..	..
Prevalence of underweight in children (under five years of age)	..	18.3	25.4	16.6	..	..
Goal 2: Achieve universal primary education						
Net primary enrollment ratio (% of relevant age group)	89.9	..	..	87.4	..	..
Primary completion rate, total (% of relevant age group)	64.7	71.1	..	..	79.3	79.3
Proportion of pupils starting grade 1 who reach grade 5	..	..	..	..	..	..
Youth literacy rate (% ages 15-24)	..	..	..	88.9	..	..
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliament (%)	10	..	8	9	6	6
Ratio of girls to boys in primary and secondary education (%)	..	..	..	..	..	..
Ratio of young literate females to males (% ages 15-24)	..	..	..	104.6	..	..
Share of women employed in the nonagricultural sector (%)	48.1	48	50.4	49.7	50.5	50.5
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months)	90	93	99	98	95	95
Infant mortality rate (per 1,000 live births)	44	37	..	33	32	32
Under 5 mortality rate (per 1,000)	59	49	..	43	41	41
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	..	..	54.9	55.7	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	110	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Contraceptive prevalence rate (% of women ages 15-49)	46.7	..	50	61.8	..	..
Incidence of tuberculosis (per 100,000 people)	117	104.6	96.2	88.4	81.3	81.3
Number of children orphaned by HIV/AIDS	..	..	..	..	..	..
Prevalence of HIV, total (% of population aged 15-49)	..	..	..	1.6	1.8	1.8
Tuberculosis cases detected under DOTS (%)	..	..	2.2	62.3	78.1	78.1
Goal 7: Ensure environmental sustainability						
Access to an improved water source (% of population)	83	..	..	..	90	..
Access to improved sanitation (% of population)	49	..	..	..	68	..
Access to secure tenure (% of population)	..	..	..	..	..	..
CO2 emissions (metric tons per capita)	0.5	0.6	0.7	0.7	..	..
Forest area (% of total land area)	53.4	..	..	48.1	..	..
GDP per unit of energy use (2000 PPP \$ per kg oil equivalent)	5	5.1	4.9	5.4	5	..
Nationally protected areas (% of total land area)	..	..	..	..	6.4	6.4
Goal 8: Develop a global partnership for development						
Aid per capita (current US\$)	92.3	53.9	49.8	69.7	55.8	55.8
Debt service (% of exports)	33	32	20	7	9	9
Fixed line and mobile phone subscribers (per 1,000 people)	17.2	22.7	40	72.4	96.9	..
Internet users (per 1,000 people)	..	0.3	1.6	8.8	25.2	..
Personal computers (per 1,000 people)	..	..	3.2	11.2	13.6	..
Unemployment, youth female (% of female labor force ages 15-24)	15.1	6.9	15.6	7.8	..	..
Unemployment, youth male (% of male labor force ages 15-24)	8.7	4.3	10.1	7	..	..
Unemployment, youth total (% of total labor force ages 15-24)	10.5	5	11.6	7.2	6	..
Other						
Fertility rate, total (births per woman)	5.2	4.9	4.5	4.4	4	4
GNI per capita, Atlas method (current US\$)	710	620	720	860	960	1030
GNI, Atlas method (current US\$) (billions)	3.5	3.4	4.3	5.5	6.7	7.3
Gross capital formation (% of GDP)	22.9	37.7	32.2	30.6	29.4	29.4
Life expectancy at birth, total (years)	64.9	..	65.9	..	66.1	66.1
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	80	..	..
Population, total (millions)	4.9	5.5	6	6.5	7	7.1
Trade (% of GDP)	76.1	82.1	98.1	97.8	90.2	86.6

Source: World Development Indicators database, April 2005.

Figures in italics refer to periods other than those specified.

Annex Table 7. Senior Management, CY1994-2005

<i>Year</i>	<i>Vice President</i>	<i>Country Director</i>	<i>Resident Representative</i>
1994	Shahid Javed Burki	Edilberto L. Segura	
1995	Shahid Javed Burki	Edilberto L. Segura	
1996	Shahid Javed Burki	Donna Dowsett-Coirolo (Acting)	
1997	Shahid Javed Burki	Donna Dowsett-Coirolo	
1998	Shahid Javed Burki	Donna Dowsett-Coirolo	Steve Maber (Acting)
1999	Shahid Javed Burki/ David de Ferranti (7/1/99)	Donna Dowsett-Coirolo	Steve Maber (Acting)
2000	David de Ferranti	Donna Dowsett-Coirolo	Joseph Manoharan Owen
2001	David de Ferranti	Donna Dowsett-Coirolo	Joseph Manoharan Owen
2002	David de Ferranti	Jane Armitage	Joseph Manoharan Owen
2003	David de Ferranti	Jane Armitage	Joseph Manoharan Owen
2004	David de Ferranti	Jane Armitage	Joseph Manoharan Owen
2005	Pamela Cox	Jane Armitage	Joseph Manoharan Owen

Source: The World Bank Group Directory 1994-2005.

