



**Office of Evaluation and Oversight, OVE  
Inter-American Development Bank**

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***Country Program  
Evaluation (CPE):  
Honduras***

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Office of Evaluation and Oversight

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## *Acronyms*

AFE	<i>Administración Forestal del Estado</i> / State Forestry Administration
APROCACAHO	<i>Asociación de Productores de Cacao de Honduras</i> / Association of Cocoa Producers of Honduras
ARPE	Annual Report on Projects in Execution
BANADESA	<i>Banco Nacional de Desarrollo Agrícola</i> / National Agricultural Development Bank
BANASUPRO	<i>Suplidora Nacional de Productos Básicos</i> / National Supplier of Basic Products
BE	<i>Bono Escolar</i> / School Voucher Program
BMI	<i>Bono Materno-Infantil</i> / Infant-Maternity Voucher Program
CABEI	Central American Bank for Economic Integration
CADERH	<i>Centro Asesor para el Desarrollo de Recursos Humanos de Honduras</i> / Advisory Center for the Human Resources Development of Honduras
CAS	Country Assistance Strategy
CEPAL/ECLAC	<i>Comisión Económica para América Latina y el Caribe</i> / Economic Commission for Latin America and the Caribbean
CG	Consultative Group
CNE	<i>Comisión Nacional de Energía</i> / National Energy Commission
CNSPP	<i>Comisión Nacional Supervisora de Servicios Públicos</i> / National Public Services Supervisory Commission
COF	Country Office
COHDEFOR	<i>Corporación Hondureña de Desarrollo Forestal</i> / Honduran Corporation for Forestry Development
CONATEL	<i>Comisión Nacional de Telecomunicaciones</i> / National Telecommunications Commission
CP	Country Paper
CPP	Country Programming Paper
DOPC	Delegation of Project Cycle
ENEE	<i>Empresa Nacional de Energía Eléctrica</i> / National Electricity Enterprise
ESAF	Expanded Structural Adjustment Facility
OVE	Office of Evaluation and Oversight
FDI	Foreign Direct Investment
FEDECOH	<i>Federación de Desarrollo Comunitario de Honduras</i> / Community Development Federation of Honduras
FHIS	<i>Fondo Hondureño de Inversión Social</i> / Honduran Social Investment Fund
FIN	Finance Department, IDB
FINCA	Foundation for International Community Assistance
FSO	Fund for Special Operations
FUNHDEMU	<i>Fundación Hondureña para el Desarrollo de la Mujer</i> / Honduran Foundation for Woman Development
GOH	Government of Honduras
HIPC	Highly Indebted Poor Countries
HONDUTEL	<i>Empresa Hondureña de Telecomunicaciones</i> / Honduran Telecommunications Enterprise
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association

IHMA	<i>Instituto Hondureño de Mercado Agrícola / Honduran Agricultural Market Institute</i>
INA	<i>Instituto Nacional Agrario / National Agrarian Institute</i>
INDES	Inter-American Institute for Social Development
INHBIER	<i>Instituto Hondureño de Bienestar Rural / Honduran Institute of Rural Welfare</i>
KfW	<i>Kreditanstalt fuer Wiederaufbau</i>
M	Million
MIF	Multilateral Investment Fund
MPL	Multiple Lending
MPRNT	Master Plan for Reconstruction and National Transformation
NDF	<i>Norges Dykkeforbund / Nordic Development Fund</i>
NGO	Non-Governmental Organization
NPV	Net Present Value
OA	Official Aid
OC	Ordinary Capital
ODA	Official Development Assistance
OECD	Organisation for Economic Co-Operation and Development
OED	Operations Evaluation Department (World Bank)
OVE	Office of Evaluation and Oversight
PAIS	Project Alert Identification System
PCR	Project Completion Report
PDP	Policy Dialogue Paper
PP	Participatory Planning
PPF	Project Preparation Facility
PPMR	Project Performance Monitoring Review
PRAF	<i>Programa de Asignación Familiar / Family Assistance Program</i>
PRI	Private Sector Department
PRSP	<i>Programa de Reforma del Sector Público / Public Sector Reform Program</i>
RES	Research Department
ROS	Regional Operations Support Office
SAL	Structural Adjustment Loan
SANAA	<i>Servicio Autónomo Nacional de Acueductos y Alcantarillados / Honduran National Water Authority</i>
SECPLAN	<i>Secretaría de Planificación, Coordinación y Presupuesto / Department of Planning, Coordination, and Budget</i>
SECOPT	<i>Secretaría de Comunicaciones, Obras Públicas y Transporte / Department of Communications, Public Works, and Transportation</i>
SIDA	<i>Styrelsen för Internationellt Utvecklingsamarbete / Swedish International Development Cooperation Agency</i>
TC	Technical Cooperation
UDAPE	<i>Unidad de Análisis de la Política Económica / Unit of Political Economy Analysis</i>
UN	United Nations
UNDP	United Nations Development Programme
UPSA	<i>Unidad de Planificación Sectorial Agrícola / Agricultural Sectoral Planning Unit</i>
USAID	United States Agency for International Development
WFP	World Food Program

## *Preface*

This report evaluates the IDB's country program in Honduras during 1990-2000, in response to the Board of Executive Directors' call for country program evaluations (CPEs) when new governments take office and the Bank is producing new country papers. A new administration takes office in Honduras on January 27, 2002, and the Bank expects to produce a new country paper in mid-2002 that sets out the Bank's strategic priorities and proposed program for the new governmental cycle.

The aim of the Honduras CPE is to serve as an input into the production of the new country paper by raising a number of considerations intended to be helpful to the Bank and the Borrower as they define the nature of their cooperation for the coming years. Accordingly, this report reviews the Bank's choices and programming retrospectively and assesses the characteristics and quality of program delivery and implementation. Prospectively, the report advances conclusions and recommendations to further strengthen the Bank's supporting role.

The overall objective of CPEs is to assess the relevance, coherence, efficiency, and effectiveness of the Bank's assistance to a country. This includes examining the developmental impact of Bank assistance in terms of intermediate and final outcomes to the extent that this is feasible given the difficulties of locating the required data and the problem of attribution.

The evaluative criterion of *relevance* refers to the extent to which the Bank's strategy and portfolio (or program) have addressed a country's needs and priorities over time. Relevance is assessed by mapping out problems and judging the Bank's response to them, that is, the country strategy and the country program. This involves determining the Bank's intent and judging the translation of intent into strategy and of strategy into a coherent program of operations and activities. Did the strategy and the program address the key development challenges? Were the criteria driving selectivity in the Bank's strategy and portfolio made explicit and were they appropriate? Was there congruence between the Bank's and the Borrower's analysis and priorities? Were responses to unforeseen events such as external shocks integrated into the strategy and program in a timely fashion? The CPE looks for answers to these questions by delving into country strategy documents; programming mission reports; the Bank's project database; economic and sector studies and other Bank reports; and third party evidence, including studies produced outside the Bank and information and views contributed by stakeholders, in particular representatives of the borrowing government.

The evaluative criterion of *coherence* addresses internal consistency and the complementarity of and synergy between the Bank's strategy and program and the actions of others. It refers to the consistency between the strategy and the program, the program and its individual components, the Bank's program and action taken by the country, the Bank's program and initiatives supported by other donors, and the Bank's program and its own priorities as established by the Governors. Coherence is thus about the logic of Bank action given the particular country and foreign assistance context. The questions asked include: Did the strategy shape the program and its key components? Was there ownership on the part of the country for what the Bank proposed to do, including the conditions that it proposed to attach to the disbursement of funds? Did the Bank's analysis and activities mesh with the views and initiatives supported by other donors? Did the Bank play a role in fostering cooperation among donors? Was Bank action consistent with its institutional mandate as defined over time? The CPE attempts to answer these questions with reference to the same sources consulted to assess relevance, augmented by insights from the analysis of program delivery and implementation.

*Efficiency* is a measure of how economically resources are converted to outputs. To assess efficiency, disbursement data and implementation indicators contained in Project Performance Monitoring Reports

and Project Completion Reports are examined, along with Portfolio Review Mission Reports and other portfolio quality documentation, including the Bank's online data on projects still being executed and completed activities. Efficiency is assessed by analyzing and comparing actual disbursement and implementation with original expectations; with the Bank's average; and, where appropriate, with outside comparators such as the World Bank. An effort is made to provide substantive analysis of the factors that favored and hampered implementation, linking these factors to choices made at the project design stage and to political, legal, procedural, institutional, and other considerations that affect the project cycle.

Finally, the evaluative criterion of *effectiveness* refers to the extent to which the objectives of the strategy and program have been (or are expected to be) achieved through the chosen initiatives. Effectiveness concerns intermediate results or outputs, while *impact* is about the longer-term developmental outcomes being pursued. To assess effectiveness, progress and milestones toward meeting the specific objectives of the program and its key components are examined. Where they exist, Project Performance Monitoring Reports and Project Completion Reports are readily available sources of information for assessing effectiveness. By looking at sectoral and, where appropriate, economy-wide developments, progress and results at the level of the broader strategic goals and priorities specified by the country and the Bank are also examined.

This report is divided into four chapters, preceded by an Executive Summary. Chapter 1 analyzes the country context, tracing key developments during the 1990s and identifying the country's principal development challenges. Chapter 2 discusses country programming and judges the program in terms of the criteria of relevance and coherence. Chapter 3 looks at selected characteristics of program delivery and implementation and evaluates the program's efficiency, effectiveness, and results.<sup>1</sup> Chapter 4 offers recommendations going forward.

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<sup>1</sup> The portfolio approved during the last three years, corresponding to the third of three programming cycles during the 1990s, is too young to be evaluated in terms of effectiveness and results. It is treated less extensively than the program of the earlier cycles.

## ***IDB Country Program Evaluation Honduras, 1990-2000***

### ***Executive Summary***

Honduras is the third-poorest country in the Western Hemisphere after Haiti and Nicaragua. Its per capita income today is lower in real terms than 20 years ago. The country is highly dependent on foreign aid, a characteristic that has become more pronounced after Hurricane Mitch in 1998.

Honduras emerged from the 1980s with an economy in crisis. Foreign aid flows, especially from the US, had surged in the early 1980s when Honduras became the theater for operations against the forces then in power in neighboring Nicaragua. This created aid and debt dependency and encouraged the country to live beyond its means. Unsustainable macroeconomic balances were exposed later in the decade as the aid flows declined, the debt burden became unmanageable and the fiscal situation got out of control. As arrearages piled up, the country lost access to its last source of funds: official (multilateral and bilateral) finance. A package of adjustment measures helped resolve the crisis in 1990-91, but the goal of maintaining macroeconomic stability remains one of the country's leading development challenges to this day.

Macroeconomic issues and debt are not the only problems constraining Honduras's development prospects. A low rate of growth in real per capita terms (the lowest in Central America in the 1990s) and extreme volatility of that growth are additional factors. Much of the volatility of growth is linked to the electoral cycle. It is also linked to an energy crisis in the first half of the 1990s, swings in commodity prices (particularly the price of coffee) and the country's environmental vulnerability. During the 1990s, Honduras suffered two major droughts and two hurricanes, which carried much destruction and production losses in their wake. Honduras's economic fortunes, finally, are tied to the US business cycle to which the most dynamic sector of the Honduran economy—*maquila*—is closely linked.

Honduras's development challenges also have a governance dimension. A lack of social capital—the norms and institutions that promote cooperation and confidence and govern the way in which public goods are pursued—and a limited capacity to bring about consensus and constructive change have hampered the democratic transition. There is pervasive judicial insecurity, institutions of conflict resolution do not function well, the civil service is weak, and citizen control over public policy and management is relatively undeveloped.

In the course of the 1990s (the period under consideration in this report) the Bank responded to these challenges by supporting the stabilization and adjustment efforts of the early 1990s and again in 1993-1994; financing a number of investment operations; launching operations to reform and modernize the state; supporting programs to help improve social conditions in the country and reduce poverty, and—after the devastation wrought by Hurricane Mitch in late 1998—re-engineering its program to help drive the new agenda of reconstruction and transformation.



The main themes of the first of three Programming Cycles (1990-93; 12 loans) were structural adjustment, the expansion of production and exports (primarily through investments in infrastructure), and investments in the social sectors. The themes and aims of the Second Cycle (1994-97; 8 loans) were to develop and strengthen human capital (a continuation of the earlier social sector theme); increase the productivity of investment in the economy, among other aspects through a modernization of the state program that intended to rationalize key public utilities; and lower the financial restrictions on government action, *inter alia*, by working towards debt service reduction which would translate into an increased discretionary budget. The main themes of the Third Cycle (1998-2001; 17 loans approved through 2000) were to support the post-Mitch reconstruction effort, framing the goal of poverty reduction in that context, and to continue the agenda of modernization of the state.

Bank lending was accompanied by 135 technical assistance operations over the decade, 27 operations by the Multilateral Investment Fund, and 9 operations by the Inter-American Investment Corporation.

The Bank's strategy and programs are considered relevant to Honduras's needs and consistent with the Bank's own development priorities as defined in Governors' replenishment documents. At the same time, the overriding need to foster growth in per capita terms calls for a clearer articulation of the intended contribution of different elements of the program. With the exception of certain large sectoral loans during the First and Second Programming Cycle that were prompted by the need to fill large financial gaps, and to contribute to the correction of important distortions in the economy, Bank financial support has been spread over a large number of smaller operations (with a relative concentration in the social and human capital sectors) and a much larger number of technical cooperation activities that are not adequately documented to permit a rigorous evaluation. The number of operations (of all types) in execution rose steadily throughout the decade, to more than 100 to-date.

The development effectiveness of this diffused approach appears debatable, and the approach is taxing for the Borrower, particularly in light of acknowledged problems of administrative capacity in the public sector. Bank staff argue (i) that fewer and larger operations could not be absorbed by the targeted sectors and institutions within an annual FSO envelope of about \$120 M to \$150 M, and (ii) that the Bank as the main source of external funding has the responsibility to be present in a variety of sectors in the interest of balanced development. This calls for further analysis in the context of the next Country Paper. While strategic focus is intuitively desirable, a determination of the merits of focus (or of dispersion) in terms of development effectiveness cannot be made on the basis of the analysis that underlay country programming during the three Cycles under review. Deeper analytical and diagnostic work than that which is embodied in successive Country Papers is needed.

The Bank's program became increasingly coherent over time in terms of the integration of different instruments at the disposal of the institution, the coordination with other

donors, and coherence between the Bank's program and governmental priorities. Regarding the latter, it is helpful to distinguish between Bank intent, the policies pursued, and individual operations. Throughout the decade there appears to have been coherence with respect to intent in the sense that the priorities identified by the Bank for each Programming Cycle coincided with governmental priorities. At the level of policies and individual operations, on the other hand, the record is mixed. In particular, policy-based lending was marred by problems of ownership on the Borrower's part.

Program implementation and delivery proved difficult in Honduras. Projects took considerably longer in implementation than originally estimated in loan documents, and some projects or tranches were cancelled because they lost their relevance, or attempts to salvage them failed. The reasons for the slow execution performance included delays in the process of legislative approval and ratification of loan contracts; lengthy and inefficient procurement processes; institutional weaknesses in the executing units; lack of counterpart funds and complementary investments due to fiscal stringency; and deficiencies in the mechanisms of transferring funds from the Finance Ministry to executing agencies, even when funds were available. In the case of policy-based loans the willingness or ability of the Government to implement conditionality was a recurring issue, especially when the Legislature was required to approve enabling legislation.

Factors under the Bank's control also contributed to problems of implementation. From the Borrower's perspective, these included problems of project design that tended to show up as difficulties of implementation (an important consideration here was the Bank's proclivity to impose extensive and complex conditionalities on a weak reformer during the first half of the 1990s); inadequate technical support relative to the complexity of many of the operations; the Bank's internal procedures which are characterized as bureaucratic and slow by stakeholders in Honduras; and the diffused nature of the Bank's program.

The evidence on the effectiveness of the Bank's program in Honduras (i.e., the extent to which Bank objectives have been or are expected to be achieved) is as follows:

- Together with other donors, the Bank supported the Government as it undertook far-reaching "first-generation" reforms pertaining to macroeconomic management and the initial opening of the economy. These were successful in several respects: fiscal adjustment did come about, inflation declined, and exports grew and became more diversified, despite a continuing tendency of the real exchange rate to appreciate. Debt relief and export growth significantly lightened the debt service burden. But exports grew less than GDP, underscoring the fact that the Honduran economy is not an export-driven one, but one driven by remittances and aid. Per capita incomes barely grew.
- The first generation reforms have not gone far in addressing the country's longstanding institutional and governance challenges that stand in the way of more rapid and equitable progress. These challenges became an important locus of Bank engagement in the mid-1990s. The outcomes so far in this area are tentative and trail

behind Honduras's achievements in modernizing and diversifying selected segments of its economy.

- Meanwhile, one can point to some significant achievements in the social sectors, where the Bank played an important role. Some social indicators and basic-needs metrics improved during the decade, and it is likely that some of these improvements can be ascribed collectively to such Bank-supported programs as FHIS and PRAF and the substantive support of other donors, including NGOs, to basic-needs programs in different parts of the country.
- In emergency reconstruction, the Bank provided crucial support to the Government to develop a framework for reconstruction and transformation. It led the process of resource mobilization and donor coordination, reprogrammed part of its portfolio, and prepared a succession of new operations, some of which have proceeded swiftly, while others are lagging in implementation. Progress in reconstruction has not been matched by comparable advance towards the simultaneous goal of transformation and improved governance.

Judging the overall impact of eleven years of cooperation with Honduras is not straightforward. Three considerations compete for attention. First, positive outcomes can be detected in domains in which the Bank was active. However, they pale in relation to the size of the challenges. (For example, the sources of volatility and vulnerability have barely been tackled during the 1990s, despite their critical importance from the point of view of safeguarding past achievements.) Second, the 1990s were a decade of turmoil for Honduras, implying that implementation was challenging not only because of institutional shortcomings but also because of the recurring need for crisis management. Third, there were shortcomings in the Bank's programming, project design, and execution. It may be surmised that absent these deficiencies there might have been more far-reaching results, but this is a counterfactual question that can never be answered. It seems fair to say that the record is mixed, and the recommendations below are designed to help accelerate the quest for results:

1. *Focus and selectivity.* The Bank and the country need to explore further the issue of focus and selectivity. For the next Country Paper, the relative merits of concentration versus a more diffused approach should be clarified in the context of an approach to programming that would include: (i) a statement of Bank intent which embodies strategic choices based on a diagnosis of key development challenges; (ii) a meaningful, evaluable set of objectives; (iii) a strategy for attaining those objectives based on an analysis of alternative courses of action; and (iv) a results framework, i.e., indicators against which Bank action and developments on the ground can be assessed.
2. *Growth.* Bank interventions should give adequate weight to growth (and indeed to the need to reduce aid dependency over time) in the context of Honduras's Poverty Reduction Strategy. Poverty reduction is not sustainable in the longer run without growth. In recent years poverty reduction through social compensation has been

possible only because it was financed by aid. The wisdom of providing debt-generating finance to pay for current welfare requirements needs to be examined closely and should be addressed in the next Country Paper in the context of a reassessment of the development priorities that guide the country and the Bank.

3. *Policy continuity.* The need for programming to respond to emergencies during the 1990s has interfered with the requirement for continuity in addressing key longer-term development challenges. Increasingly, the Bank should advocate the merits of continuity. Among other aspects, this implies that it examine further what role it can play to assist Honduras in stepping up measures to mitigate the sources of vulnerability and volatility that the country can control.
4. *Execution.* Building on past efforts, the Bank and the country should continue to explore the options available to accelerate sustainable patterns of implementation. And, on a different plane, the role of project implementation units in a broad strategy of capacity building should be examined anew. Capacity building should not be viewed as a by-product of project implementation units, but calls for a more comprehensive approach.
5. *Results.* As implied in the first recommendation, the Bank should shift from an input-driven mode of programming and portfolio management to a results-driven one. For the next Country Paper this means that objectives and priorities should not only be stated in terms of the support to emanate from the Bank, but in terms of the outputs and outcomes to be achieved over time.

## ***I. Country Context and Development Challenges***

1.1 The purpose of this chapter is to offer an overview of the country context and recent trends in Honduras with a view to identifying key development challenges. In order to understand Honduras in the 1990s it is necessary to turn to the 1980s from which period the country emerged as an economy and society in crisis. The 1980s were a period of civil war in surrounding countries which significantly impacted on Honduras then in the grip of military dictatorship and growing political and social disturbances. In the economic sphere, the role and effects of foreign aid flows were important: the flows (particularly from the US) surged during the early 1980s when Honduras became the theater for operations against neighboring Nicaragua. This created aid and debt dependency, as well as unsustainable macroeconomic balances once the flows began to decline later in the decade in a new political context. As the 1990s dawned, the country experienced economic difficulties that called for, and led to, stabilization and the initiation of a long process of structural reform.

1.2 The agenda of reform included demilitarization, a transformation toward democratic rule, and economic and institutional changes that were designed to modernize and rationalize the role of government, render the economy more efficient and productive, and address the problems of social inequity and rampant poverty. There were significant achievements and important set-backs, as this report will show: the country is a late-comer to reform in the Latin American context and has not yet experienced the growth expected from the reforms that it so badly needs;<sup>2</sup> and the country keeps being jolted by economic and environmental shocks, of which Hurricane Mitch in 1998 was only the most conspicuous. For these and other reasons, Honduras remains the third-poorest country in the Western Hemisphere. In real terms its per capita income was lower in 2000 than in 1980. Per capita GDP actually declined in the 1980s and slowly crept up to close to previous levels in the 1990s.<sup>3</sup> Chart 1.1 shows growth patterns of GDP per capita for Central America over the last two decades. The data indicate that changes were more muted in Honduras than elsewhere in the region, in both directions: Honduras experienced less negative growth than most of its neighbors in the 1980s, but it also displayed less dynamism than its neighbors in the 1990s.

1.3 Honduras's GDP growth in the 1990s is low despite relatively high investment ratios (in the range of 25% to 30% of GDP<sup>4</sup>), comparatively high domestic savings (over 25% of GDP) and large infusions of foreign capital in the form of official grants and loans (averaging over 10% of GDP in the 1990s) as well as foreign direct investment (averaging over \$200 million, or 3% to 4% of GDP over the last three years). Part of the explanation relates to volatility: while the average rate of GDP growth for the decade was 3.2%, in 7 of those 10 years, GDP actually grew much more rapidly. Without the hindrance of 1994 and 1999 when GDP declined, the average annual growth rate would have been over 4%. Beyond these statistical features, however, inefficiency and corruption are cited as factors that effectively contribute to slow down the country's growth, despite high levels of savings, investment and aid.

1.4 A recent IMF study, which compared Honduras's growth performance with that of 17 other Latin American countries between 1970 and 1997, attributed much of the country's growth shortfall to institutional shortcomings, deficient levels of human capital, low productivity of investment, and inadequate physical infrastructure.<sup>5</sup> Following a growth accounting method, the study found that

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<sup>2</sup> IDB, *Latin America After a Decade of Reforms*, Economic and Social Progress in Latin America, 1997 Report.

<sup>3</sup> World Bank/IMF data indicate a GDP per capita of 1090 Lempiras in 2000 and 1139 Lempiras in 1980 at constant 1978 prices. GDP per capita in current US dollars was \$760 in 1999. The average annual growth rate of per capita GDP at constant prices was -0.7% in the 1980s and 0.33% during the 1990s. Data from Honduras's Permanent Multipurpose Household Survey suggest that these official statistics may underestimate per capita GDP somewhat.

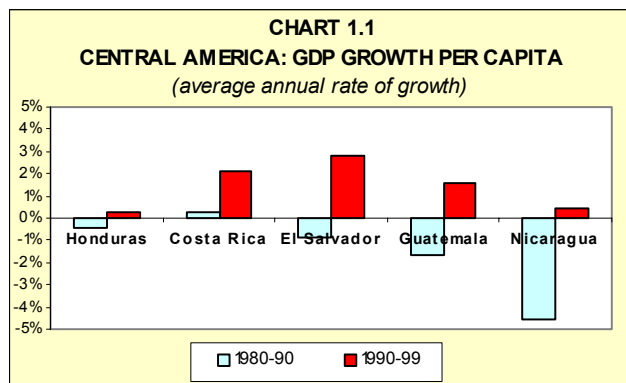
<sup>4</sup> Central Bank data.

<sup>5</sup> International Monetary Fund, *Honduras's Growth Performance During 1970-97*, IMF Institute, Washington DC, 1999.

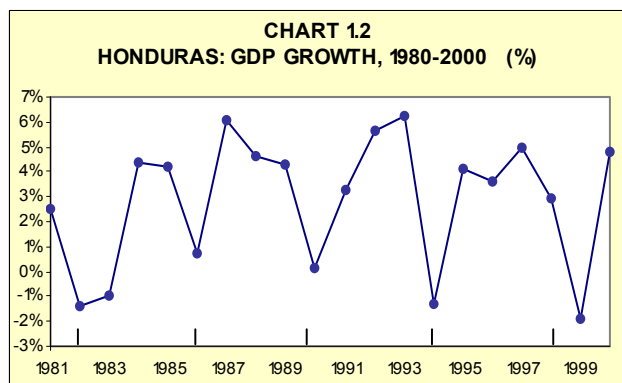
economic policy and efficiency-related variables,<sup>6</sup> exogenous shocks, and political uncertainty had less of a negative impact on growth in Honduras than they had on the comparator countries, whereas educational and health deficits were more important inhibitors of growth in Honduras than elsewhere.

1.5 While the latter are likely to be among the fundamental constraints to long-term growth in the country under review, over the last decade or so other factors were also at work. As Chart 1.2 indicates, economic activity has exhibited a high degree of volatility, with growth cycles tracking remarkably closely electoral ones. Hondurans refer to this phenomenon as *el eterno comenzar*, the tendency of outgoing governments to overspend in order to curry favor with voters, saddling the new administration with the task of reversing the course, discarding policies and programs associated with the previous (now discredited) regime, and starting anew. Aside from changes in economic activity induced by shifts in both domestic politics and policies, Honduras is quite vulnerable to exogenous shocks, be they natural disasters or economic ones. Over the course of the 1990s, the country has had its share of both: Hurricane Gert followed by drought in 1993/1994, Hurricane Mitch in late 1998, and more recently, the fallout from deteriorating terms of trade and the slowdown in the U.S. economy, to which the most dynamic sector of the Honduran economy—*maquila*—is closely linked.

1.6 The structure of both aggregate demand and supply underwent significant transformation in the 1990s. On the supply side, as Chart 1.3 shows, the salient features are: significant above-trend gains in the areas of “financial and related services” and “electricity, gas and water,” modest gains in “manufacturing” and “commerce,” a somewhat erratic behavior in “construction” activity, and a variable and below-trend performance of “agriculture” marked by retrenchment in the face of Hurricane Mitch.



Source: World Bank, *World Development Report*, 2000/2001.



Source: IMF, World Bank (constant 1978 prices, vertical lines indicate change in government).

1.7 Chart 1.4 tracks the evolution of aggregate demand by type of expenditure. Several trends are noteworthy: the policy-induced retrenchment in government consumption expenditure until late in the decade when the election of 1997 and later the devastation wrought by Mitch reversed the trend; a significant decline in public investment from its peak in 1993 until 1998 when in the wake of Mitch the trend was likewise reversed; the impressive growth in private investment; and, finally, the failure of exports to keep abreast of imports or even to keep pace with overall GDP growth. It is not entirely clear what explains the high rates of private investment in the face of sluggish and volatile growth and low investment productivity, but to the extent that investment outlays are related mainly to foreign demand (e.g. *maquila* and other export ventures), slow domestic demand need not be a deterrent. As to productivity, low investment productivity in the aggregate does not preclude high returns to particular

<sup>6</sup> Inflation, the fiscal deficit, and the real exchange rate are examples of efficiency variables.

investments, particularly in the context of a dualistic economy with pockets of modernity in the midst of an otherwise archaic setting. In addition, OVE interlocutors in Honduras suggested that some investment activity may be related to money laundering where the actual returns to the investment itself are a secondary consideration.

1.8 The persistence of large trade gaps despite a concerted export promotion effort during the 1990s is a major concern, even though relative to GDP those gaps have declined sharply from over 10% in the early 1990s to between 3% and 3.5% in recent years. In fact, the whole macroeconomic picture has improved markedly since the late 1980s when the economy faltered under the weight of a mountain of debt it could no longer serve. Non-financial public sector deficits, for instance, are now in the range of 3.5% to 4% of GDP, as opposed to the 7% to 10% range observed in the early 1990s, and inflation has declined from some 25% to 30% in the mid-1990s to around 10% today. Yet, these improvements are not enough to make the situation sustainable in the longer run. Debt accumulation has made it possible for Honduras to close the fiscal and external gaps up to now, but debt has been rising at a rapid pace relative to GDP. On the other hand, debt relief (and some export growth) has clearly lightened the burden of servicing this debt—lowering the debt service to exports ratio from 26% in 1992 to around 6% to 8% at present.

1.9 In the future, the country will have to find ways to earn, rather than borrow, foreign exchange in order to finance imports and service debt. More generally, it will need to find ways to productively absorb a fast-growing low-skilled labor force (3.8% per annum). In this regard, it would seem to make sense to launch a concerted effort to sustain construction activity beyond the immediate post-Mitch reconstruction effort—an activity that is unskilled-labor-intensive, but not import-intensive, and would serve to reduce the infrastructure deficit and mitigate the country's vulnerability to natural disasters. The bottom line is that unless ways are found to employ labor productively at home, Hondurans will have no choice but to sell their labor services abroad. They are already on the move: at some \$500 M per year, remittances already constitute the second largest source of foreign exchange earnings, after *maquila*.

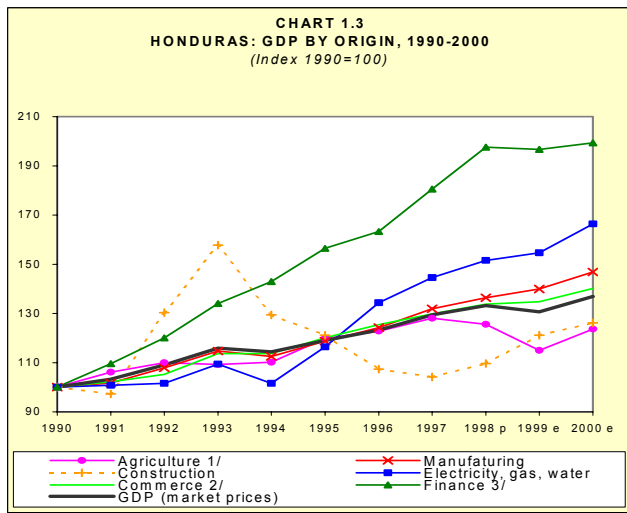
1.10 The country needs high, steady and sustained growth in order to deal with entrenched poverty through job creation and human capital accumulation. Some progress has been made on the poverty front during the 1990s: according to the GOH's Poverty Reduction Strategy Paper, the share of households with incomes below the poverty line declined from 75% in 1991 to some 66% at present, and basic needs poverty has declined from 82% to 74% over the period. Yet, half the population still lives in extreme poverty, much of it in the countryside. Clearly, the task ahead is daunting and cyclical patterns of growth such as the country has experienced in recent decades will not solve the problem, since the poor tend to benefit less from upswings<sup>7</sup> and suffer more from downswings than other groups. A steady hand ensuring continuous virtuous policies is called for.

1.11 This brings us to the issue of governance. While Hondurans have traditionally enjoyed a more peaceful existence than their immediate neighbors and have not suffered trauma and civil strife as grave as that which beset their neighbors in the 1980s, they did have to endure fallout from the surrounding conflicts while making their own arduous journey towards democratic rule and the redefinition of the role of the armed forces in politics and the economy. Honduras's democratic transition has been hampered by a lack of social capital—i.e. the set of norms and institutions that promote mutual trust and cooperation and govern the way in which the public purpose is pursued—as well as the limited capacity of the political system to bring about consensus among increasingly contentious factions and interest groups. Public institutions and the civil service are extremely weak, mechanisms and institutions of conflict resolution are embryonic, citizen oversight over public policy and public management is practically non-

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<sup>7</sup> The Poverty Reduction Strategy Paper stresses the very low poverty reduction elasticity of growth in Honduras.

existent, and judicial insecurity is less the exception than the rule (Chart 1.5). All this has to change if Honduras is to become a modern, more prosperous country.



Source: Banco Central de Honduras.

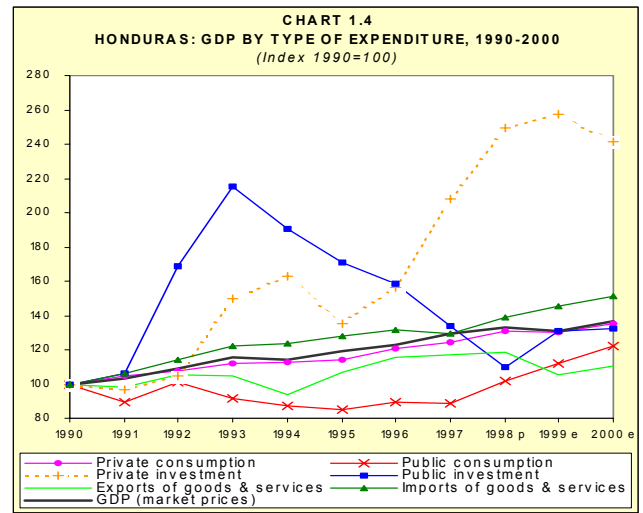
p/ Preliminary.

e/ Estimate.

1/ Agriculture also includes forestry, hunting and fishing.

2/ Commerce also includes restaurants and hotels.

3/ Finance includes financial institutions, insurance, real estate and services to enterprises.

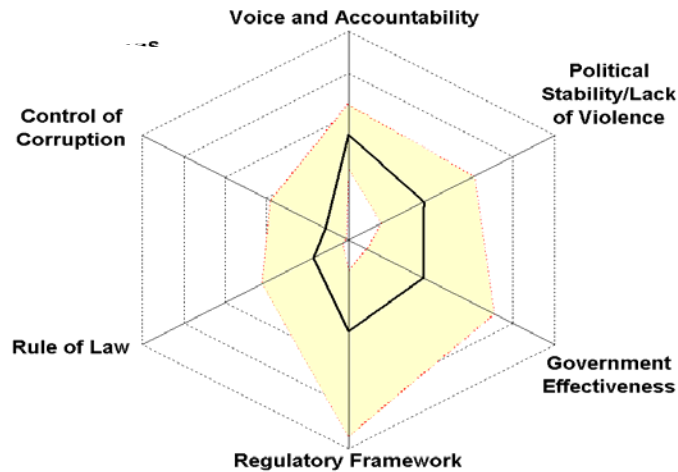


Source: Banco Central de Honduras.

p/ Preliminary.

e/ Estimate.