Annex B. List of People Met on Mission

World Bank Staff

Adrian Fozzard, Country Manager
Dante Mossi, Economist
Rebecca Santos, Operations Officer
Rafael Vera, Sr. Water and Sanitation Specialist
Katherine Bain, Team Leader, Poverty Reduction
Rajeev Kumar Swami, Financial Management Specialist

International Donors

Andres Marchant, Resident Representative, IDB
Miguel Taborga I, Deputy Resident Representative, IDB
Duty Greene, USAID
Jay Anderson, USAID
Ned Van Steenwyck, Education Advisor, USAID
John Wingle, Director, Millennium Challenge Corporation
Kim Bolduc, Resident Representative, UNDP
Lorenzo Jimenez de Luis, Deputy Resident Representative, UNDP
Tatsuo Suzuki, Director, JICA
Jiroki Hichizaca, Economist, Embassy of Japan
Christel Weller-Molongua, GTZ (German Technical Cooperation)
Cristina Aldama Calles, Technical Cooperation Office, Embassy of Spain
G16, Group meeting of the 16 major donor ambassadors and representatives.

Current Government Officials

William Chong Wong, Minister of Finance
Merlin Fernandez, Minister of Health
Roberto Martinez Lozano, Minister of Education
German Edgardo Leitzelar Vidaurreta, Minister of Labor and Social Security
Pablo Pastor, Coordinator of Education for All, Ministry of Education
Marcela Suazo, Minister, National Women's Institute
Leony Yu Way, Minister of Social Investment Fund
Mariano Jimenez, Minister of Agriculture
Hilda Rosario Hernandez Alvarado, Sub-Secretary, Ministry of Agriculture
Rocio Tabora, Vice-Minister of the Presidency
Rigoberto Funes Calix, Vice-Minister, Ministry of Transport
Orlando Garner Ordonez, Director of Public Credit, Ministry of Finance

ANNEX B

LIST OF PERSONS MET

Vilma Morales, President, Supreme Court of Justice
Kenneth Madrid, Director, Supreme Court of Justice
Luis Eveline, Manager, COHDEFOR (Forestry Department)
Carlos Enrique Fiallos, COHDEFOR
Maria Magdalena Garcia, Director, National Statistics Institute
Antonio René Soler, Deputy Director, National Statistics Institute
Ana Lucila Aguilar, Director of Planning, Ministry of Health
Renan Sagastume, Tribunal Superior de Cuentas (Supreme Audit Court)
Roberto Galvez, Director of Institutional Development, Supreme Audit Court
Melvin Redondo, Ministry of Industry and Commerce
Roberto Martinez, Public Finance Reform, Ministry of Finance
Lourdes Matamoros, Public Finance Reform, Ministry of Finance
Juan Ferrera, FONAC (National Convergence Forum)
Santiago Tronconi, Executive Director, Fondo Vial (Road Fund)
Sergio Membreno, Manager, National Anti-Corruption Council

Central Bank

Analia Napky, Vice-President
Osacar Nunez Sandoval, Director
Suyapa Cristina Funes, Director

Other

Cardinal Oscar Andres Rodríguez
Arturo Alvarado, Former Minister of Finance
Armando Aguilar, Former Minister of Finance
Gabriela Nunez, Former Minister of Finance
Gustavo Alfaro, Former Minister of the Presidency
Moises Starkman, Former Minister of Social Investment Fund
Enrique Samayoa, Former Minister of Health
Ramon Calix Figueroa, Former Minister of Education
Ricardo Arias, Former Minister of Agriculture
Tomas Lozano, Former Minister of Transport
Carlos Avila, Former Minister of Education
Guillermo Alvarado, Former Minister of Agriculture
Elias Lizardo, Former Minister of Health
German Aparicio, Former Minister of Transport
Hugo Castillo, Former Vice-Minister of Finance
Sandra Midence, Former Vice-Minister of Finance
Armando Euceda, Former Vice-Minister of Education
Jeronimo Sandoval, Former Minister of Transport
Waleska Pastor, Former Minister of Social Investment Fund
Cesar Carranza, Former Director of Public Credit
German Edas Pineda, Executive Director, COHCIT (Honduran Council of Science
and Technology)

Ramon Hasbun, Executive Director, CAD (Distance Learning Center)
Maria Antonieta de Borgan, Director, FEREMA (Educational Foundation Ricardo Ernesto Maduro Abreu)
Guillermo Bueso, President, Banco Atlantida
Mario Aguero, Vice-President, Banco Atlantida
Francis de Moliery, Zip Amaratoca, Free Trade Zones
Otoniel Amilcar Nunez, Zip Amaratoca, Free Trade Zones
Henry Merriam, Director Project Coordinating Unit
Cristiana Nufio de Figueroa, Former President of Colegio de Economistas
Manlio Martinez, Former President of Colegio de Economistas
Odessa Henriquez, President, Colegio Medico de Honduras
Martin Ochoa, Water and Sanitation Specialist
Mauricio Diaz, Director, FOSDEH (Social Forum for the Honduran External Debt)
Santiago Herrera, FIDE Fundacion para Inversiones y El Desarrollo de Exportaciones (Foundation for Investment and Development of Exports)
Rosa Anatela, Coordinator of the Labor Improvement Component, FIDE
Carleton Corrales, Education Consultant
Helmis Cardenas, Director, ESA Consultores
Rigoberto Sandoval, Mesa Sectorial Agro-forestal (Agro-forestry Sector Board)
Hugo Godoy, Director, Education Reform Program, Min. of Education
Roque Rivera, COHEP (Honduran Council of Private Enterprise)
Miguel Bonilla, ONCAE (National Procurement Office)
Oscar Dias, ONCAE (National Procurement Office)
Field Visit to PROHECO Schools, near Talanga and near El Guante
Field Visit to Clinica La Caridad, in El Guante, David Castro, Administrator