**CHART 1.5  
HONDURAS: GOVERNANCE INDICATORS\***



Source: Composite Governance Indicators Data Set, World Bank Institute.

\*Higher values imply better governance ratings. Basic indicator contour (thick line) is framed by an outer and inner thin line which define the shaded range depicting the 90% confidence interval for the country's relative ranking on each indicator.



## ***II. Charting the Course***

2.1 During the period under review, the Bank's program in Honduras underwent three cycles, roughly corresponding to the periods in office of three governmental administrations: the Callejas Administration (1990-1993); the Reina Administration (1994-1997); and the Flores Administration (1998-2001). The objective of this chapter is to review these cycles, thereby examining the relevance and coherence of the Bank's strategy and program. We first set out the context in which programming occurred each time, and we review the operational program approved during the period. We then assess the evaluative dimensions of relevance and coherence.

### **A. First Programming Cycle: 1990-1994**

2.2 The first programming cycle of the decade took place while Honduras was in the midst of a severe external payments crisis. Throughout the 1980s the country's economic performance had been unsatisfactory, showing stagnant production, declining per capita income, high unemployment, large and persistent external and fiscal disequilibria and considerable (though repressed) inflationary pressures. The substantial flows of external credit as well as official transfers and grants (particularly from USAID) that Honduras received to support its balance of payments and finance public investment were not enough to fill the financing gap, and arrearages in debt-servicing continued to build up. By 1989, external arrears, including to multilateral creditors, stood at around \$700 M. Frustrated over the inability of the Ascona administration to tackle these problems in an electoral year, in 1989, the international community decided to halt financing to the country: the IMF called off its stand-by program, the World Bank suspended disbursement of the second tranche of its Structural Adjustment Loan (SAL) I, and USAID withheld its economic assistance.

2.3 The incoming Callejas Administration put forth a comprehensive economic program designed, in the immediate term, to restore macroeconomic stability and regain access to external financial support; and over the medium term, to strengthen growth prospects and improve the balance of payments situation in the context of a more open and competitive economy, with less policy-induced distortions, a diminished state presence and a larger private sector role. Within three months, a broad package of stabilization and structural adjustment measures was put in place, including: a 50% devaluation of the lempira and the establishment of a crawling peg; tax increases and plans to improve tax administration; controls on discretionary public expenditures and cut-backs in public employment; provisions for the gradual elimination of subsidies to the financial sector and liberalization of interest rates; a schedule for lowering tariff and non-tariff barriers and phasing out export taxes so as to reduce the anti-export bias; the removal of several price supports and controls; and plans for the divestiture of public enterprises. Encouraged by the reforms, the international community quickly mobilized to restore Honduras's access to external funds: by mid-year, with the help of bridge financing from bilateral donors, multilateral arrears had been cleared, a new IMF stand-by agreement was in place, negotiations were under way to reschedule credits with the Paris Club and commercial banks, and multilateral banks had resumed disbursements and were ready to renew lending. It was in this context that the first cycle of IDB country programming in the 1990s took place.

2.4 The *Country Programming Paper (CPP-90)*, issued in December 1990, identified six major problems in need of redress: (i) macroeconomic and sectoral policy distortions which discourage investment and exports; (ii) excessive government intervention which overregulates the economy and results in unsustainable public sector expenditures and deficits; (iii) high levels of public and external debt with inadequate revenue and foreign exchange earning capability; (iv) low levels of investment productivity and job creation; (v) lack of skilled personnel; and (vi) lower income groups severely

affected by economic stagnation and the structural adjustment process. On the basis of this assessment— itself grounded in the much more extensive *Honduras Economic and Social Report 1990*—three strategic orientations for Bank action over the programming cycle were proposed: (i) support structural adjustment efforts to provide an adequate macroeconomic framework conducive to public and private investment activities; (ii) support expansion of production and exports in agriculture and industry through improved infrastructure and support services; and (iii) support social sector activities. This “narrow” strategic focus is somewhat deceptive, however, as the guidelines for engagement under each heading were in fact very broad.

2.5 In keeping with estimated net annual financial requirements of around \$150 M for the period 1990-1992 (derived from consultations with the IMF and the World Bank), two fast-disbursement loans in the power and agricultural sectors (\$105 M and \$60 M, respectively) were proposed, in conjunction with the World Bank’s SAL II and power sector operations, both of which later on had sequels (Agriculture II, \$50 M in 1992, and Hybrid Energy II, \$34.8 M in 1994) that were driven as much by the attempt to consolidate sectoral reforms as by the need to fill external financing gaps (including obligations to international financial institutions) in those years. During 1990-1992, loans were also approved for Municipal Development (\$49.5 M, 1990), a major Road Maintenance and Rehabilitation operation (\$110 M, 1991), a Global Multisectoral Credit Program (\$60 M, 1992), and the Social Investment Fund (\$31.5 M, 1992). In contrast to this considerable activity which led to the unprecedented approval of \$466 M worth of loans in 1990-1992, in 1993-1994, aside from the Hybrid Energy II loan noted above, only three relatively small operations were approved: two Environmental Protection programs (El Cajon for \$20.4 M in 1993, and Bay Islands for \$19.1 M in 1994) and one Preinvestment loan (\$8 M in 1993), for a total of \$83.7 M.

2.6 In a number of programming missions conducted between 1991 and 1993, several additional operations were proposed by the Bank—a sectoral investment loan, a social sectors adjustment loan and an agricultural investment program, totaling some \$100 M—but these did not come to pass, largely because the GOH argued that it was not politically feasible at the time to undertake the additional legal and institutional reforms that the attached conditionality would require.

2.7 All told, during the 1990-1993 period, 18 loans (corresponding to 12 different projects) were approved in the amount of \$549.7 M. This is almost 10 times the amount approved during the previous programming period (i.e. \$57.9 M for 1986-1989)—a very notable achievement. In addition, Honduras received 37 TCs totaling \$7.5 M and funding for 7 small projects in the amount of \$3.25 M. During this period, the Inter-American Investment Corporation (IIC) also supported the Honduran private sector through three operations totaling \$11.9 M. The IDB Group operational program in support of the Bank’s strategy for Honduras during the 1990-1994 programming cycle is summarized in Table 2.1.

**TABLE 2.1**  
**HONDURAS: IDB GROUP OPERATIONAL PROGRAM, 1990-1994**

PROJECT NUMBER	PROJECT NAME	APPROVAL DATE	Original Approved Amount			
			STRUCTURAL ADJUSTMENT	EXPANSION PRODUCTION & EXPORTS	SOCIAL SECTORS	OTHER
<b>I. LOANS (Millions of US\$)</b>						
HO0082	AGRICULTURE SECTOR LOAN	6-Dec-90	60.0			
HO0044	ENERGY SECTOR HYBRID PROGRAM	13-Nov-91	55.0	50.0		
HO0027	AGRICULTURE SECTOR LOAN II	18-Dec-92	50.0			
HO0099	RTC CUSTOMS SYSTEM STRENGTHENING PROGRAM	21-Jan-93	1.4			
HO0112	ENERGY HYBRID PROGRAM-ADDITIONAL TRANCHE	7-Dec-94	20.0	14.8		
HO0040	ROADS REHABILITATION	18-Dec-91		110.0		
HO0034	MULTISECTORAL GLOBAL CREDIT PROGRAM	2-Dec-92		60.0		
HO0039	MUNICIPAL DEVELOPMENT PROGRAM	12-Dec-90			49.5	
HO0051	SOCIAL INVESTMENT FUND OF HONDURAS	29-Jul-92			31.5	
HO0050	PREINVESTMENT	8-Sep-93				8.0
HO0035	ENVIRONMENTAL MANAGEMENT CAJON WATERSHED	24-Nov-93				20.4
HO0028	BAY ISLANDS ENVIRONMENTAL MANAGEMENT	14-Dec-94				19.1
<b>TOTAL LOANS</b>	<b>12</b>	<b>\$549.7</b>	<b>\$186.4</b>	<b>\$234.8</b>	<b>\$81.0</b>	<b>\$47.5</b>
<i>(% of Total)</i>		<i>(100%)</i>	<i>(34%)</i>	<i>(43%)</i>	<i>(15%)</i>	<i>(9%)</i>
<b>II. TECHNICAL COOPERATIONS (Thousands of US\$)</b>						
TC9001158	STRENGTH. OF NATIONAL HOUSING POLICIES	14-Feb-90	313.0			
TC9004178	ADVISE ON THE EXTERNAL DEBT NEGOTIATION	12-Jun-90	3.5			
TC9007073	AGRICULTURAL SECTOR LOAN (HO-0082)	19-Nov-90	150.0			
TC9008021	AGRICULTURAL SECTOR LOAN II	29-Nov-90	150.0			
TC9109085	REGULATORY FRAMEWORK ELECTRIC SUBSECTOR	23-Sep-91	30.0			
TC9205205	PPF: SUPPORT AGRICULTURAL PLANNING UNIT	3-Aug-92	150.0			
TC9203093	STRENGTHENING TAX ADMINISTRATION SYSTEM	17-Mar-93	1,150.0			
TC9402455	JUDICIAL SECTOR MODERNIZATION	10-May-94	26.0			
TC9405136	CONSULTANCY TO SECPLAN	15-Jun-94	30.0			
TC9411050	SUPPORT TO DIRECCION GENERAL DE ADUANAS	14-Oct-94	12.0			
TC9409310	ENERGY SECTOR HYBRID PROGRAM	7-Dec-94	2,000.0			
TC9003146	PPF: SECTORIAL ENERGY PROGRAM	9-May-90		16.5		
TC9005473	CTI: COMMUNITY PRODUCTIVE ENTERPRISES	31-Aug-90		14.0		
TC9008055	SUPPORT RURAL WOMEN MICROENTREPRENEURS	24-Jan-91		18.0		
TC9006471	CACAO PRODUCTION AND COMERCIALIZATION	29-Jul-91		120.0		
TC9005423	INSTITUTIONAL STRENGTHENING OF CADERH	29-Jul-91		120.0		
TC9110149	STM TO FEDECOCH INHBIER AND AHH	17-Sep-91		28.0		
TC9202467	SUPPORT TO COHDEFOR	22-Apr-92		30.0		
TC9202483	MULTISECTORIAL CREDIT PREPARATION	22-Apr-92		24.6		
TC9203358	BIDDING OF FUNDS	13-May-92		14.0		
TC9105116	SUPPORT TO ODEF	22-Jul-92		146.0		
TC9105108	SUPPORT TO FUNHDEMU	22-Jul-92		128.0		
TC9302126	SMALL PROJECTS PACKAGE PREPARATION	5-Mar-93		30.0		
TC9003047	SUPPORT TO INHBIER	7-Sep-93		120.0		
TC9105132	SUPPORT TO HERMANDAD OF HONDURAS AHDH	7-Sep-93		120.0		
TC9105124	SUPPORT TO FEDECOH	7-Sep-93		120.0		
TC9207300	SUPPORT TO FINCA	7-Sep-93		130.0		
TC9404112	DIAGNOSTIC LABOR MARKET/TRAINING NEEDS	29-Jun-94		30.0		
TC9004269	DEVELOPMENT OF PUBLIC MUNICIPAL SERV.	1-Aug-90			16.0	
TC9007487	REHABILITATION OF THE HANDICAPPED	29-Nov-90			13.0	
TC9306194	HEALTH CARE ADMINISTRATION PROGRAM	3-Jun-93			35.0	
TC9403148	SUPPORTING PROGRAM FOR FIGHTING AIDS	10-May-94			30.0	
TC9403122	SUPPORT TO PROGRAM FOR FIGHTING AIDS	26-Oct-94			1,800.0	
TC9006108	MANAGEMENT OF PRIORITY WATERSHED AREAS	16-Oct-90				5.0
TC9109118	NATIONAL WATERSHED PROGRAM	10-Oct-91				23.0
TC9306467	PPF HO0028: ENVIR. PROGRAM IN BAY ISLANDS	23-Aug-93				150.0
TC9309370	EMERG. CAUSED BY NATURAL DISASTER: "GERT"	11-Nov-93				200.0
<b>TOTAL TCs</b>	<b>37</b>	<b>\$7,495.6</b>	<b>\$4,014.5</b>	<b>\$1,209.1</b>	<b>\$1,894.0</b>	<b>\$378.0</b>
<i>(% of Total)</i>		<i>(100%)</i>	<i>(54%)</i>	<i>(16%)</i>	<i>(25%)</i>	<i>(5%)</i>
<b>III. INTER-AMERICAN INVESTMENT CORPORATION (Millions of US\$)</b>						
HO0003A	ZIP CHOLOMA	Oct-90		2.5		
HO1002A	ZIP BUFALO	Dec-91		5.9		
HO1015A	BGA (formerly Bancahsa)	Dec-93		3.5		
<b>TOTAL IICs</b>	<b>3</b>	<b>\$11.9</b>		<b>\$11.9</b>		
<i>(% of Total)</i>		<i>(100%)</i>		<i>(100%)</i>		
<b>IV. SMALL PROJECTS (Thousands of US\$)</b>						
SP/SF-91-24-HO	SUPPORT APROCACAHO	29-Jul-91		500.0		
SP/SF-91-25-HO	SUPPORT TO CADERH	29-Jul-91		500.0		
SP/NF-92-22-HO	SUPPORT TO ODEF	22-Jul-92		500.0		
SP/ST-93-22-HO	SUPPORT TO FINCA	22-Jul-93		500.0		
SP/EP-93-23-HO	SUPPORT TO FEDECOH	7-Sep-93		350.0		
SP/EP-93-24-HO	ASOCIACION HERMANDAD	8-Sep-93		450.0		
ISP/EP-93-25-HO	SUPPORT TO INHBIER	9-Sep-93		450.0		
<b>TOTAL SMALL PROJECTS</b>	<b>7</b>	<b>\$3,250.0</b>		<b>\$3,250.0</b>		
<i>(% of Total)</i>		<i>(100%)</i>		<i>(100%)</i>		

Source: ROS.

2.8 As seen in the Table, the Bank substantively supported stabilization-cum-adjustment programs and production-oriented investments that had been endorsed both by the GOH and the rest of the development community, and that conformed broadly with the Bank's stated strategy for Honduras for the period and with its own corporate mandate as expressed in IDB-7. In terms of financing, the Bank mobilized to help extricate Honduras from its external financial difficulties by approving an extraordinary amount in loans, as stated, especially over the critical 1990-1992 period. If net cash flows vis-à-vis the Bank remained negative in 1990 and 1991 (Table 3.4), this is because accumulated arrears were being paid back, financed by the proceeds of the sector loans made available during those years.

2.9 The Bank's financial contribution could have been further enhanced if it had declared Honduras a concessional resources-only country earlier, for example in 1990 when the World Bank made Honduras "IDA-only." The Bank continued lending to Honduras from the Ordinary Capital account until 1993. Half the resources lent to the country during the 1990-1994 period were on non-concessional terms. While *CPP-90* (unlike the later Country Papers) did not analyze the external debt issue in any detail, it did note that the increase in exports needed to finance debt service and pay for imports would take time to materialize.

## **B. Second Programming Cycle: 1995-1997**

2.10 The second programming cycle took place while Honduras was once again in the grip of major macro-economic upheaval. The stabilization program undertaken by the GOH in 1990-1992 was largely abandoned in 1993, for electoral reasons. As a result, the fiscal and the current account deficits, respectively, approached and exceeded 10% of GDP, net reserves turned negative, inflation was on the rebound and domestic interest rates topped 26%.<sup>8</sup> It took the incoming Reina administration several months to get congressional approval for a package of measures to deal with the immediate problem at hand, that is, to increase fiscal revenues, cut public spending, boost production and enact a series of social compensation measures. Meanwhile, problems were compounded by a severe drought that affected productive activities as well as power generation. An inadequate tariff structure exacerbated power shortages by fostering wasteful use. The upshot was a drop of 4% in per capita GDP, along with a mild improvement in macroeconomic imbalances in 1994.

2.11 Over the medium term, the GOH program called for: (i) public sector reform with a view to reducing the bureaucracy, strengthening the rule of law and the judiciary, modernizing the legislature and the electoral system, strengthening the municipalities and curbing corruption (in the Bank's program this is reflected in item IIb) in Box 2.1); (ii) private sector development, through support to small and microenterprises (credit, training and support services); privatization of certain public enterprises; improvements in infrastructure; incentives to foreign direct investment; and fostering regional integration (item IIa) and IIc) in Box 2.1); and (iii) in the social sectors, strengthening basic health care services, expanding water and basic sanitation coverage, broadening nutrition programs targeted to the poor and providing better education for low income groups (item I in Box 2.1).<sup>9</sup>

2.12 This second programming cycle coincided with the transition from IDB-7 to IDB-8 and the adoption of new guidelines regarding country papers. Partly as a result of this transition and partly as a result of developments on the ground and dialogue with GOH, a Country Programming Paper originally prepared in June 1994 underwent significant revisions in both form and content before finally being approved as "the" Honduras Country Paper by the Board of Executive Directors in June 1995.

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<sup>8</sup> Central Bank data at [www.bch.hn](http://www.bch.hn)

<sup>9</sup> Honduras Country Paper, May 1995.

2.13 According to the *Country Paper (CP-95)*, “the scant development of human capital, widespread poverty, inefficiency in public spending, the low levels of investment productivity, and the severe restrictions on financial resources due to the hemorrhaging caused by the fiscal imbalance and high external debt service ... led the Bank to focus its strategy on: (1) human capital development; (2) increased investment productivity (public and private); and (3) removal of the financial restrictions that constrict the government.”<sup>10</sup> *CP-95* further stated that “the implementation of the strategy should be guided by four basic guidelines: (i) support for the country should be strictly in the form of concessional resources; (ii) the Bank should encourage projects that directly or indirectly increase the country’s export capacity in order to generate sufficient foreign exchange to reduce the debt burden and level; (iii) the Bank, in cooperation with the government, should cancel loans from ordinary resources that are difficult to execute and/or are of low priority; and (iv) all new loans should have formal guarantees from the government that the counterpart resources have been included in the national budget.”<sup>11</sup> It was also pointed out that *loan sequence* was very important for attaining the proposed objectives, and therefore, that priority support should be given to programs seeking to strengthen the regulatory and institutional framework, and only later to investment loans.

2.14 In terms of the proposed lending program, *CP-95* indicated that the amount of financing would depend on the extent to which the reforms were implemented, the general consistency of the tentative loan pipeline with the macroeconomic program, the country’s ability to pay and the availability of FSO resources. The Bank’s strategy and preliminary pipeline for 1995-1997 are summarized in Box 2.1.

**BOX 2.1**  
**HONDURAS: BANK STRATEGY AND PRELIMINARY PIPELINE, 1995-1997**

PRIORITIES	INSTRUMENTS: PROPOSED LOANS/TC/MIF
<b>I) Development and strengthening of human capital</b>	
<i>(a) Improvements in education</i>	Education sector loan TC for basic and specialized secondary education
<i>(b) Improvements in health care</i>	Hybrid health program Reform of the water and sanitation sector Investments in the water and sanitation sector TC to combat AIDS
<i>(c) Poverty alleviation programs</i>	Honduran Social Investment Fund Family Allowance Program
<b>II) Increased investment productivity (private and public)</b>	
<i>(a) Promotion of private investment</i>	Investment sector loan Privatization (investments) Support for competitiveness Legal and regulatory framework for energy and tele-communication (MIF)
<i>(b) Promotion of government efficiency</i>	Public sector reform Strengthening for the public investment system Legislative reform Strengthening for the Superintendency of Banks (MIF) TC for judicial reform (administrative modernization) (MIF)
<i>(c) Export promotion</i>	Support for competitiveness
<i>(d) Sector development</i>	Highway rehabilitation, stage II
<i>(e) Job training</i>	(MIF)
<b>III) Removal of the impact of financial restrictions on government action</b>	
<i>(a) Reduce fiscal deficit</i>	TC for strengthening the tax administration TC for strengthening the financial administration
<i>(b) Reduce the burden and level of the external debt</i>	TC for a debt management strategy. To be defined

Source: Honduras Country Paper 1995.

<sup>10</sup> Ibid., pp. 20-21.

<sup>11</sup> Ibid., pp. 29-30.

2.15 Two programmatic scenarios were contemplated for the 1995-1997 period: a baseline one of \$650 M and a low one of \$200 M. In the event, the lending program for the period was closer to the low scenario, and heavily front-loaded: for 1995, it consisted of a large Public Sector Reform Loan (\$160 M—the only policy-based operation approved during this cycle), a Family Allowance Program (\$20 M) and the second stage of the Social Investment Fund (\$40 M), as well as a PRI loan for private electricity generation (\$10.5 M). During 1996-1997 only four modest operations were approved: an Agricultural Technology Development Program and a Judicial Reform Loan (\$15 M and \$7.2 M, respectively, in 1996) plus a Water & Sanitation Investment Loan and an Education Reform Program (\$13.9 M and \$6.6 M, respectively, in 1997).

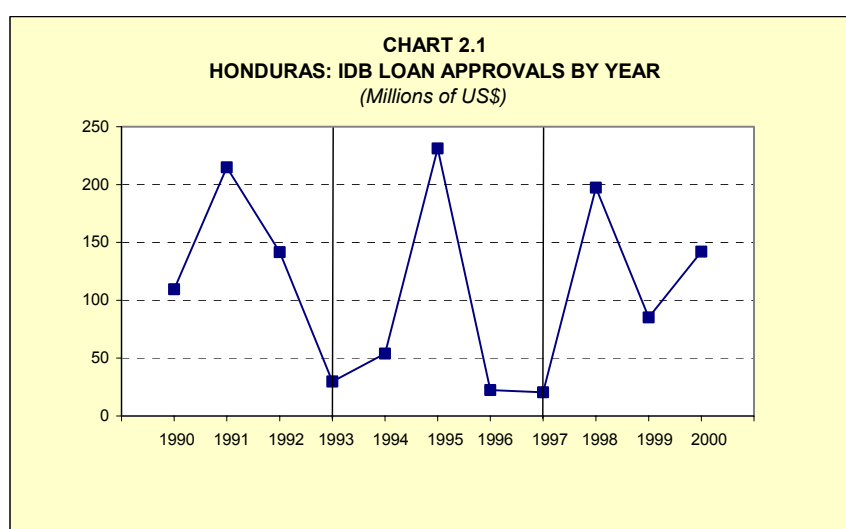
2.16 All told, during the 1995-1997 period, 8 projects were approved in the amount of \$273.1 M. This is just about half the amount approved during the previous programming cycle. In addition, Honduras received 26 non-reimbursable TCs totalling \$14.7 M, including 5 operations financed by the MIF (\$7 M). Table 2.2 presents the IDB Group's operational program for the period.

**TABLE 2.2**  
**HONDURAS: IDB GROUP OPERATIONAL PROGRAM, 1995-1997**

PROJECT NUMBER	PROJECT NAME	APPROVAL DATE	Original Approved Amount			
			DEVELOPMENT STRENGTHENING HUMAN CAPITAL	INCREASED INVESTMENT PRODUCTIVITY	REMOVAL OF FINANCIAL RESTRICTIONS	OTHER
<b>I. LOANS (Millions of US\$)</b>						
H00113	HONDUREAN SOCIAL INVESTMENT FUND II	28-Jun-95	40.0			
H00114	FAMILY ASSISTANCE PROGRAM	28-Jun-95	20.0			
H00078	BASIC ALTERNATIVE EDUCATION	03-Oct-97	6.6			
H00128	SEWERAGE PROJECT FOR PUERTO CORTES	19-Nov-97	13.8			
H00125	ELCOSA THERMO PLANT	26-Apr-95		10.5		
H00101	MODERNIZATION OF THE STATE PROGRAM	20-Dec-95		60.0	100.0	
H00109	JUDICIAL SYSTEM MODERNIZATION	13-Mar-96		7.2		
H00119	MODERNIZATION OF AGRICULTURAL TECHNOLOGY	02-Oct-96		15.0		
<b>TOTAL LOANS</b>	<b>8</b>	<b>\$273.1</b>	<b>\$80.4</b>	<b>\$92.7</b>	<b>\$100.0</b>	<b>\$0.0</b>
<i>(% of Total)</i>		<i>(100%)</i>	<i>(29%)</i>	<i>(34%)</i>	<i>(37%)</i>	<i>(-)</i>
<b>II. TECHNICAL COOPERATIONS (Thousands of US\$)</b>						
TC9502487	INST. STRENGTHENING TO FHIS & PRAF	28-Jun-95	1,500.0			
TC9604332	APPLICATION OF ABCD ESPANOL METHODOLOGY	10-May-96	5.5			
TC9609035	STRENGTHENING OF JUDICIAL SCHOOL	21-Oct-96	20.0			
TC9501330	NATIONAL AGRICULTURE & RURAL IND. CENTER	17-Jan-95		20.0		
TC9410482	SUPPORT WATER & SANITATION SECTOR REFORM	15-Feb-95		148.0		
TC9507180	STRENGTHENING OF JUDICIAL SCHOOL	16-Aug-95		10.0		
TC9507312	PROGRAMS & PROJECTS SYSTEM EVALUATION	24-Aug-95		5.0		
TC9507388	INTEGRATION OF AQUACULTURE & IRRIGATION	5-Feb-96		47.0		
TC9603053	DIAGNOSTIC-CONGRESS/LEGISLATIVE SECTOR	8-Mar-96		60.0		
TC9504061	MODERNIZATION OF THE JUDICIAL SYSTEM	13-Mar-96		1,500.0		
TC9608300	SUPPORT TO UDAPE	20-Dec-96		750.0		
TC9704504	ACTION PLAN C AND D COUNTRIES	1-Jan-97		575.6		
TC9602245	PREFEASIBILITY STUDY LOS LLANITOS HYDROE	17-Jan-97		385.0		
TC9702368	SEMINAR FOR MAYORS WATER & WASTEWATER S.	23-Apr-97		9.9		
TC9705180	SHORT TERM ENGINEERING CONSULTANCY	12-May-97		14.0		
TC9704380	MUNICIPAL STRATEGY IN PUERTO CORTES	9-Jun-97		100.0		
TC9709033	LOS LANITOS HYDROELECTRIC PROJECT	8-Oct-97		63.5		
TC9708209	PRIVATIZATION SOLID WASTE SERVICES	5-Dec-97		500.0		
TC9410284	STRENGTHENING OF TAX ADMINISTRATION	3-May-95			1,750.0	
TC9611056	ECOLOGIC STUDIES OF PARQUE LA TIGRA	23-Dec-96				76.0
TC9702350	SUPPORT TO MERCHANT MARINE AUTHORITY	18-Apr-97				150.0
<b>TOTAL TCs</b>	<b>21</b>	<b>\$7,689.50</b>	<b>\$1,252.50</b>	<b>\$4,188.00</b>	<b>\$1,750.00</b>	<b>\$226.00</b>
<i>(% of Total)</i>		<i>(100%)</i>	<i>(20%)</i>	<i>(54%)</i>	<i>(23%)</i>	<i>(3%)</i>
<b>III. MIF Non-Reimbursable Technical Cooperations (Thousands of US\$)</b>						
TC9506231	RURAL ENTERPRISES DEVELOPMENT PROGRAM	23-Jan-96		1,892.3		
TC9503055	REGUL. AGENCY FOR TELECOMMUNICATIONS	29-May-96		1,130.0		
TC9410440	STRENGTH. BANKING & INSURANCE COMMISSION	29-May-96		1,530.0		
TC9602427	MEDIATION AND ARBITRATION CENTER	16-Dec-96		497.0		
TC9609168	ENTERPRENEURIAL PRIVATE INVESTMENT	4-Jun-97		1,950.0		
<b>TOTAL MIF</b>	<b>5</b>	<b>\$6,999.3</b>		<b>\$6,999.3</b>		
<i>(% of Total)</i>		<i>(100%)</i>		<i>(100%)</i>		
<b>IV. INTER-AMERICAN INVESTMENT CORPORATION (Millions of US\$)</b>						
H00003	ZIP CHOLOMA - II	Dec-97		1.5		
<b>TOTAL IICs</b>	<b>1</b>	<b>\$1.5</b>		<b>\$1.5</b>		
<i>(% of Total)</i>		<i>(100%)</i>		<i>(100%)</i>		

Source: ROS (excludes PPFs).

2.17 This lending program was broadly consistent with the strategic objectives stated in *CP-95*. It is clear that by then the Bank was increasingly concerned about Honduras' external debt burden, its capacity to deliver reforms and productively absorb external resources, as well as the Bank's own exposure to the country. The Bank took the step to lend to Honduras on concessional terms only and engineered a swap of concessional for non-concessional resources by means of the Public Sector Reform Loan, in order to alleviate the financial burden on the GOH. At the same time, the loan approval pattern and, as documented in the next Chapter, net disbursements continued their earlier volatile trend which could not have been helpful to a country facing continuous external financial gaps (Chart 2.1).<sup>12</sup> Also, with the Public Sector Reform Program, the Bank continued the practice of including extensive policy conditionalities on a country with documented limited institutional and political capacity to comply with the conditions placed upon it by previous policy-based loans from the IMF, the World Bank and the IDB itself. It appears as if the lessons learned in the portfolio review process (notably the need to simplify loan design) were not being internalized in the programming and project design process.



Source: ROS.

### C. Third Programming Cycle: 1998-2001

2.18 The third programming cycle once again happened under most un auspicious circumstances. This time it was not the outgoing administration that destabilized things—nature did. Scarcely two weeks after the Programming Committee of the Board had approved a new Country Paper for Honduras for the period 1998-2001, Hurricane Mitch struck the area, wreaking such havoc that a complete revision and reorientation of the Bank's program for the country was required. In place of the originally proposed strategy focused on creating the conditions for sustained growth and meeting the basic needs of the neediest segment of the population, the revised *Country Paper (CP-99)* proposed an assistance strategy based on the GOH's Master Plan for Reconstruction and National Transformation (MPRNT), whose point of departure was the need to restore growth and reduce poverty through the reconstruction process itself. Instead of attempting to support activities in each strategic area of the MPRNT, *CP-99* proposed that the Bank concentrate its efforts on: (i) helping to prepare the MPRNT and the corresponding investment program, along with measures to strengthen the capacity to implement it; (ii) promote, through the Consultative Group, international cooperation to finance reconstruction; and (iii) concentrate its own limited concessional resources on financing social programs directed at the neediest segment of the population and on reconstruction, particularly of water and sewer systems, housing and roads. In addition,

<sup>12</sup> Comparison with Chart 1.2 reveals that approvals behaved procyclically more often (6 times) than they behaved countercyclically (4 times).

specialized units of the Bank Group (IIC, MIF, PRI) were to deploy their resources in support of private sector development activities.

2.19 In the wake of Hurricane Mitch the Bank mobilized an unprecedented response. It first took steps to expedite the disbursement of existing operations and to reprogram outstanding balances of existing loans to assist in the emergency and reconstruction efforts. Within two months, it had approved three loans—Phase II of the Family Allowance Program (\$45.2 M), Phase III of the Social Investment Fund (\$50 M), a Municipal Development Loan for San Pedro Sula and Tegucigalpa (\$63 M) and 7 TCs (\$630,000). In the course of the next two years the whole Bank Group mobilized in support of Honduras. All told, in the period 1998 through end-2000, the Bank approved 17 loans totaling \$424.5 M, plus 63 non-reimbursable TCs (\$10.4 M) and 2 small projects (\$700,000). The MIF also mobilized in response to the emergency, approving 9 non-reimbursable (\$6.8 M) and 14 reimbursable (window-3) operations totaling \$3 M in 1999-2000. Meanwhile, the IIC approved five loans in the financial and manufacturing sectors totaling \$28.5 M during this period. Table 2.3 summarizes the IDB Group operational program from 1998 through end-2000.

2.20 Aside from its own financial support, the Bank played a crucial and innovative role in mobilizing international support to Honduras. It organized and chaired the Consultative Group for the Reconstruction and Transformation of Central America in Washington in December 1998.<sup>13</sup> It subsequently helped the GOH prepare the MPRNT, which identified the priorities, programs, approximate costs and international financial assistance needs and served as the basis for the request of support for Honduras at the follow-up Consultative Group Meeting for the Reconstruction and Transformation of Central America held in Stockholm in May, 1999. The Bank was also instrumental in organizing a Consultative Group Meeting exclusively for Honduras, held in Tegucigalpa in February, 2000 and more recently, the Regional Consultative Group Meeting held in Madrid in March, 2001 (Chapter 3).

2.21 Resource mobilization for Honduras was a growing concern for the Bank even before Mitch struck because of the limited availability of FSO resources which constrains the Bank's own lending program. In effect, Honduras's "share" of FSO funds has been amounting to some \$120 M to \$150 M per year, augmented by a one-off sum of \$100 M to be divided between Honduras and Nicaragua on account of Hurricane Mitch and small sums available for re-distribution from countries unable to absorb their share. The emergency forced the issue of resource limitation, and the Bank seized the opportunity to become the convenor of international support on behalf of Honduras. The structure that has evolved to guide and monitor the use of the assistance in the aftermath of Mitch now provides a great opportunity for further resource mobilization within a consistent, coordinated framework. Focusing donor support on specific areas in a complementary fashion—in contrast to the more scattered pattern of support that prevailed in the past—should also help render the assistance more effective.

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<sup>13</sup> This meeting was chaired by the Bank's President. In attendance were the Presidents of Honduras, Nicaragua, El Salvador, Costa Rica, the Vicepresident of Guatemala, the President of the World Bank, the Managing Director of the International Monetary Fund, and high-level delegations of other international organizations and donor governments.