Annex C. Guide to IEG's Country Assistance Evaluation Methodology

1. This methodological note describes the key elements of IEG's country assistance evaluation (CAE) methodology.¹

CAEs rate the outcomes of Bank assistance programs, not the Clients' overall development progress

2. A Bank assistance program needs to be assessed on how well it met its particular objectives, which are typically a sub-set of the Client's development objectives. If a Bank assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a Client's development by donors, stakeholders, and the government itself. In CAEs, IEG rates only the outcome of the Bank's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

3. The experience gained in CAEs confirms that Bank program outcomes sometimes diverge significantly from the Client's overall development progress. CAEs have identified Bank assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak Bank program; and,
- satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

Assessments of assistance program outcome and Bank performance are not the same

4. By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

¹ In this note, *assistance program* refers to products and services generated in support of the economic development of a Client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

5. IEG measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other AAA activities, the consistency of the Bank's lending with its non-lending work and with its safeguard policies, and the Bank's partnership activities.

Rating Assistance Program Outcome

6. In rating the outcome (expected development impact) of an assistance program, IEG gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the Bank do the right thing, and did it do it right. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. IEG's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

7. For each of the main objectives, the CAE evaluates the relevance of the objective, the relevance of the Bank's strategy toward meeting the objective, including the balance between lending and non-lending instruments, the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other donors, the government and exogenous factors.

8. Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

Ratings Scale

9. IEG utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

<i>Highly Satisfactory:</i>	The assistance program achieved at least acceptable progress toward all major relevant objectives, <u>and</u> had best practice development impact on one or more of them. No major shortcomings were identified.
<i>Satisfactory:</i>	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
<i>Moderately Satisfactory:</i>	The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified.
<i>Moderately Unsatisfactory:</i>	The assistance program did not make acceptable progress toward most of its major relevant objectives, or made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
<i>Unsatisfactory:</i>	The assistance program did not make acceptable progress toward most of its major relevant objectives, and either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
<i>Highly Unsatisfactory:</i>	The assistance program did not make acceptable progress toward any of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

10. The **institutional development impact (IDI)** can be rated as: *high, substantial, modest, or negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- the soundness of economic management;
- the structure of the public sector, and, in particular, the civil service;
- the institutional soundness of the financial sector;
- the soundness of legal, regulatory, and judicial systems;
- the extent of monitoring and evaluation systems;
- the effectiveness of aid coordination;
- the degree of financial accountability;
- the extent of building NGO capacity; and,
- the level of social and environmental capital.

11. **Sustainability** can be rated as *highly likely, likely, unlikely, highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- technical resilience;
- financial resilience (including policies on cost recovery);
- economic resilience;
- social support (including conditions subject to safeguard policies);
- environmental resilience;
- ownership by governments and other key stakeholders;
- institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and,
- resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

Annex D. Management Action Record

<i>Major Monitorable IEG Recommendations Requiring a Response</i>	<i>Management Response</i>
<p>(1) The greatest focus should be on decentralized delivery of quality <i>education</i> services. This will require restructuring the teacher employment regime (estatuto) to achieve greater accountability for performance and establish a sustainable sector pay policy</p>	<p>Management agrees that improvements in educational achievement are essential for long-term growth and poverty reduction. Management advocates a sustainable and long-term solution to pay policy in the educational sector, recognizing that such a solution will require sector governance reforms. The Bank will continue to support these goals by improving pedagogical methods, sector personnel management and promoting parental involvement in school management, building on the PROHECO model. Maintenance of a sustainable fiscal policy and control of the public sector pay remain prerequisites of Bank-financed development policy lending.</p>
<p>(2) The most urgent task in public <i>infrastructure</i> is to transform the power company into a reliable low cost provider, given that this is a leading obstacle to private sector investment. In view of the frequency of natural disasters, IDA should continue to ensure that all infrastructure projects are built to “disaster” standards</p>	<p>Measures aimed at initiating a restructuring process in the public electricity utility are triggers for PRSC II. The Government has requested a Utility Restructuring Project for the forthcoming CAS to support this process. Country and Regional Energy Studies have also been scheduled to assist the Government develop a comprehensive energy strategy. All of these activities will be implemented in close collaboration with IDB. Bank-financed infrastructure projects will continue to ensure that “disaster” standards are applied. Under the Disaster Mitigation Project, the Bank has assisted Government in developing and applying risk mitigation and “disaster” standards in the sixty highest risk municipalities. These activities will be extended with Global Environment Facility (GEF) financing under the forthcoming CAS.</p>
<p>(3) In an effort to generate <i>agricultural</i> growth, emphasis must be placed on (a) improving access to credit and support services for low-income farmers and (b) rural roads.</p>	<p>Management agrees with the CAE’s priorities for agricultural growth and has focused lending in this area under the FY2007-10 CAS, including: a rural competitiveness project will support agri-business development through commercial credit and support services, building on the experience of the access to land pilot project; a follow-up land administration project; and a new rural access project, complementing the Bank’s on-going support under the Rural Infrastructure Project.</p>
<p>(4) In the area of <i>governance</i>, the highest priorities are strengthening internal expenditure and revenue control systems, professionalization of the civil service, establishment of fiscally sustainable compensation policies, and procurement reform. With regard to control systems, institutionalization of financial management, procurement, personnel management, and planning is critical. For procurement, urgent action is needed to introduce harmonized donor rules for transparent hir-</p>	<p>Management concurs that the strengthening and institutionalization of internal control systems are priorities for Bank support, but believes that these should be complemented by strengthening the demand side for good governance and social monitoring of public services and projects at the field level. A social accountability specialist has been hired in the field office to support this agenda. The Bank will continue to support the implementation and roll-out of SIAFI and procurement information systems, including e-procurement, in collaboration with IDB, under the forthcoming CAS through technical assistance credits and</p>