**TABLE 2.3**  
**HONDURAS: IDB GROUP OPERATIONAL PROGRAM, 1998-2000**

PROJECT NUMBER	PROJECT NAME	APPROVAL DATE	Original Approved Amount			
			EMERGENCY RECONSTRUCTION POVERTY RELIEF	MODERNIZATION OF STATE	PRIVATE SECTOR DEVELOPMENT	OTHER
<b>I. LOANS (Millions of US\$)</b>						
HO0115	SAN PEDRO SULA CENTRAL DISTRICT DEV.	18-Nov-98	63.0			
HO0132	FAMILY ASSIGNMENT PROGRAM STAGE II	24-Nov-98	45.2			
HO0131	SOCIAL INVESTMENT PROGRAM (FHIS-III)	2-Dec-98	50.0			
HO0143	ROAD AND WATER INFRA-EMERGENCY PROGRAM	20-Jan-99	18.8			
HO0146	HOUSING PROGRAM AFTER HURRICANE	9-Jun-99	10.4			
HO0145	SOCIAL PROTECTION AND TRANSITION	8-Sep-99	30.0			
HO0072	INVESTMENT IN WATER AND SANITATION	8-Dec-99	26.0			
HO0164	EMERGENCY ROAD COMPLEMENTARY PROGRAM	2-Feb-00	26.8			
HO0144	RURAL ECONOMY REACTIVATION	20-Sep-00	30.0			
HO0184	INTEGRAL PROG.URBAN POVERTY ALLEVIATION	2-Nov-00	8.1			
HO0161	POVERTY ALLEVIATION AND LOCAL DEVELOP. (FHIS-IV)	29-Nov-00	25.0			
HO0032	REORGANIZATION HEALTH SYSTEM	6-May-98		36.0		
HO0137	TC ESTABLISHMENT EXECUTIVE REVENUE OFF	18-Nov-98		3.0		
HO0176	PROCUREMENT CONTRACTING TRANSP. EFFICIEN.	28-Jun-00		14.6		
HO0123	NATIONAL CONGRESS MODERNIZATION	6-Dec-00		2.6		
HO0141	3RD. CYCLE TRANSFORM. BASIC EDUCATION PROG.	6-Dec-00		23.0		
HO0178	PREINVESTMENT PROGRAM	20-Dec-00				12.0
<b>TOTAL LOANS</b>	<b>17</b>	<b>\$424.5</b>	<b>333.3</b>	<b>\$79.2</b>	<b>\$0.0</b>	<b>\$12.0</b>
<i>(% of Total)</i>		<i>(100%)</i>	<i>(79%)</i>	<i>(19%)</i>	<i>(-)</i>	<i>(3%)</i>
<b>II. TECHNICAL COOPERATIONS (Thousands of US\$)</b>						
TC9801433	QUANTITATIVE ASSESSMENT OF POVERTY	9-Feb-98	93.8			
TC9803421	BASIC MUNICIPAL SERVICES: TEGUCIGALPA	1-May-98	742.5			
TC9803413	BASIC MUNICIPAL SERVICES: SAN PEDRO SULA	1-May-98	500.5			
TC9807185	SHARE OPERATION & DESIGN EXPERIENCES	10-Jul-98	15.0			
TC9807374	CONSULTING GROUPS EXPERIENCES	24-Jul-98	3.7			
TC9810591	EMERGENCY PLAN: HURRICANE MITCH	5-Nov-98	50.0			
TC9811250	RECONSTRUCTION AFTER HURRICANE MITCH	6-Nov-98	150.0			
TC9811747	WATER SECTOR EVALUATION DISASTER DAMAGES	12-Nov-98	10.0			
TC9811987	EVAL.DISASTER DAMAGE TEGUCIG.WATER SEV.	20-Nov-98	150.0			
TC9812006	TRAINING IN BRIDGES INSTALLATION	1-Dec-98	20.0			
TC9809461	CONSULTATIVE GROUP PREPARATION	7-Dec-98	150.0			
TC9812053	INST. FRAMEWORK FOR IVRM IN HONDURAS	23-Dec-98	100.0			
TC9902043	URBAN TRANSPORT STUDY FOR TEGUCIGALPA	3-Mar-99	150.0			
TC9903026	EXPERIENCES IN EMERGENCY PROJECTS	12-Mar-99	8.7			
TC9903014	STRATEGY FOR RECONST. OF TEGUCIGALPA	22-Mar-99	90.0			
TC9812009	NATIONAL RECONSTRUCTION PROCESS	7-Apr-99	1,000.0			
TC9806293	DISASTER MITIGATION IN CENTRAL AMERICA	16-Apr-99	75.0			
TC9903007	EMERGENCY PROG.FLOOD PROTECTION WORK	19-May-99	400.0			
TC9905005	STRENGTHENING INST. DE NINEZ Y FAMILIA	7-Jun-99	80.0			
TC9907018	SOCIAL ENGINEERING METHODOLOGY	26-Jul-99	150.0			
TC9908012	PARTICIPATORY BUDGETING PROCESS	4-Aug-99	2.5			
TC9903004	PLANIF. RECONSTRUCTION TEGUCIGALPA	5-Aug-99	410.0			
TC9905044	SUPPORT TO DAMAGED INFRASTRUC.REHAB.PROJ.	20-Sep-99	150.0			
TC9910023	CONSENSUS ON EDUCATION REFORM	25-Oct-99	100.0			
TC9910018	PREPARATION CONSULTATIVE GROUP	17-Dec-99	150.0			
TC9911148	GEOTECHNICAL STUDY CA-5 ROAD FAULTLINES	18-Jan-00	110.0			
TC0001029	TRAINING ON ROADS ENVIRONM. PROTECTION	3-Apr-00	110.0			
TC0003008	TRAFFIC SAFETY IMPROVEMENT	5-Apr-00	149.9			
TC0004010	LOCAL SUSTAINABLE DEVELOPMENT PROGRAM	8-May-00	88.4			
TC9912041	SUPPORT FOR HO'S SOCIAL SECTOR PROGRAMS	3-Oct-00	41.4			
TC9610412	TC TO DECENTRALIZED SERVICE PROVIDERS	3-Mar-98		450.0		
TC9701344	CUSTOMS ADMINISTRATION MODERNIZATION	19-May-98		650.0		
TC9810319	TEGUCIGALPA URBAN DATA AND CADASTRE	22-Oct-98		150.0		
TC9903005	PROCUREMENT POLICY SUPPORT-CENTRAL AM.	4-Mar-99		80.0		
TC9903050	MODERNIZATION OF THE NATIONAL CONGRESS	1-Jul-99		149.0		
TC9907031	PREPARATION PUBLIC PROCUREMENT PROGRAM	2-Aug-99		20.0		
TC9905034	SUPPORT THE DESIGN & SOC. SECTOR POLICY	3-Aug-99		100.0		
TC9908021	MODERNIZATION OF THE NATIONAL CONGRESS	16-Sep-99		95.5		
TC9907028	URBAN ROADWAY EFFICIENCY PROGRAM	25-Oct-99		150.0		
TC9911109	EFFICIENCY & TRANSPARENCY PROGRAM	11-Nov-99		5.5		
TC9911119	ADMINISTRATIVE STRENGTHENING	12-Nov-99		14.0		
TC9912051	SUPPORT FOR MUNICIPAL DEVELOPMENT	7-Jan-00		150.0		
TC9910033	SOCIAL MANAGEMENT & POLICY DESIGN	31-Jan-00		55.4		
TC9911112	MUNICIPAL INDICATORS DEVELOPMENT	17-Feb-00		100.0		
TC0002031	WORKSHOP NAT. STRATEGY LAND USE PLAN	17-Feb-00		15.0		
TC0001035	INSTITUTIONAL STUDY WATER RESOURCES SPS	13-Mar-00		100.0		
TC0006009	VOCAT. TECHNICAL EDUCATION REFORM	20-Jun-00		145.0		
TC9809396	MUNICIPAL TRAINING PROGRAM	26-Jul-00		750.0		
TC0008000	LEGAL REVISION OF LAND USE PLANNING	14-Aug-00		30.0		
TC0009021	SUPPORT FOR CONTROLLER OFFICES	18-Sep-00		3.5		
TC0010030	SUPPORT CONSULTING EVENTS CIVIL SOCIETY	13-Nov-00		61.0		
TC9606198	SUPPORT TO COOPERATIVA MIXTA OCOTEPEQUE	15-Apr-98			175.0	
TC9802069	ENTREPRENEUR ENVIRONMENTAL CENTER	7-Jul-98			150.0	
TC9808265	INST.STRENGTH FUNDACION COVELO	10-Sep-98			34.2	
TC9902061	SUPPORT FEDERACION AGROEXPORTADORES	24-Feb-99			6.1	
TC9805493	SUPPORT RURAL MICROENTREPRENEURS	2-Jun-99			130.0	
TC9909029	AGRIBUSINESS MASTER PLAN VALLE COMAYAGUA	3-Nov-99			71.3	
TC0002003	FORESTRY CERTIFICATION	29-Mar-00			150.0	
TC0008031	STRATEGIC ALLIANCES FOR MICROENTERPRISE	15-Sep-00			10.0	
TC9908025	TRINATIONAL WATERSHED MGMT PROJ. LEMPA	16-Sep-99				150.0
TC9910003	Y2K INFORMATION SYSTEMS, SAN PEDRO SULA	14-Oct-99				150.0
TC9801300	COUNTRY ENVIRONMENTAL STRATEGY	13-Nov-00				652.0
TC0010033	INTEGRATED MANAGEMENT WATER RESOURCES	12-Dec-00				150.0
<b>TOTAL TC's</b>	<b>63</b>	<b>\$10,353.7</b>	<b>\$5,251.3</b>	<b>\$3,273.9</b>	<b>\$726.5</b>	<b>\$1,102.0</b>
<i>(% of Total)</i>		<i>(100%)</i>	<i>(51%)</i>	<i>(32%)</i>	<i>(7%)</i>	<i>(11%)</i>

Source: ROS.

**TABLE 2.3 (cont.)  
HONDURAS: IDB GROUP OPERATIONAL PROGRAM, 1998-2000**

PROJECT NUMBER	PROJECT NAME	APPROVAL DATE	Original Approved Amount			
			EMERGENCY RECONSTRUCTION POVERTY RELIEF	MODERNIZATION OF STATE	PRIVATE SECTOR DEVELOPMENT	OTHER
<b>III. MIF Reimbursable Operations (Thousands of US\$)</b>						
HO0147	FEM. ENTERPRISE DEVELOPMENT	26-Feb-99			400.0	
HO0157	WORLD RELIEF DE HONDURAS	19-Jul-99			400.0	
HO0151	FAMILY AND ENVIRONMENT	21-Jul-99			100.0	
HO0154	COVELO FOUNDATION	21-Jul-99			200.0	
HO0148	COMMUNITY SUPPORT INTERNATIONAL FOUNDATION	28-Sep-99			300.0	
HO0150	BROTHERHOOD HONDURAS	8-Oct-99			100.0	
HO0162	EL PROGRESO S.A. SOLIDARITY INVESTMENT	8-Oct-99			100.0	
HO0166	COOPERATIVA LA PROSPERIDAD	26-Nov-99			80.0	
HO0169	COOP. MIXTA PORTENA LTDA. COOMPOL	26-Nov-99			150.0	
HO0171	FINANCIERA SOLIDARIA, S.A.	13-Dec-99			500.0	
HO0163	FEDERACION COOP. AHORRO AND CREDITO BON.	13-Dec-99			300.0	
HO0167	PESPIRENE FRATERNITY COOPERATIVE	7-Mar-00			150.0	
HO0177	TAULABE LTD CREDIT AND SAVING COOPERATIVE	7-Mar-00			200.0	
<i>SUBTOTAL MIF REIMBURSABLE</i>		13	\$2,980.0		\$2,980.0	
<i>(% of Total)</i>			<i>(100%)</i>		<i>(100%)</i>	
<b>MIF Non-Reimbursable Technical Cooperations (Thousands of US\$)</b>						
TC9802209	SUPPORT SAN PEDRO SULA ROAD CONCESSION	7-Apr-98			300.0	
TC980:5485	INSTITUTIONAL STRENGTHENING OF FINSOL	4-Jan-99			300.0	
TC9810070	POTABLE WATER AND SEWERAGE	21-Apr-99			750.0	
TC9810377	MICROENTERPRISES NETWORK EXPANSION	12-May-99			700.0	
TC9906029	SUPPORT PROG.PROD.SECTOR & SMALL ENTER.	7-Jul-99			1,700.0	
TC9904020	INSTITUTIONAL STRENGTHENING OF BANCOMER	25-Apr-00			270.0	
TC9904022	INSTITUTIONAL STRENGTHENING OF BANHCAFE	30-Aug-00			273.0	
TC9912014	COMPETITIVENESS OF TEXTILE SECTOR	25-Oct-00			1,100.0	
TC9909024	STRENGTHENING OF FINANCIAL SECTOR	29-Nov-00			1,456.9	
<i>SUBTOTAL MIF NON-REIMBURSABLE</i>		9	\$6,849.9		\$6,849.9	
<i>(% of Total)</i>			<i>(100%)</i>		<i>(100%)</i>	
<i>TOTAL MIF</i>		22	\$9,829.9		\$9,829.9	
<b>IV. INTER-AMERICAN INVESTMENT CORPORATION (Millions of US\$)</b>						
HO1028A	BANCO FICOHSA	Jan-99			7.0	
HO1015B	BGA II	Sep-99			7.0	
HO1032A	FICENSA	Dec-99			4.0	
HO1029A	ZIP BUENA VISTA	Jan-00			7.5	
HO1033A	DEL TROPICO	Dec-00			3.0	
<i>TOTAL IC</i>		5	\$28.5		\$28.5	
<i>(% of Total)</i>			<i>(100%)</i>		<i>(100%)</i>	
<b>V. SMALL PROJECTS (Thousands of US\$)</b>						
SP/SF-98-02-HO COOP. OCOTEPEQUE		15-Apr-98			500.0	
SP/SF-99-06-HO SUPPORT FINACOOOP		2-Jun-99			200.0	
<i>TOTAL SMALL PROJECTS</i>		2	\$700.0		\$700.0	
<i>(% of Total)</i>			<i>(100%)</i>		<i>(100%)</i>	

Source: RDS.

## D. Assessment

2.22 As mentioned at the beginning of this Chapter, the aim of the present assessment of programming and of the country program itself is to answer questions about their relevance and coherence in the light of needs, opportunities and constraints. We begin by noting that it is difficult to reach firm conclusions about the usefulness of the programming process in Honduras because the Country Papers (the key source of information) are of uneven quality and because successive CPs contain very little information about the previous programming cycle, and the results obtained. None of the country papers included a well defined “results framework”.

2.23 The Bank’s “strategy” contained in *CPP-90* was no more than a loose framework to orient Bank actions: it did not specify strategic objectives, along with the instruments, timetable and indicators to monitor their attainment. As such, it cannot be rigorously evaluated in terms of the evaluative criteria proposed in this report. *CP-95* marks a great improvement: to the extent that its analytical foundation is stronger, it explicitly attempts to match strategic objectives to instruments and includes an assessment of the loan pipeline in relation to the Bank’s strategy, thereby providing a rationale for the prioritization, timing and sequencing of the proposed lending program. Moreover, explicit account is taken of what other important players (IMF, World Bank, USAID) are doing in order to coordinate efforts and attain broad complementarity and coherence in the overall external support program for Honduras. However, this CP does not convey specific time-bound objectives along with indicators to monitor compliance.

2.24 *CP-99* contains a *Summary of the Strategic Intervention of the Bank*, which links the objectives of the MPRNT to the Bank’s strategic objectives in the country, to its actions, and to the activities of other donors (Box 2.2, adapted from the CP). The summary includes a column of “indicators of success.” Some of these are somewhat vague, making it difficult to judge whether they have been met (e.g., “adequate support

for the domestic institutions responsible for implementing the projects in order to ensure their success”). Others are quite concrete and refer to the approval and implementation of specific operations (i.e., outputs, not outcomes). As of end 2001, five of the eleven operations noted in Box 2.2 have been approved, three of which have begun disbursing. Three other operations mentioned in the body of the report (though not included in the Summary under “indicators of success”) have also been approved, as have a number of operations not mentioned anywhere in *CP-99*.<sup>14</sup> This CP, then, enables verification of certain indicators of success such as the processing of a number of operations by the Bank. But the CP does not permit the tracing of outcomes or developments on the ground. Furthermore, the scope of verification is limited by the presence of operations that were approved without being anticipated in the CP and the non-approval of operations that did get announced. The anticipation power of the programming process warrants attention as a guide to the “firmness” and usefulness of programming.

2.25 Each programming cycle was characterized by reprogramming and redimensioning of activities in response either to shifts in government or Bank priorities, or to the occurrence of critical unforeseen events, such as Hurricane Mitch in late 1998.<sup>15</sup> Taking a ten-year view, it is noted that several anticipated—and presumably strategic—operations did not come to pass (for example, a sectoral investment loan, a water and sanitation sector reform project, an agricultural project, a microenterprise operation and a competitiveness program mentioned in programming memoranda earlier in the decade) while others that were barely, if at all, mentioned in programming documents were swiftly approved (e.g. customs system strengthening, efficiency and transparency in government procurement). This diminishes the usefulness of the programming process as a firm guide to Bank action, for both the Bank and the country.<sup>16</sup> Some reprogramming and redimensioning may always be required in a country as vulnerable to environmental and economic shocks as Honduras. But OVE believes that programming and, by implication, the anticipation capacity of programming can be improved. It may be of interest to note that government officials questioned with respect to this indicated that they regard the IDB country programming exercises as less binding and “firm” than the Country Assistance Strategy process undertaken by the World Bank.