ANNEX D
MANAGEMENT ACTION RECORD

<p>ing and procurement in the PIUs. Given capacity and ownership constraints within the GOH, procedural procurement reforms might preferably be piloted in one or two of the most important agencies, notably SOPTRAVI and FHIS, which jointly account for the bulk of procurement spending.</p>	<p>core fiduciary analysis. The professionalization of the civil service is also seen as a priority, improving institutional effectiveness and accountability. This will be a gradual process, starting with pilot institutions and financial management functions across the administration, supported by the PRSC and technical assistance. Paralleling the development of government-wide systems, the Bank will focus on systems development in those institutions where there are ongoing projects, including FHIS and SOPTRAVI. A Policy and Human Resources Development (PHRD) grant for Aid Coordination has recently been awarded to harmonize donor assistance around national procedures for planning, procurement, financial management and project management in four key sectors.</p>
<p>(5) The effectiveness of the Honduran Social Fund (FHIS), the largest recipient of social sector assistance, needs to be examined. Long-term sustainable growth requires efficient line ministries, not special purpose organizations such as FHIS.</p>	<p>Whilst concurring with the CAE's assessment on the importance of institutional development, Management is encouraged by recent efforts – supported by the Bank-financed FHIS V – to transform FHIS into an institution supporting municipal planning and projects. The Government's decision to channel part of its debt relief funding through municipalities is expected to strengthen the municipalities' future role in Poverty Reduction Strategy (PRS) implementation. This process will be supported by the recently approved Rural Infrastructure and Barrio Ciudad projects implemented through FHIS - municipal partnerships. At the same time, the Bank portfolio will continue to promote the development of core management systems and strengthen line ministries' policy, planning and implementation capacity.</p>
<p>(6) Future ESW should intensify research on new economic opportunities for the poor, particularly in agriculture and export-oriented maquilas.</p>	<p>Recent Bank ESW (notably the Drivers of Rural Growth Study, the Development Policy Review and Poverty Assessment) provide the analytical foundations for the forthcoming CAS. Building on recent work, and taking into account the Bank's comparative advantage in relation to other partners, Bank analytical work will focus on poverty monitoring and improving the poverty impact of public expenditure, energy sector policy, and studies on investment and economic opportunities for the poor through a CEM. USAID has provided substantial funding to FIDE for research on export-oriented growth.</p>
<p>(7) In line with the growing focus on "results," IDA, as the agency with the greatest capacity among donors for producing high-quality documentation, should show leadership in helping to improve the unacceptably low quality of statistical information on the reality of trends in the economic and social conditions in Honduras.</p>	<p>Management agrees that Honduras' statistics systems will need to be strengthened if there is to be a meaningful "results" orientation in the Government program and the Bank's CAS. A Bank-financed regional project has assisted the Statistics Institute develop a strategic plan for the statistics system. This will guide future Bank support for statistics, in collaboration with IDB and bilateral partners. At the same time, the Bank will work closely with the Statistics Institute, the Presidency and Ministry of Finance to ensure that CAS and project level monitoring systems are aligned with the needs of national monitoring and statistical systems.</p>

Attachment 1: Comments from the Government



SECRETARIA DE FINANZAS
DIRECCION GENERAL DE
CREDITO PUBLICO

Tegucigalpa M. D. C. June 02, 2006

Mr. Lily Chu
Acting Manager
Country Evaluation and Regional Relations
Independent Evaluation Group

Dear Ms. Chu:

With instructions of the Viceminister of the Public Credit and Investment Ms. Rebeca SANTOS, attached you will find the comments of the Secretary of Finance of Honduras to the IEG Report entitled "Honduras: Country Assistance Evaluation"