2.26 Turning to the assessment of the relevance of country programming and of the actual Bank program in Honduras during the 1990s, we first judge the Bank’s diagnostic and intent—the analysis brought to bear and the priorities set out in successive Country Papers. Judging from the written record, the diagnostic work undertaken was limited in scope. All along, the Region made use of analytical work by the IMF, the World Bank, other international organizations and the Bank’s Chief Economist’s Office. The Region itself produced a number of policy studies over the years.<sup>17</sup> The point is important because it is known that the pay-off from economic and sector work in terms of development impact can be very high.<sup>18</sup> Together with other factors, notably the recurring need for crisis management, the relative lack of economic and sector work may help explain the relatively low anticipation capacity of programming, the lack of a results framework and the design and implementation challenges discussed in the next Chapter. The concern about analytical limitations is underscored by a look to the demand side: an opinion expressed recurrently by government officials in Honduras was that they value the IDB as a source of finance, but tend to turn to the World Bank and others for policy studies and sector work.<sup>19</sup> Given the link between analysis, program quality, and impact, the Bank as the principal official external financier for the country, should be concerned about this perceived imbalance between the function of financial transfer and the opportunities thereby created for the generation and transfer of knowledge.

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<sup>14</sup> Among operations approved in 2001, the “not anticipated, but approved” loans are: HO-0193, HO-0185, HO-0206, HO-0179, HO-0203.

<sup>15</sup> Some of the anticipated but not done operations were meant to foster productive structures and thus to strengthen the economy’s ability to harvest the benefits from reform. Examples: the investment sector loan mentioned above (to enhance the investment climate), the agricultural investment loan which was to include an irrigation component that (with hindsight) might have helped contain the devastation wrought by the drought of 2001, the microenterprise project and the competitiveness operation.

<sup>16</sup> A tentative comparison of *CP-99* and approvals in 2000 and 2001 suggests 8 operations in what might be called the “anticipated and approved” category, 7 in the “anticipated, not approved” category, and 5 in the “not anticipated, but approved” group. Some of the operations under “anticipated, not approved” may have had to be postponed because of limitations in the amount of FSO resources available.

<sup>17</sup> The Region’s Intranet (“non-financial products”) lists seven policy studies during 1997-2001, four by the Region’s staff, one by RES and two by SDS.

<sup>18</sup> K. Deininger, L. Squire and S. Basu, *Does Economic Analysis Improve the Quality of Foreign Assistance?* World Bank Economic review 12:3, 1998.

<sup>19</sup> List of interviewees in Annex 6. See the section on policy dialogue in Chapter 3 for further comments on this.

2.27 Bank intent is clearly expressed through the three operational priorities formulated for each programming cycle: support to structural adjustment, financing of infrastructure for the expansion of production and exports, and support to the social sectors (Cycle 1); strengthening human capital, fostering the productivity of investment, and easing financial restrictions on government action (Cycle 2); and support to reconstruction and transformation, modernization of the state, and poverty reduction and strengthening of the social sectors (Cycle 3). With reference to Chapter 1, there can be no question whether these priorities were relevant to the country's development challenge and to different conjunctural (or crisis-induced) needs. They were. At the same time, the overriding need to foster growth in per capita terms (a conclusion from Chapter 1) calls for a clearer articulation of the intended contribution of different elements of the program. A notable feature of the Honduras portfolio is the large and rising number of operations over time. While the earlier part of the period under review was characterized by the presence of sector loans (e.g. agriculture, public sector reform) that were prompted by the need to fill large financing gaps and correct important economic distortions, in the second half of the 1990s Bank financial support began to be spread over a growing number of smaller operations and many technical cooperation activities in different areas. One indicator of this trend is the decline in the average loan size, from \$45.8 M during the first programming cycle, to \$34.3 M and \$25.0 M, during the second and third programming cycles, respectively. Another indicator is the steady rise in the number of operations (of all types) in execution throughout the decade: in 1990-1994 there were between 30-40 operations in execution at any given time; in 1995-1997, the number of active operations was in the 40-50 range; currently, there are over 100 operations in execution (Table 2.4). Given the documented lack of implementation capacity, this large number of operations may have been taxing for the borrower even if many of the TC's were supposed to be correcting the institutional problems.

2.28 Management has argued for dispersion<sup>20</sup> by indicating that (i) fewer and larger operations would tax the absorption capacity of the selected sectors and institutions within an annual FSO envelope of between \$120 M and \$150 M, (ii) the Bank as the main source of external funding has the responsibility to be present in a variety of sectors in the interest of balanced development, and (iii) many of the operations now underway are technical assistance projects devoted to the strengthening of the implementation capacity of institutions associated with Bank loans.<sup>21</sup> While strategic focus is intuitively desirable, it is concluded that at the present time a determination of the merits of dispersion (or of concentration) in terms of development effectiveness cannot be made on the basis of the analysis and information about results provided in the documentation related to country programming during the three cycles under review. Deeper diagnostic work and more systematic and results-based programming would be needed.

2.29 Such an approach to programming would likely lead to a narrower and more "evaluable" specification of priorities. In the past, the priorities (while "relevant") were formulated in rather general terms which implies that they offered little guidance with respect to the actual choice of operations and to the expected results of the program.<sup>22</sup> In fact, the Tables 2.1, 2.2 and 2.3 present an "ex-post rationalization" of the operational program in terms of the stated priorities, since the programming documents did not themselves match specific instruments to priorities in a systematic fashion. One cannot know, therefore, whether the articulated priorities were translated into the most effective portfolio that was possible under the applicable circumstances and constraints. For example, was it appropriate to elect to pursue the goal of poverty reduction largely through the human capital route by means of social compensation in a situation in which there is clearly an overriding need to foster growth in per capita terms? The answer may well be "yes" because the merits of investing in human capital as part of a growth strategy are undisputed (this also follows from Chapter 1). But one would like to see evidence in programming documents of a discussion about the weight that should be attached to human capital and social compensation as opposed to, for example, directly productive investments in key sectors such as small-holder agriculture or SME development.<sup>23</sup>

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<sup>20</sup> In comments on a draft of this report.

<sup>21</sup> For reasons explained in Chapter 3, having to do with the quality of the available documentation, technical assistance operations could not be reviewed for this report.

<sup>22</sup> A number of interlocutors at the Bank (Bank staff) have pointed to a supply-driven element in programming and the project portfolio, explained by existing capacities in functional divisions.

<sup>23</sup> The 1999 Working Paper *Honduras Post-Mitch: Problems and Opportunities for Development of the Rural Economy* makes a valuable contribution to the understanding of investment needs in the rural sector.

2.30 Turning to the issue of coherence, the degree of integration of the various instruments at the disposal of the IDB Group and the synergy between the Bank's program and both governmental policy and the actions of other donors are considered. A further aspect of coherence refers to the consistency between the Bank's program and its own institutional priorities as set out in the 7<sup>th</sup> and 8<sup>th</sup> Replenishments.<sup>24</sup> The growing emphasis on social issues and poverty alleviation in the Honduras program over time is in keeping with the reorientation of priorities under the last Replenishment.

2.31 The above discussion with respect to the composition of the portfolio notwithstanding, there is evidence that the program has become increasingly coherent over time in terms of the integration of different instruments and the coordination with other donors. In particular, lending and technical cooperation for institution-building in the context of specific loans have become more closely integrated,<sup>25</sup> and the instruments of the Bank's private sector windows have increasingly come to be deployed. A large number of operations of the Multilateral Investment Fund were approved after Hurricane Mitch to foster small business development. *CP-99* plausibly rationalizes the Bank Group's support to the private sector with reference to GOH's strategy of reconstruction and transformation which was seen as vitally dependent on a strong

TABLE 2.4  
HONDURAS: NUMBER OF OPERATIONS IN EXECUTION, 1990-2000

Type of Operation	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Loans	15	15	18	19	17	17	15	16	20	22	28
TCs	9	12	12	12	16	17	25	26	36	52	51
Small Projects	2	4	3	7	7	6	2	2	3	3	2
MIF	0	0	0	0	0	0	5	6	8	24	27
IIC	1	2	2	1	1	0	0	1	1	3	5
TOTAL	27	33	35	39	41	40	47	51	68	104	113

Source: ROS.

response by the private sector.

2.32 A further area in which programming and the program have displayed growing coherence over time is that of donor coordination. This issue, taken up in the next Chapter, will remain important for years to come. Throughout the period under review, Bank financial support to Honduras has been subject to four basic constraints: (i) the sizable external financing gap generated by Honduras's debt overhang and propensity to macroeconomic volatility; (ii) Honduras's relatively low absorptive capacity despite dire needs—or perhaps because of them; (iii) the Bank's limited availability of concessional resources; and (iv) the Bank's exposure in Honduras. Some progress has been made in relaxing the first constraint through prudent fiscal policies and debt relief measures, and the fourth constraint is not yet binding.<sup>26</sup> The other two constraints, though, remain strong and will continue to affect the Bank's ability to support Honduras in the foreseeable future. It is therefore important for both resource mobilization and for overall development effectiveness for the Bank to continue to leverage its contribution in cooperation with other donors.

<sup>24</sup> It will be argued later that the reorientation may have gone too far in the direction of social compensation.

<sup>25</sup> Note that this is not a statement about the effectiveness of technical assistance. It is a statement about its increased integration with other instruments, notably loans.

<sup>26</sup> The Bank uses the following guidelines to measure whether it faces a high risk with its loans to a country: (1) loans to the country must not amount to more than 18% of the Bank's portfolio; (2) debt service to the Bank should not be more than 8% of exports; (3) debt service to the Bank should not exceed 30% of all external debt service; and (4) debt service to preferred creditors should not exceed 50% of total public debt service.

BOX 2.2

HONDURAS: SUMMARY OF THE STRATEGIC INTERVENTION OF THE BANK, 1998-2001

OBJECTIVES OF THE MPRNT	OTHER DONORS	STRATEGIC OBJECTIVES OF THE BANK	BANK ACTIVITIES	INDICATORS OF SUCCESS	SUCCESS END 2000
Fighting poverty in the context of reconstruction and national transformation	World Bank: loan to support balance of payments; support for Consultative Group IMF: ESAF Program; support for Consultative Group UN: damage assessment; TC management of natural disasters	Support the planning and implementation of the reconstruction and economic transformation process.	1. Support the formulation and implementation of the Master Plan for Reconstruction and National Transformation (MPRNT) by providing technical cooperation. 2. Promote financial and technical assistance on the part of the international community by organizing and coordinating the Consultative Group for the Reconstruction and Transformation of Central America	1. Adoption and publication of the MPRNT prior to the meeting of the Consultative Group in May 2. Timely planning of the projects that comprise the MPRNT 3. Success in securing the financial support of the Consultative Group	YES  YES  YES
	Poverty relief: Italy, US, World Bank Education: Japan, Spain, France, Germany Taipei China, World Bank Health: US, Taipei China, World Bank Housing: Japan, Taipei China Water and sewer: Canada, Sweden, UNDP, World Bank Transportation system reconstruction: US, Japan, Sweden, Spain, Germany, World Bank	Concentrate the Bank's financial assistance on social development programs that benefit the poorest segments of the population, as well as on the most urgent reconstruction projects	1. Contribute to funding priority social development programs. In addition to the Social Investment (FHSIII) and Family Allowance (PRAFII) programs that were approved at the end of 1998 and the health component of the emergency program that was approved in January 1999, it has been proposed that activities be approved in the areas of Health, Education, and Housing this fiscal year  2. In addition to the reconstruction program for the transportation and sewer systems of Tegucigalpa that was approved in Jan., it has been proposed that support be provided for programs relating to the reconstruction of the transportation network, rural development, development in the Sula area, and the reconstruction of the electrical system	1. Approval and implementation of the loans during 1999-2001: HO0145 Social Protection and Transition HO0146 Housing Prog after Hurricane HO0072 Invest. Water and Sanitation HO0116 HO0139 HO0141 3rd.Cycle Transf.Basic Edu HO0033 HO0130 HO0134 HO0140 HO0144 Rural Economy Reactivation 2. Adequate support for the domestic institutions responsible for implementing the projects in order to ensure their success	YES YES YES NO NO YES NO NO NO NO YES
	US: microlending; access to resources and markets Japan: agriculture Taipei China: agriculture	Promote private sector participation in investment, production, and employment, as well as in the provision of public services, through the involvement of the specialized units of the Bank Group	1. Financial and technical assistance for small and medium-sized businesses by banks, microtenders, and NGOs 2. Support privatization of (1) the container terminal and refrigerated warehouses at Puerto Cortes; (2) the international airports; (3) the water and sewer services of San Pedro Sula and Tegucigalpa; (4) Hondutel; and, eventually, (5) the road concession in San Pedro Sula. 3. Participate in funding private investment projects, including electrical power projects 4. Support the formulation and implementation of a sectorial strategy for the tourism industry, including the promotion of foreign investment. 5. Support efforts to strengthen the Banking and Securities Commission and the Basic Agricultural Commodities Exchange 6. Promote future reform of the social security system	1. Approval and implementation of the programs under consideration by MIF, IIC, the Private Sector Dept, and the Microenterprise Unit of the Sustainable Development Dept.	12 MIF non-reimbursable TCs(\$6.8M) 13 MIF3 reimbursable operations (\$3M)
Manage land occupancy and land use while providing for the sustainable management of natural resources	Canada: environment, forestry US: sustainable management of natural resources	As a matter of general policy, the Bank supports the sustainable management of natural resources and assesses the environmental impact of its projects, making provisions to mitigate adverse effects when necessary	In addition to monitoring the environmental impact of projects, the Bank is executing two operations in this field (renewable resource management in the El Cajon watershed, and environmental management in the Bahia Islands)		
Consolidate participation in democracy and strengthen ties between the government, the public, and civil society	US: strengthening democracy, citizen participation, support for municipalities Italy: community development Spain: strengthening the judicial and legislative branches UNDP: fiscal decentralization, municipal development, protection of women's rights, development of civil society leadership	Modernize the government; increase the functional efficiency of the branches of government	1. Provide technical assistance in order to strengthen the judicial and legislative branches of government	Approval and implementation of projects: HO0134 Strengthening Judicial Branch TC9903050 Modernization Congress	NO YES

Source: Honduras Country Paper 1999.

2.33 Finally, on the coherence between the Bank's program and governmental priorities during the decade it is helpful to distinguish between intent, the policies pursued, and individual operations. Throughout the decade there was coherence with respect to intent as expressed by the sets of priorities identified for each programming cycle. At the level of policies, on the other hand, coherence was sometimes lacking as explained in the section on policy-based lending in the next Chapter. Operational coherence was generally high, although there were instances where this was not true such as in the case of HO-0146 (the housing project) where government ownership was lacking as explained in the next Chapter.

### III. Program Delivery and Execution

3.1 The objective of this chapter is to determine the efficiency and effectiveness of delivery and implementation through a review of the portfolio and of key aspects of the program. The portfolio review focuses on the lending program, but also touches on technical cooperation and the activities of the MIF and the IIC. A special section is devoted to the topic of resource transfers. The program review focuses on financial and non-financial products. Following the “money trail,” the review of the former covers policy-based lending, social compensation, and emergency relief. The discussion of non-financial products focuses on policy dialogue and the Bank’s role in donor coordination.

#### A. Portfolio Review

##### 1. Lending Program

3.2 Between 1990 and the end of 2000, the Bank approved 50 loans for Honduras, corresponding to 37 different projects, totaling \$1,247.3 M. The sectoral distribution of loan approvals over time is shown in Table 3.1. As can be seen in the table, lending activity in the 1990-1994 period predominantly took the form of policy-based loans to support structural adjustment efforts in the agricultural and energy sectors, and investment in infrastructure (transportation, energy, urban development and social infrastructure through the FHIS). Lending in the 1995-97 period, was heavily concentrated in the areas of public sector reform and social compensation (Public Sector Reform Program, FHIS II and PRAF I). Since 1998, in the wake of Hurricane Mitch, lending activity has been oriented primarily towards reconstruction of physical infrastructure, poverty reduction and the social sectors, and rural development. In addition to new operations in these areas, some \$88 M in undisbursed balances from existing loans were reprogrammed in 1999 to supplement the emergency response.<sup>27</sup>

TABLE 3.1  
HONDURAS: LOAN APPROVALS BY SECTOR, 1990-2000  
(Millions of US\$)

SECTOR	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Total	%
Agriculture	60.0		50.0 1/				15.0				30.0	155.0	12%
Energy		105.0 2/			34.8 3/	10.5 4/						150.3	12%
Transportation		110.0									26.8	136.8	11%
Urban Development	49.5								63.0	10.4		122.9	10%
Sanitation								13.8		26.0		39.8	3%
Environment				20.4	19.1							39.5	3%
Social Investment			31.5			60.0			95.2	48.8 5/	33.1	268.6	22%
Health									36.0			36.0	3%
Education								6.6			23.0	29.6	2%
Reform+Modernization				1.4		160.0	7.2		3.0		17.2	188.8	15%
Preinvestment				8.0							12.0	20.0	2%
Global Credit			60.0 6/									60.0	5%
<b>TOTAL</b>	<b>109.5</b>	<b>215.0</b>	<b>141.5</b>	<b>29.8</b>	<b>53.9</b>	<b>230.5</b>	<b>22.2</b>	<b>20.4</b>	<b>197.2</b>	<b>85.2</b>	<b>142.1</b>	<b>1,247.3</b>	<b>100%</b>

Source: RDS.

Note: Highlighted numbers indicate sectoral loans.

1/ The last tranche of this loan in the amount of \$19.8M was cancelled in July 1996.

2/ This is a Hybrid loan of which \$55M correspond to the Sectoral Adjustment component.

3/ The \$20M Sectoral Adjustment component of this Hybrid loan was never disbursed and was cancelled in 1997.

4/ This is a private sector (PRI) operation (Eloosa).

5/ \$30M of this total is a Sectoral loan.