Yours Truly,



Orlando Garner
Director General of Public Credit
Secretaría de Finanzas



SECRETARIA DE FINANZAS REPUBLICA DE HONDURAS

Comentarios al Documento Banco Mundial : “ Honduras Country Assistance Evaluation ” Presentados por la Secretaría de Finanzas de la República de Honduras

I. Comentarios Generales

- Es importante destacar que el periodo de la evaluación parte desde 1995 año en el cual Honduras inicia un proceso de ajuste, condicionado por la fragilidad macroeconómica que recibió la Administración Presidencial del Abogado Carlos Roberto Reina (1994- 1998) y que incidió en el incumplimiento del Acuerdo con el FMI. Durante la Administración Reina se toman las medidas para lo que sería un nuevo Acuerdo con el FMI, estableciéndose y cumpliéndose un “Shadow Program” con esa institución. Asimismo, es inexacto lo que se señala en el Informe “ que se ve una mejoría en la economía partir del 2002 ” sin hacer ver los problemas que se heredan de la anterior administración (Executive Summary Párrafo 1, Pagina VII).
- En el Documento del FMI “ World Economic Outlook. Selected Topics , 1995- 2006 ” se indica en uno de sus apéndices lo siguiente sobre el periodo en mención y el comportamiento de la economía de los países en desarrollo, donde se ve claramente como los Business Cycles en los países industrializados y otros efectos exógenos afectaron las economías latinoamericanas.:

<http://www.imf.org/External/Pubs/FT/weo/2001/02/pdf/Chapter2.pdf>

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Foreign demand shocks. Business cycles in advanced economies have a significant effect on their demand for developing country commodities, intermediate goods, and finished products. As their trade relationships with industrial countries have expanded rapidly in recent decades, developing countries have become increasingly affected by aggregate demand conditions in industrial countries. This is true of many Asian and Latin American countries that have strong trade relationships with industrial countries. Countries in sub-Saharan Africa that largely rely on a narrow set of commodity exports and have limited trade with industrial countries, however, are much less directly influenced by business cycles in these countries.



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• *Aggregate productivity shocks.* For many developing countries, technology transfers occur mainly through imports from industrial countries. Technological spillovers and their effects on macroeconomic fluctuations therefore tend to be stronger for countries that have strong trade relationships with industrial countries, although this also depends on the nature of products traded. Industrial country productivity shocks have been estimated to account for 5 to 20 percent of the variation in developing country output (see Kouparitsas).

- Según se indica en el numeral 2.10 (p.8) las conclusiones del Informe se basan en solo 9 de 29 proyectos aprobados durante el periodo en evaluación . En adición , es importante destacar sobre la composición y número de proyectos en cartera en el período analizado, que si bien la pertinencia de los proyectos es adecuada, su grado de dispersión es alto; tal como se indica en el numeral 2.8 (p. 14). Este alto grado de fragmentación en términos generales dificulta la gerencia de los proyectos y el cumplimiento de los indicadores de desempeño de los mismos .
- Igualmente y hasta el Huracan Mitch los esfuerzos de Coordinación y Armonización entre los Cooperantes Internacionales, entre ellos IDA; era limitado a escasas iniciativas, lo cual se reflejaba en una alta proliferación de unidades ejecutoras y de distintas modalidades de implementación, propiciando la dispersión de esfuerzos y recursos no sólo entre sectores sino que a lo interno de las instituciones.
- Es importante que al momento de realizar este tipo de evaluaciones se complemente las mismas con un análisis que dedique una mirada más allá del contexto macroeconómico y del ámbito institucional en que se desenvuelven los proyectos y que permita un mejor entendimiento de la dinámica de desarrollo económico y social del país. Bajo esta óptica algunos progresos y / o procesos que podrían estar siendo valorados como poco significativos podrían ser evaluados en su real perspectiva. .
- Es importante también contar con un análisis de actores políticos, públicos, privados, gremios y sociedad civil en general que permita un mejor entendimiento de las interrelaciones de estas fuerzas y su influencia en términos de impulsar o detener procesos de cambio o reforma.



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- En el numeral 2.6 (p. 14), se menciona que Honduras llegó al Punto de Decisión de la Iniciativa HIPC en Julio del 2000, pero no valora adecuadamente lo que significó y el nivel de esfuerzo invertido para cumplir con la Matriz de Condiciones que se establecieron para llegar a ese punto. Hay que recordar que la Administración Flores cumplió con la tercera revisión del Programa con el FMI (Septiembre 2001). Igualmente, Honduras llegó al punto de Culminación de la referida indicativa en marzo 2005, luego de una evaluación positiva del desempeño de los indicadores contemplados en la Matriz de Condiciones.
- Parece pertinente señalar que la evaluación se hizo en una época cercana a un periodo electoral lo que se constituye en un periodo atípico y que pudo haber
- incidido en el relevamiento objetivo de información o de percepciones por parte del equipo integrante de la misión evaluadora.

II. Comentarios Específicos

- Se considera importante el comentario sobre el cierre prematuro de SECPLAN y su impacto en los procesos de coordinación, la temática salarial y en general sobre la situación de las finanzas públicas y el seguimiento a la aplicación de las reformas administrativas (numeral 3.19). Al respecto es oportuno mencionar que las funciones de planificación, monitoreo de la gestión institucional , y evaluaciones de impacto, así como la gestión de la Cooperación Externa ; quedaron fragmentadas y diluidas en distintas instituciones .
- Se quiere destacar que el comentario señalado en el numeral 4.30 que hace referencia a la débil capacidad institucional y a los niveles de corrupción presentes en el país, se consideran “ **inapropiados** ” pues **aún y cuando se reconoce que el país tiene una agenda pendiente en términos de asegurar un efectivo combate a la corrupción y asegurar niveles de calidad en la gestión pública** , para el período objeto de estudio se pueden evidenciar algunos avances notables como fueron : la creación del Ministerio Público, la creación y puesta en funcionamiento del Consejo Anticorrupción, la aprobación de la nueva Ley de Compras y Contrataciones del Estado, la subordinación del Poder Militar al Poder Civil a través de la creación del Ministerio de Defensa, el diseño y desarrollo de importantes sistemas de gestión pública , como son : el SIAFI y la aprobación de la nueva Ley de Presupuesto, e. SIARDH (para la administración de los Recursos Humanos Docentes), el SIERP (para el seguimiento de la ERP) . Igualmente se posibilitaron reformas políticas para fortalecer la autonomía del Poder Judicial y una mayor transparencia de los procesos electorales.



SECRETARIA DE FINANZAS REPUBLICA DE HONDURAS

- Para avanzar en esta dirección la presente administración encabezada por el Presidente Manuel Zelaya Rosales (2006 – 2010) ha establecido como parte de sus pilares prioritarios de gobierno : Reforma del Estado, el Buen Gobierno y el Combate a la Corrupción . Como parte de las primeras acciones del nuevo gobierno se aprobó la Ley de Participación Ciudadana y se sometió al Congreso Nacional para su próxima aprobación la Ley de Transparencia y Acceso a la Información Pública lo que permitirá una amplia diseminación de la información a todos los niveles y una activa participación de la sociedad civil en el seguimiento y monitoreo de la actividad pública.

(Translation of Spanish Letter)

**MINISTRY OF FINANCE
REPUBLIC OF HONDURAS**

**Comments on the World Bank Document: “Honduras Country Assistance Evaluation,”
submitted by the Ministry of Finance, Republic of Honduras**

I. General comments

- It is important to note that the evaluation period begins in 1995, the year in which Honduras started its adjustment process, necessitated by the weak macroeconomic situation inherited by the administration of President Roberto Reina (1994-1998), which led to non-compliance with the agreement concluded with the IMF. During the Reina administration, steps were taken to reach a new agreement with the IMF, with a “shadow program” being established and executed with that institution. Consequently, the statement in the report that “outcomes have been improving since 2002,” without acknowledgement of the problems inherited from the previous administration, is not accurate (Executive Summary, Paragraph 1, Page VII).
- One of the appendices to the IMF document “World Economic Outlook. Selected Topics, 1995-2006” states the following about the period in question and the performance of the economies of developing countries, which clearly demonstrates how business cycles in industrialized countries and other exogenous effects impacted Latin American economies:

<http://www.imf.org/External/Pubs/FT/weo/2001/02/pdf/Chapter2.pdf>

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Foreign demand shocks. Business cycles in advanced economies have a significant effect on their demand for developing country commodities, intermediate goods, and finished products. As their trade relationships with industrial countries have expanded rapidly in recent decades, developing countries have become increasingly affected by aggregate demand conditions in industrial countries. This is true of many Asian and Latin American countries that have strong trade relationships with industrial countries. Countries in sub-Saharan Africa that largely rely on a narrow set of commodity exports and have limited trade with industrial countries, however, are much less directly influenced by business cycles in these countries.¹

- *Aggregate productivity shocks. For many developing countries, technology transfers occur mainly through imports from industrial countries. Technological spillovers and their effects on macroeconomic fluctuations therefore tend to be stronger for countries that have strong trade relationships with industrial countries, although this also depends on the nature of*

products traded. Industrial country productivity shocks have been estimated to account for 5 to 20 percent of the variation in developing country output (see Kouparitsas,

- As indicated in numbered paragraph 2.10 (page 8), the conclusions of the report are based on only 9 of the 29 projects approved during the evaluation period. Furthermore, it is important to note, with respect to the composition and number of projects in the portfolio for the period analyzed, that although the projects are sufficiently relevant, they are spread over a wide range of sectors, as indicated in numbered paragraph 2.8 (page 14). Generally speaking, this high level of fragmentation makes it difficult to manage projects and meet their performance indicators.
- Also, up to the time of Hurricane Mitch, coordination and harmonization efforts among international donors, among them IDA, were limited to a few initiatives reflected in a plethora of executing units and differing implementation procedures, a situation that led to the dispersion of efforts and resources not only among sectors but also within institutions.
- In doing such evaluations, it is important for them to be supplemented by an analysis that transcends the macroeconomic context and institutional environment in which projects are taking place. This will facilitate a clearer understanding of the economic development and social conditions prevailing in the country. Using such an approach, some progress and/or processes that may be assessed as being of little significance could be evaluated in their proper context.
- It is also important to get input from political, public, and private groups, as well as trade unions, and civil society in general, since this would facilitate a better understanding of the relationship among these players as well as their influence in terms of advancing or impeding processes of change or reform.
- While numbered paragraph 2.6* (page 14), states that Honduras reached the Decision Point under the HIPC Initiative in July 2000, it does not adequately explain the import of this achievement or the effort made to meet the matrix of conditions, which was established in order to attain that point. It should be borne in mind that the Flores administration carried out the third program review with the IMF (September 2001). Also, Honduras reached the Completion Point under this initiative in March 2005, after a favorable evaluation of the performance of the indicators set forth in the matrix of conditions.
- It seems important to note that the evaluation was done close to an election period and thus not during a period that can be considered typical, a factor that could have affected the objective assessment of information or the perceptions of the members of the evaluation team.