6/ This policy driven project loan never became effective and was cancelled in 1998, because of a mismatch between loan conditionality and what was feasible for the GOH, and because it was an Ordinary Capital loan.

The cancellation for this reason supports OVE's contention (par. 2.9) that the Bank should have declared Honduras "FSO only" earlier than it did.

<sup>27</sup> IDB, *Asistencia del Banco en respuesta a las emergencias surgidas en Honduras y Nicaragua*, GN-2044, 12/12/98, p. 7. The \$88 M reprogrammed is net of the disbursement of the second tranche of the Public Sector Reform loan in the amount of \$25 M, which was also released to support the emergency.



3.3 The evidence suggests that the Bank's portfolio in Honduras has had a long history of difficulties (Table 3.2). A portfolio status review at end-1992 shows that virtually all active loans approved prior to 1990 were classified as slow or problematic, with extensions ranging from 8 to 52 months and a median implementation delay of 36 months. A similar review at end-1994 shows continuing problems with the carry-overs from the 1980s, plus a few additional ones among the more recently approved operations (e.g. customs system reform, road repair and maintenance). By end-1996 the newly developed PPMR reporting system records that 11 of the 16 loans (69%) in effect at end-1995 had either a low probability of meeting their development objectives, or were rated as unsatisfactory in their execution. In 1997 there was a marked improvement in the status of the portfolio as three problematic loans were cancelled<sup>28</sup> and only one out of the remaining 13 loans in effect at end-1996 was ranked as unsatisfactory. However, by 1998, this improvement was reversed: three of the 15 loans outstanding at end-1997 were rated as unsatisfactory and/or unlikely to meet their development objectives. In 1999, the situation deteriorated again: six of the eighteen loans in effect at end-1998 were deemed to be in trouble, as was a loan approved only six months earlier. As of July 2001 the Project Alert Identification System (PAIS) classified 9 projects in the active portfolio as either a problem or at risk; by December 2001, this had improved to 8 projects.

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<sup>28</sup> The Multisectoral Credit Loan (\$60 M, 1992) and the sectoral adjustment component of the hybrid energy loan II (\$20 M, 1994) were cancelled outright without any disbursements; the third tranche of the agriculture sector loan II (\$19.8 M, 1992) was also cancelled. In all cases the cancellations were made because the GOH was not prepared to comply with the policy conditions for their disbursement.

TABLE 3.2

HONDURAS: PROJECT PERFORMANCE MONITORING REPORTS STATUS<sup>a</sup>

APPROVAL DATE	PROJECT NUMBER	PROJECT NAME	ORG APRV \$/M	1992			1994			1996			1997			1998			1999			2000 e					
				%disb	classif	%disb	classif	%disb	DO	IP	AS	%disb	DO	IP	AS	%disb	DO	IP	AS	%disb	DO	IP	AS	%disb	DO	IP	AS
12-Dec-84	H00020	Water Supply Project for Four Cities	24.0	74.7	D																						
18-Sep-85	H00077	Animal Health and Cattle Production Development Program	6.9	57.5	D																						
03-Oct-85	H00093	Second Stage of a Preinvestment Program	6.6	53.7	B																						
16-Oct-85	H00092	Third Stage of the Rural Water Supply Program	24.0	86.4	D	93.0	D																				
17-Sep-86	H00096	Secondary and Access Roads Program	29.0	97.6	N+																						
02-Oct-86	H00098	Hospital Completion and Start-Up Program	27.0	64.3	B	79.7	B																				
17-Dec-86	H00041	Rehab/Improv/Extension of Tegucigalpa Water Supply System	54.0	35.1	D	60.2	D	91.0	P	U	L																
17-Dec-86	H00042	La Paz-Intiouca Rural Development Project	12.4	35.3	B	68.9	B	76.3	B°																		
07-Dec-88	H00037	Highway Rehab/Construction/Improv Local, Access Roads	45.8	76.3	N+	99.6	N																				
07-Dec-88	H00103	Municipal Development Program	12.1	24.3	B	58.7	B	63.8	B°																		
06-Dec-90	H00082	Agriculture Sector Loan	60.0	84.5	N																						
12-Dec-90	H00039	Municipal Development Program	49.5	16.7	N	56.6	N	95.8	LP	S	L	99.9	P	S	H	99.9	P	S	H								
13-Nov-91	H00044	Energy Sector Hybrid Program	105.0	47.6	N	76.2	N	88.6	LP	S	L	92.2	P	S	H	93.5	P	S	H	97.6	P	S	H	98.9	P	S	H
18-Dec-91	H00040	Roads Rehabilitation	110.0	14.2	N	67.8	B	92.6	LP	S	L	97.1	HP	S	H	99.9	HP	S	H								
29-Jul-92	H00051	Social Investment Fund of Honduras	31.5	20.0	N	92.1	N																				
02-Dec-92	H00034	1/ Multisectoral Global Credit Program	60.0	0.0	N	0.0	N	0.0	LP	U	H																
18-Dec-92	H00027	2/ Agricultural Sector Loan II	50.0	0.0	N	40.1	N	60.3	N°																		
21-Jan-93	H00099	RTC Customs System Strengthening	1.4			18.1	N	78.7	LP	U	L	86.7	P	S	H	97.8	P	S	H	...	LP	U	L				
08-Sep-93	H00050	Preinvestment	8.0			0.0	N	10.3	N°			13.9	P	S	H	13.9	I	U	L	18.9	I	U	L	55.6	LP	U	L
24-Nov-93	H00035	Environmental Management Cajon Watershed	20.4			0.0	N	10.6	HP	S	H	13.7	P	S	H	35.1	P	S	H	60.9	P	S	H	75.8	P	S	H
07-Dec-94	H00112	3/ Energy Hybrid Program - Additional Tranche	34.8			0.0	N	14.0	P	U	L	29.8	P	S	H	35.4	P	S	H	35.5	P	S	H	44.9	P	S	H
14-Dec-94	H00028	Bay Islands Environmental Management	19.1			0.0	P	U	H	10.8	P	S	H	20.0	P	U	H	39.5	P	S	H	56.7	P	S	H		
28-Jun-95	H00113	Hondurean Social Investment Fund II	40.0					33.1	HP	S	H	86.2	P	S	H	98.4	P	S	H	...	P	S	H				
28-Jun-95	H00114	Family Assistance Program	20.0					45.5	P	S	H	79.6	P	S	H	93.9	P	S	H	99.1	HP	S	H	...	HP	S	H
20-Dec-95	H00101	Modernization of the State Program	160.0					35.2	P	U	H	63.7	P	U	H	79.8	P	U	H	80.5	P	U	H	80.9	I	U	L
13-Mar-96	H00109	Judicial System Modernization	7.2					0.0	P	S	H	7.3	HP	S	H	28.2	HP	S	H	50.5	HP	S	H	77.2	HP	S	H
02-Oct-96	H00119	Modernization of Agricultural Technology	15.0					0.0	P	S	H	0.0	P	S	H	10.0	P	S	H	14.4	P	U	H	29.6	P	U	H
19-Nov-97	H00128	Sewerage Project for Puerto Cortes	13.8							0.0	HP	S	H	0.0	HP	S	H	11.3	HP	S	H	33.0	P	S	H		
03-Dec-97	H00078	Basic Alternative Education	6.6							0.0	HP	HS	H	0.0	HP	HS	H	4.5	LP	U	L	18.6	P	U	L		
06-May-98	H00032	Reorganization Health System	36.0							0.0	HP	S	H	5.2	HP	S	H	8.2	P	S	H						
18-Nov-98	H00115	San Pedro Sula and Distrito Central Development	63.0							0.0	P	S	H	13.1	P	S	H	24.4	P	S	H						
18-Nov-98	H00137	TC Establishment Executive Revenue Off	3.0							0.0	HP	S	H	0.0	P	VU	H	5.1	P	U	H						
24-Nov-98	H00132	Family Assignment Program Stage	45.2							0.0	P	S	H	10.5	P	S	H	22.6	P	S	H						
02-Dec-98	H00131	Social Investment Program (FHS III)	50.0							0.0	HP	S	H	46.9	HP	S	H	69.9	HP	S	H						
20-Jan-99	H00143	Road and Water Infra. Emergency Program	18.8									45.4	P	S	H	76.0	P	S	H								
09-Jun-99	H00146	Housing Program after Hurricane	10.4									0.0	LP	U	L	0.0	LP	U	L								
08-Sep-99	H00145	Social Protection and Transition	30.0									66.8	P	S	H	99.8	P	S	H								
08-Dec-99	H00072	Investment in Water and Sanitation	26.0									0.0	P	S	H	0.0	P	S	H								
02-Feb-00	H00164	Emergency Road Complementary Program	26.8																	0.0	P	S	H				
28-Jun-00	H00176	Procurement Contracting Transp. Efficient.	14.6																	0.0	HP	HS	H				
20-Sep-00	H00144	Rural Economy Reactivation	30.0																	0.0	P	S	H				
02-Nov-00	H00184	Integral Prog. Urban Poverty Alleviation	8.1																	0.0	P	S	H				
29-Nov-00	H00161	Poverty Alleviation and Local Development (FHS-IV)	25.0																	0.0	HP	HS	H				
06-Dec-00	H00123	National Congress Modernization	2.6																	0.0	HP	S	H				
20-Dec-00	H00178	Preinvestment Program	12.0																	0.0	P	S	H				

Source: ROS.

3.4 While the particular reasons why specific operations face difficulties at the implementation stage are many and varied, Bank documents point to some generic problems that obstruct and delay Bank project implementation in Honduras. In the case of investment loans, these generic problems include: delays in the process of Congressional approval and ratification of loan contracts; lengthy and inefficient bidding and procurement processes; institutional weaknesses in the executing units; lack of counterpart funds and complementary investments due to fiscal stringency, including IMF-backed spending limits; and deficiencies in the mechanism for transferring funds from the Ministry of Finance to executing agencies, even when funds are available. In the case of sector loans, the availability of counterpart funds is not an issue, but the ability and/or willingness of the GOH to deliver on the attendant conditionalities is cited in Bank documents as a serious problem, especially when the National Congress is required to approve enabling legislation.<sup>29</sup>

3.5 Other factors that according to OVE's interviews with stakeholders also contribute to exacerbate problems of execution of Bank projects in Honduras include: the Bank's own procedures and processes;<sup>30</sup> problems of project design that become, down the road, problems of implementation as well; the inclusion of extensive and complex conditionalities on a country with a weak institutional base; inadequate technical support relative to the complexity of the operations (especially sectoral ones); high staff turnover, both in the Bank and in the country, with the corresponding loss of institutional memory; and the broadening of the portfolio in recent years. In a country where institutions are weak and qualified personnel limited, the dispersion of effort noted in the last Chapter (whether strategically appropriate or not) is taxing on the local structures, specially since the IDB is only one of several external agents that have to be dealt with. At the same time, the dispersion stretches thin the capacity of the Country Office to monitor and support project execution.<sup>31</sup>

3.6 A notion of the relative weight of country-specific factors in the performance of the portfolio can be inferred by examining the performance of the World Bank portfolio in Honduras. The quality of the World Bank's Honduras portfolio measured in terms of OED's Development Effectiveness Index—6.2 between 1996 and 1998—is lower than that of the World Bank portfolio in Central America, Latin America and the rest of the world, despite having improved at a higher rate than any of those regions between 1993 and 1998.<sup>32</sup> As to implementation, the World Bank Honduras portfolio—with roughly the same level of loan approvals over the decade, albeit concentrated on a much smaller number of operations—appears to perform better than the IDB's in terms of the average time it takes for project execution.<sup>33</sup> However, the World Bank's Honduras portfolio also exhibits a fairly high, albeit variable, share of projects in difficulties or at risk, which suggests the presence of country-specific factors negatively impacting on the portfolio.

3.7 Within the IDB itself, Honduras is not an outlier in terms of portfolio performance: its record of disbursement and execution times for investment projects is similar to that of the Bank at large—at first sight a rather positive conclusion, consistent with the Region's growing commitment in recent years to improve the status of the portfolio (Chart 3.1). It must be kept in mind, though, that despite some operations of very long standing, dating back to the early 1990s, the Honduras portfolio is actually quite

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<sup>29</sup> According to the World Bank, IDA projects have not experienced systemic problems with counterpart funds, procurement, or delays in audit reports. They have encountered difficulties in three areas: Congressional approval of loans, even if they are not particularly controversial; lack of political consensus regarding some of the reforms; and weak institutional capacity in the public sector. (See World Bank, *Honduras: Country Assistance Strategy*, January 2000, pp. 26-27)

<sup>30</sup> Examples related to process include the long delays in satisfying legal requirements and long turn-around times for approvals requested of the Country Office, although these are at times justified by the need to assess the merits of the proposed changes. The main issue related to substance that OVE detected was Bank inflexibility in handling conditionality—sticking to the letter rather than the spirit of, and objectives pursued by, conditionality (more on this in the section on Policy-Based Lending).

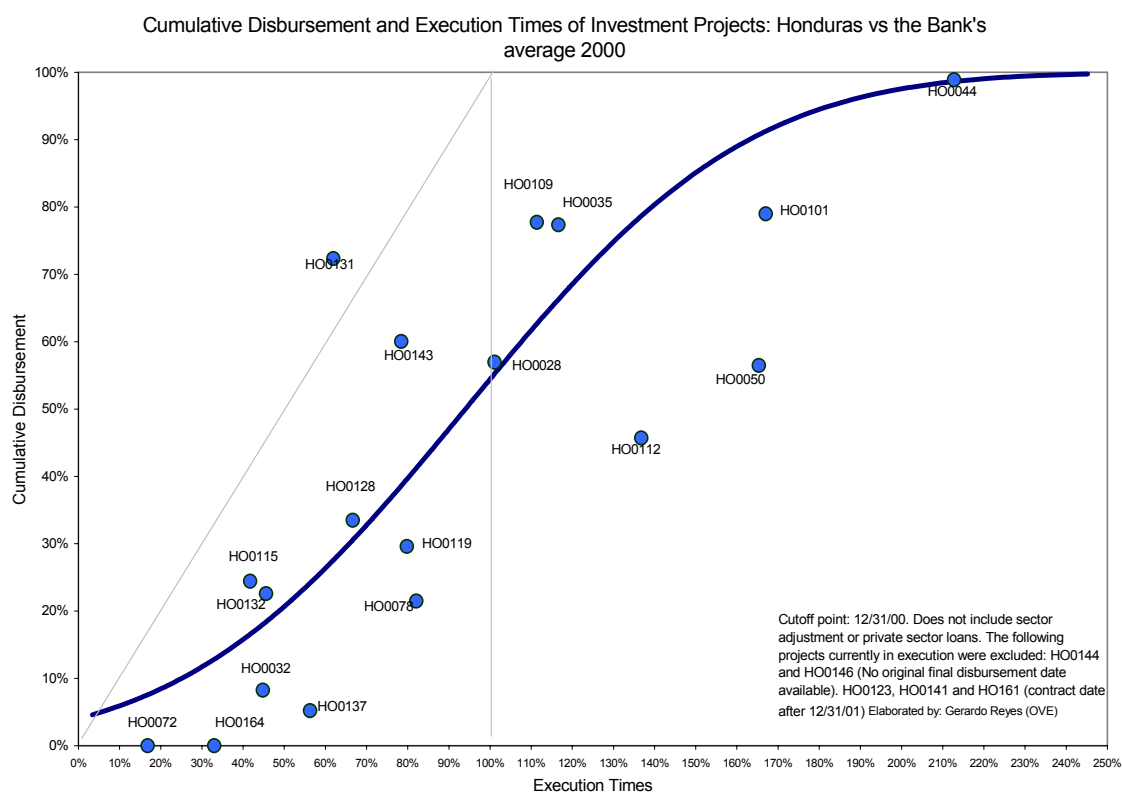
<sup>31</sup> In commentary on a draft of this report, Management indicated that much of what is pointed out in paragraphs 3.4 and 3.5 applies to the Bank as a whole, particularly in the poorer countries. If so, this raises questions about programming and project design and execution on a larger scale.

<sup>32</sup> World Bank, *Honduras: Country Assistance Strategy*, January 2000, Annex E.

<sup>33</sup> Average World Bank execution times: FY96: 3.0 years; FY97: 2.5 years; FY98: 3.3 years; FY99: 3.3 years. See *ibid.*, Annex B2, p. 1.

young. On account of Mitch, 12 of the 28 operations (43%) in the portfolio in mid-2001 were approved within the previous two years; three of them are classified as problematic or at risk<sup>34</sup>.

**CHART 3.1**



3.8 Concerns about the quality of the portfolio have prompted both the GOH and the Bank to take remedial action in recent years. An innovative quarterly portfolio review process between the Ministry of Finance, the Country Office and the respective executing units has been set up to identify problems and resolve them by various means, including the reformulation and/or cancellation of loans. Resources from the Bank's C&D Country Action Plan have been used to provide training and/or expertise to executing units; INDES has developed a pilot program to strengthen the capacity to design and manage social policies in the public sector; and all recent programming documents stress the need to assess the managerial capacity of the prospective executing units and to build into the loan, if needed, an institutional strengthening and training component. Both sides argue that these actions have helped to expedite project execution. As noted, the portfolio performance statistics indicate a recent reduction in the number of "problem" and "at risk" projects.