II. Specific comments

- The comment on the premature elimination of SECPLAN and its impact on the processes of coordination, salaries, and in general, the public finance situation and follow up to the implementation of administrative reforms (3.19) is deemed important. In

this regard, it bears noting that the planning, monitoring of institutional management, impact evaluation, and management of external assistance functions were uncoordinated and weak in some institutions.

- It should be stressed that the comment in numbered paragraph 4.30 referring to weak institutional capacity and levels of corruption in the country is considered **“inappropriate,” given that, while the country does not have a set agenda for effectively combating corruption and providing quality assurance in the area of public management,** during the period reviewed, progress was made in a number of areas, namely, the establishment of the Office of the Public Prosecutor, the establishment and commencement of operations of the Anti-corruption Council, the approval of the new Law on government procurement and contracting, the subordination of the military to civilian authority through the creation of the Ministry of Defense, the design and development of such important public management systems as SIAFI, approval of the new budget law, SIARDH (for human resources in the field of pedagogy, and SIERP (for ERP follow up). At the same time, political reforms were facilitated with a view to increasing the autonomy of the Judiciary and lending greater transparency to electoral processes.
- In order to move ahead in this area, the current administration, headed by President Manuel Zelaya Rosales (2006 – 2010) has established State reform, good governance, and combating corruption as some of the main priority areas of the new Government. One of the first steps taken by the new Government was approval of the Law on Citizen Participation and the submission to Congress, for approval at a later date, of the Law on Transparency and Access to Public Information, which will facilitate the broad dissemination of information at all levels as well as active participation by civil society in tracking and monitoring public activities.

Attachment 2: Chairman's Summary

COMMITTEE ON DEVELOPMENT EFFECTIVENESS Honduras Country Assistance Evaluation

(Meeting of July 10, 2006)

1. The Informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) met on July 10, 2006 to discuss the Honduras Country Assistance Evaluation, prepared by the Independent Evaluation Group (IEG).
2. **Background.** The CAE for Honduras covers the period of FY95-05. The strategic objectives of IDA's assistance were: accelerated and equitable growth; and poverty reduction through investments in health, education, and social safety nets. Overall, IEG rated outcomes of IDA's assistance as moderately unsatisfactory. The IEG evaluation noted that despite IDA's generally relevant and well-directed efforts to help resolve long-term developmental constraints in the difficult country environment, political resistance to reform in several crucial reform areas and capacity constraints derailed IDA initiatives. Looking forward, the CAE recommended concentrating IDA's assistance in fewer areas, closely related to the growth objective, with the highest priority to be given to: (i) decentralized delivery of quality education services; (ii) transforming the electric power utility; (iii) credit and support services for low income farmers, including rural roads; (iv) civil service reform and stronger public revenue and expenditure controls; (v) focusing future ESW on new economic opportunities for the poor; and (vi) leading donors in helping to improve the quality of statistical information.
3. Management agreed with the CAE's recommendations and in particular with the need to focus on fewer areas, which will be properly reflected in the upcoming new CAS. Management welcomed the broad perspective adopted by the evaluation as a valuable input for the development of future strategy. At the same time, management felt that the evaluation did not capture IDA's learning process, that is, the shift from ineffective large multi-tranche adjustment credits to smaller, more focused and effective operations. The Government of Honduras commented that the evaluation did not always adequately reflect its emergent development priorities, especially its successful effort to reach the HIPC decision point and the country's subsequent inclusion in the Multilateral Debt Relief Initiative (MDRI), as well as progress in the areas of anti-corruption and institutional capacity.
4. **Main Conclusions and Next Steps.** The Subcommittee welcomed the CAE for Honduras and broadly agreed with its findings and recommendations. Members stressed the importance of reflecting the lessons from the IEG evaluation in the upcoming CAS, in

particular: focusing on fewer areas, such as public sector capacity; education; and poverty alleviation in rural areas.

The following points were raised:

5. **Country context and ownership.** Several speakers commended reform efforts of the Honduran government in a difficult politico-economic environment, while facing multiple pressures. A representative of the constituency that includes Honduras noted that despite less than satisfactory ratings, the Bank's program provided valuable lessons conducive to a better design and implementation of future programs. She stressed that the Honduran authorities concur with the general findings and recommendations of the evaluation, but added that the unsatisfactory rating does not fully reflect accomplishments in the areas of macroeconomic stability, debt sustainability, financial sector reform, and infrastructure rehabilitation. Looking ahead, she emphasized the important role of IDA's analytical work for partnership with the country, and urged increasing effectiveness of AAA through deeper analysis of political and social complexities associated with certain policy recommendations, especially in some sensitive areas such as privatization, civil service, and social security reforms. Several members were interested whether the country's political cycle had influenced the outcomes of IDA assistance. Management noted that frequent turnarounds driven by political and electoral cycles led to major disruptions, something that could be partially addressed by introducing a professional civil service.

6. **Recommendations and way forward.** Members welcomed the well-defined priorities for the next CAS, as outlined in the evaluation. However, a few members felt that more emphasis could have been put on improving the business climate and establishing more efficient financial systems, with closer participation from IFC and MIGA. IEG noted that IFC had classified Honduras as a "frontier country", which translates into a strategic focus on developing the country's private sector capacity and investment promotion. Looking forward, several members stressed the importance of the predictability of IDA assistance, given the highly volatile situation in the country, further exacerbated by its vulnerability to exogenous shocks. A member noted that while the CAE makes a valid point regarding the need to re-examine the role of the Honduran Social Fund (FHIS) amid concerns about its longer-term sustainability, experience in other countries indicates that such special-purpose organizations may still constitute a bridging solution with positive spillover effects in setting new standards. IEG concurred that FHIS does possess positive "bridging" potential, but noted that at present there is also a need for further steps towards more decentralized management.

7. **Results and lessons learned.** Members acknowledged the significant development challenges facing the country that had slowed progress toward the achievement of the millennium development goals (MDGs), and especially the exogenous factors (Hurricane Mitch, etc.). At the same time, several members noted that some generally accepted indicators (reaching the HIPC completion point, inclusion in MDRI, etc.) suggest that the country is one of the good performers that made a positive turnaround in performance in the last few years: a fact that could have been better reflected in the report. IEG agreed that there was a visible improvement in both policy and performance in the last few years, but added that looking at the entire period under review reveals that the bulk of the Bank's assistance, mainly concentrated in the areas of rural development and public sector modernization, did

not achieve the desired outcomes. A few members noted that perhaps there is a need to be more modest in terms of expectations from longer-term growth outcomes of IDA programs. Several speakers urged better defined outcome targets against which IDA's program can be held accountable. Other lessons from the Honduran experience noted by some members were: the importance of focusing on a limited number of specific areas/sectors with maximum development and growth impact; and the negative long-term impact of reallocating resources from existing projects. IEG noted that the issues of overly ambitious CASs and inflated expectations are expected to be addressed to a certain degree by the adoption of a results-based approach in preparing future country strategies.

8. **Capacity.** A speaker stressed the importance of building and sustaining sufficient capacity in government institutions, and especially the ministries of health and education, and wished that the CAE had provided more concrete recommendations in this regard. Another speaker noted that the mostly poor outcomes of consecutive CASs are caused not that much by exogenous shocks, but serious issues with human capital in the country – a foremost priority to be addressed in future.

9. **Poverty reduction and priority areas.** A speaker felt poverty reduction in the country needs to be approached from a more holistic perspective, and not only as a growth or macroeconomic stability issue. He highlighted that despite years of receiving additional financing the country's social indicators remain poor, and urged more focus on aid effectiveness. Several members stressed the need to develop a strategy for poverty alleviation in rural areas where the majority of the poor live, including the indigenous population. Members also mentioned the areas of forestry management; rural finance and building statistical capacity as extremely important for the country's future development strategy. Management agreed and noted many issues related to targeting the poor will be addressed in the upcoming Country Poverty Assessment.

10. **Growth.** A member felt that additional data underpinning the relatively positive judgment on growth in recent years – possibly in a form of a standardized “checklist” – would have added value to the quality of assessment. IEG replied that it is increasingly moving towards more standardization in usage of indicators in CAEs. Another member was interested in a more detailed explanation of recent improvement in growth. IEG replied that growth recovery could be explained by three factors: bounce-back after Hurricane Mitch; steady growth in remittances; and improvement in fiscal discipline. Management concurred with the IEG assessment and also noted the positive role of better policies, which in turn were catalyzed by HIPC – a focal point for building consensus around reform efforts.

11. **Public sector and governance.** A member underlined the crucial role of public sector reform and modernization for growth and development, which in the Honduran case were often impeded by inertia and opposition from strong vested interests. In this context, he noted that the evaluation lists governance issues as the last of the country's developmental constraints, and asked for an explanation. IEG concurred with the important role of governance and clarified that the four main determinants of growth mentioned in the report are based on the results of the Region's econometric work, where the measures of governance appeared to be statistically insignificant when included with other variables – most probably reflecting the strong correlation between governance indicators and other variables. Several speakers emphasized that budgetary support (for example, MDRI) should be pre-

ATTACHMENT 2
CHAIRMAN'S SUMMARY

ceded by resolution of some urgent issues in the area of public sector governance, especially in fiscal management. Management noted that public expenditure management will be one of the key areas of the new country program.

Pietro Veglio, Chairman