## 2. Technical Cooperation Program

3.9 Between 1990 and 2000, the Bank approved some 135 non-reimbursable technical cooperation operations (TCs) for Honduras totaling \$39.4 M. Broadly speaking, TCs were used to support project preparation, institutional strengthening in the context of lending operations, training and, more recently, emergency-related activities—indeed, over half of the TCs (72/135) were approved since 1998, and many of them were directly or indirectly linked to emergency relief and reconstruction efforts. At present, there

<sup>34</sup> In this regard, it should be noted that the Bank's *Annual Report on Projects in Execution 2000* note the tendency of the proportion of projects within a given cohort that become problematic, unsatisfactory or at risk to increase over time (p.11).

are a large number of TCs in execution—around 50, not counting MIF, 70-plus if the latter are included.<sup>35</sup> A summary of the sectoral distribution of TCs is presented in Table 3.3.

TABLE 3.3  
HONDURAS: TECHNICAL COOPERATION APPROVALS BY SECTOR, 1990-2000  
(Thousands of US\$)

SECTOR	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL	%
Agriculture*	305.0 (3)	148.0 (2)	150.0	120.0		20.0	1,939.3 (2)			77.3 (2)	150.0	2,909.6 (13)	7%
Industry			30.0							1,700.0	1,100.0	2,830.0 (3)	7%
Energy**	16.5	30.0			2,000.0		1,130.0	448.5 (2)				3,625.0 (6)	9%
Environment Protection		23.0		150.0			76.0		150.0	550.0 (2)	847.0 (4)	1,796.0 (10)	5%
Urban Development	343.0 (3)							100.0	1,393.0 (3)	816.5 (6)	150.0	2,802.5 (14)	7%
Social Investment							20.0		150.0	255.0 (3)	996.2 (5)	1,421.2 (10)	4%
Health				35.0	1,830.0 (2)			14.0		150.0		2,029.0 (5)	5%
Education					60.0 (2)	1,500.0	5.5	1,950.0	15.0	100.0	245.0 (2)	3,875.5 (9)	10%
Transportation								150.0 -2	320.0 (3)	158.7 (2)	369.9 (3)	998.6 (6)	3%
Sanitation				200.0		148.0		509.9 (3)	710.0 (4)	750.0	100.0	2,417.9 (10)	6%
Microenterprises		18.0		130.0					209.2 (2)	1,130.0 (3)	553.0 (3)	2,040.2 (10)	5%
Reform+Modernization				1,150.0	38.0 (2)	1,765.0 (3)	2,807.0 (4)		650.0	650.0 (7)	1,460.3 (2)	8,520.3 (20)	22%
Others	16.5 (2)	120.0	312.6 (4)	270.0 (3)			1,530.0	575.6	297.5 (4)	1,000.0		4,122.2 (17)	10%
Total	681.0 (9)	339.0 (6)	492.6 (6)	2,055.0 (9)	3,928.0 (7)	3,433.0 (6)	7,507.8 (11)	3,748.0 (9)	3,894.7 (19)	7,337.5 (30)	5,971.4 (23)	39,388.0 (135)	100%

Source: FIDS.

Note: Parenthesis indicates number of separate operations.

\* includes Forestry and Fishery.

\*\* includes Communications.

3.10 Assessing the usefulness of TCs through a desk review of documentary evidence is virtually impossible. There is no monitoring system to track their implementation record and there are few progress and completion reports to document what was actually accomplished. Indeed, it is difficult to determine exactly how many TCs there are as different (electronic) sources of information within the Bank give different accounts. Incomplete archives make it difficult to reconstruct in the old-fashioned way what actually occurred. The Bank has devoted much effort to designing and executing TCs in support of new loans, with the aim of enhancing their implementability. It has deployed TCs as “agents of change” in Honduras in recent years—in the social and environmental/natural resource sectors, among other areas. This experience deserves to be documented. In the absence of systematic records, TCs are not analyzed in this report.<sup>36</sup>

### 3. Other IDB Group Support

3.11 **Multilateral Investment Fund (MIF).** Since Honduras became eligible for MIF support in 1995, it has received a total of 14 non-reimbursable TCs from MIF’s three grant-making facilities, for a total of \$13.9 M, plus 13 reimbursable MIF3 operations totaling \$2.98 M, all approved since 1999 as part of the IDB Group’s response to Hurricane Mitch. Whereas 10 of the 13 reimbursable MIF3 operations have already been fully disbursed, none of the TCs have been completed to date. Three operations rated in the *2000 Annual Portfolio Performance Report on MIF Technical Cooperation Grants* as either unsatisfactory in their implementation or unlikely to meet their development objectives have been cancelled; four more are experiencing implementation delays and the two most recent ones have not been signed yet. Among the problems delaying implementation: institutional and technical weaknesses of executing agencies, difficulties meeting contractual obligations, selection and hiring of consultants and Bank bidding procedures, insufficient counterpart funds, and in some cases, the complexity of policy reforms and institutional changes pursued by the projects.

3.12 **Inter-American Investment Corporation (IIC).** In the course of the decade, IIC approved 9 operations in Honduras for a total of \$41.9 M. Of these, four were loans to support the development of industrial processing zones (one of which was subsequently cancelled); four were loans to private

<sup>35</sup> In commentary on a draft of this report, the Bank noted that a number of these have actually terminated while still showing small balances in respective accounts.

<sup>36</sup> OVE’s report RE-247 calls for the establishment of a management information system to track TC implementation and results.

financial intermediaries for on-lending activities (one of which was partially cancelled later); and the most recent loan went to support of a furniture manufacturing operation in San Pedro Sula with considerable export potential. Relative to market size, the IIC has already established a visible presence in Honduras, and it should be able to do more if it manages to improve its project scouting capability, perhaps in partnership with a local firm well acquainted with the needs and potential of the Honduran private sector.

#### 4. Resource Transfers: Aid Flows and Debt Relief

3.13 Net cash flows from the Bank are a function of disbursements minus repayments of principal and the payment of interest and other charges to the Bank. In a wider sense, cash flows are influenced and constrained by the limited availability of FSO resources for Honduras—although the observed slow rate of implementation of the portfolio suggests that significantly higher levels of resources could not be absorbed, even if they were available. Approvals and disbursements have varied from year to year, whereas repayments and interest and other charges have followed a more predictable and steady path, except for the spike in 1996 linked to the "FSO-for-ordinary capital" debt swap noted earlier (Table 3.4). The considerable debt service obligations to the Bank and the slow deployment of the portfolio constrain the Bank's ability to transfer resources to the country. Indeed, net flows were generally low (though considerably higher than those from the World Bank<sup>37</sup>), and even negative in five out of eleven years accounted for in the table.

3.14 The forthcoming granting of debt relief under HIPC may create the possibility of higher net flows from the Bank by lowering repayments. Honduras was declared eligible for debt relief under HIPC in December 1999. It reached the "decision point" in June 2000 and is expected to reach the "completion point" in July 2002. At the end of 1999, the country's official external debt amounted to \$4.288 billion (IDB \$1.086 billion; World Bank \$1.026 billion; CABEI \$391 M; other creditors, including Paris Club and non-Paris Club bilateral creditors \$1.7 billion). HIPC provides for a 17.8% reduction of Honduras' external debt, to be distributed as follows among major multilateral creditors: IDB 23.9% or \$133 M in NPV terms; World Bank 17.6%, CABEI 13.7%, IMF 5.4%. In March 2001, the Bank's shareholders voted to approve the financial framework that would enable it to provide debt relief to four countries under the Enhanced HIPC Initiative, including Honduras. An affirmative Board decision on the extension of interim debt relief by the Bank to Honduras has recently been reached.<sup>38</sup> (Interim debt relief is the relief extended between the HIPC decision point and the completion point.) The decision will enable the Bank to follow the World Bank and CABEI, both of which started to provide interim debt relief after Honduras reached the decision point. CABEI has now granted its full share of debt relief, amounting to \$76 M in NPV terms.

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<sup>37</sup> It is instructive to compare the net cash flow (or net transfers) from the IDB and the World Bank during the 1990s. Table 3.4 indicates a net cash flow from the IDB to Honduras of \$103.4 M for the 11-year period 1990-2000. It also permits calculation of the World Bank's total net flows to Honduras which were negative between 1990 and 2000, amounting to *minus* \$37.8 M (IDA flows plus HIPC debt relief for 2000 minus IBRD flows).

<sup>38</sup> For background, see *Honduras. Alivio interino de la iniciativa de paises pobres muy endeudados (PPME)*. CP-2195; 12 July 2001.

**TABLE 3.4**  
**HONDURAS: NET FLOWS, IDB AND WORLD BANK, 1990-2000**  
(Millions of US Dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL
<b>IDB</b>												
Disbursement	73.2	27.5	109.1	118.8	76.7	78.3	147.0	47.9	55.1	76.4	68.3	878.3
OC	20.6	14.0	35.5	60.2	28.3	35.9	20.8	14.9	8.0	3.0	1.1	242.3
FSO	53.3	14.4	75.5	64.7	52.6	44.9	127.9	35.1	50.1	75.7	67.2	661.4
Repayment	36.2	28.5	28.7	29.1	26.2	31.0	124.9	22.7	24.9	24.9	33.2	410.3
Interest and Charges <sup>1/</sup>	38.6	28.3	29.3	30.7	36.3	35.7	34.4	33.6	29.4	29.3	30.9	356.5
<b>Net flows</b>	<b>-1.6</b>	<b>-29.3</b>	<b>51.2</b>	<b>59.0</b>	<b>14.2</b>	<b>11.6</b>	<b>-12.3</b>	<b>-8.4</b>	<b>0.8</b>	<b>22.3</b>	<b>-4.1</b>	<b>103.4</b>
<i>Pro memoria:</i>												
Undisbursed OC	39.4	84.4	244.0	187.2	155.9	130.6	89.1	14.2	6.2	3.2	2.2	
Undisbursed FSO	175.0	231.6	187.3	145.6	144.4	316.4	208.7	166.8	313.8	323.1	397.7	
<b>World Bank</b>												
Net transfers IDA	-3.5	46.0	57.7	52.6	60.3	73.4	47.1	89.9	62.4	266.5	30.0	782.4
Net transfers IBRD	-108.5	-57.6	-85.0	-58.7	-84.5	-89.0	-89.4	-72.5	-68.1	-64.6	-48.1	-826.0
Interim debt relief (HIPC)	---	---	---	---	---	---	---	---	---	---	---	5.7
<b>Net flows</b>	<b>-112.0</b>	<b>-11.6</b>	<b>-27.3</b>	<b>-6.1</b>	<b>-24.2</b>	<b>-15.6</b>	<b>-42.3</b>	<b>17.4</b>	<b>-5.7</b>	<b>201.9</b>	<b>-12.4</b>	<b>-37.9</b>

Source: FIN and Controller's page, World Bank. Information as of December 31st of each year.

<sup>1/</sup> Includes subscriptions and contributions.

3.15 These developments mark the culmination up to now of a history of bilateral and multilateral debt relief during the 1990s—a process which has been actively supported by the Bank.<sup>39</sup> Post-Mitch debt service payment deferrals and special assistance from bilateral donors through the Central America Emergency Trust Fund (administered by the World Bank) to service multilateral debt reduced actual debt service payments for 1999 to \$277 M or about 8% of export earnings, down from 23.9% in 1997.<sup>40</sup> However, “Even after these operations, external debt obligations at 27 percent of government revenues in 1999 and at an estimated 21 percent on average over 2000-03 continue to exert an important fiscal burden.”<sup>41</sup> Therefore, debt will remain a fact of life in Honduras even after the benefits of the enhanced HIPC treatment materialize. The IMF’s Decision Point Document acknowledges that the Debt Sustainability Analysis (the basis to determine the amount of debt relief to be granted after traditional relief measures are exhausted) is based on macroeconomic assumptions that may or may not hold—notably an acceleration of real GDP growth to 6% and constant official transfers “reflecting a continued international commitment to Honduras’s development efforts.”<sup>42</sup>

3.16 Given Honduras’s historical record of low and volatile growth, the first assumption seems overly optimistic<sup>43</sup> and the second assumption is fraught with uncertainty, too. Chart 3.2 indicates that Honduras is highly dependent on foreign aid: on average, the aid/GDP ratio exceeded 10% in the 1990s, although the statistic declined during the decade until Mitch caused the trend to revert. Chart 3.3, on the other hand, indicates some cause for concern regarding the future sustainability of an aid-dependent arrangement. Bilateral disbursements, including in particular those from the U.S. have tended to decline during much of the 1990s, except for the extra support warranted by Hurricane Mitch at the end of the decade. Previous peaks in bilateral disbursement occurred in the mid-1980s (linked to efforts to contain political developments in neighboring Nicaragua) and in 1990-1991 when bilateral donors provided bridge financing to clean up arrears and restore Honduras's ability to borrow from multilateral sources. It is

<sup>39</sup> In the Paris Club, four debt relief agreements were concluded during the 1990s, each time consolidating 100% of debt with consolidation including arrears in the 1990 agreement and both arrears and previously rescheduled debt in the following agreements. The amounts consolidated were as follows: September 1990: \$280 M; October 1992: \$180 M; February 1996: \$112 M; April 1999: \$411 M. The country also concluded multilateral debt relief agreements with commercial banks in 1987 and 1989 (World Bank, *Global Development Finance: Building Coalitions for Effective Development Finance 2001*, Appendix 2 and 3).

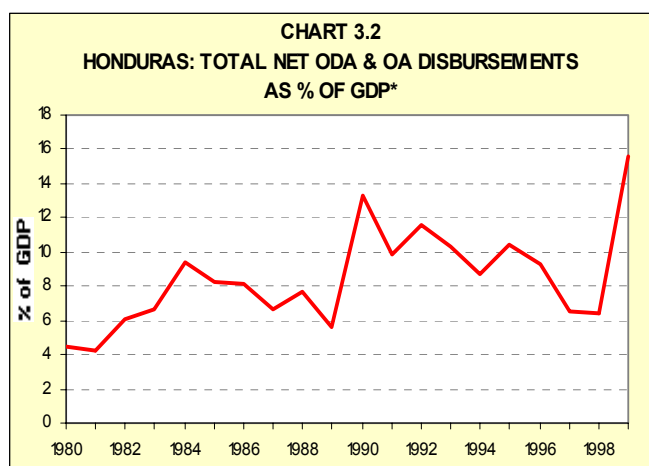
<sup>40</sup> IMF, *Honduras: Decision Point Document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative*, June 2000.

<sup>41</sup> *Ibid.*, p. 17.

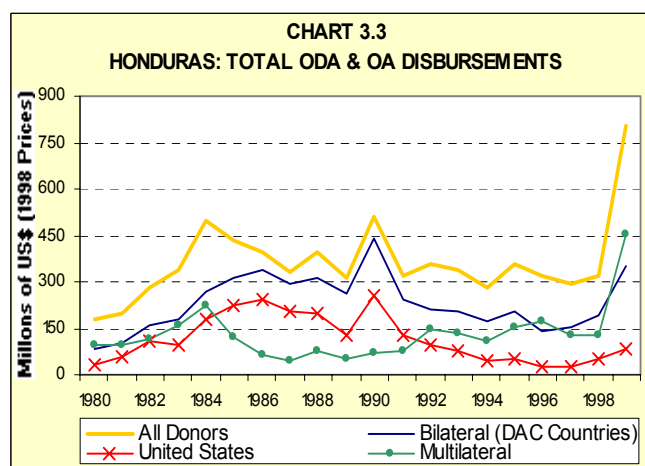
<sup>42</sup> *Ibid.*, p. 18.

<sup>43</sup> The World Bank's Country Assistance Strategy for Honduras (January 2000) projects annual GDP growth to be 3.9% in 1999-03 (annex A).

not realistic to expect the Mitch-related peak to continue into the future; it is rather to be expected (and some donors have confirmed this) that bilateral disbursements will revert to the declining trend that has characterized the period 1990-1996. In 1998 multilateral disbursements exceeded bilateral ones for the first time, suggesting that in light of the limited resource availability from this source<sup>44</sup> the outlook for aid flows to Honduras may be uncertain. At the very least the question is whether multilateral sources would compensate for a shortfall in bilateral contributions in the longer term.



Source: OECD - DAC.  
\*ODA = Official Development Assistance; OA = Official Aid.



Source: OECD - DAC.

## B. Program Review: Selected Issues

### 1. Policy-based lending

3.17 Policy-based lending was an important form of Bank financial support to Honduras during the 1990s. Between 1990-1995, six policy-based loans were approved: two agricultural sector loans, a multisectoral global credit (an investment operation with policy conditionality, cancelled in 1997), two energy sector loans (one hybrid, plus an additional tranche), and a public sector reform loan. This was followed in 1999 by a fast-disbursing, but not policy-based, operation in the social sectors. Overall, some 40% of Bank loan approvals for Honduras during the decade were policy based, respectively fast-disbursing in intent. These operations are reviewed below.<sup>45</sup>

3.18 The importance of this modality of lending appears to have been guided as much by the size of the external financing gaps faced by Honduras at the time as by the perceived need for fundamental economic reforms—a view shared by Honduras's main external funders, i.e. the IDB, the World Bank, the IMF and USAID. In fact, with the exception of the Public Sector Reform Program, where IDB took the lead, all other IDB sector programs during this period either co-financed World Bank-led operations or were done in parallel with World Bank operations, and all sectoral loan tranche disbursements were contingent on the country's compliance with IMF macroeconomic conditionality.

<sup>44</sup> At least as far as IDB-FSO is concerned.

<sup>45</sup> The fast-disbursing Transition and Social Protection Program (\$30 M, 1999, prompted by the need to protect ongoing social programs in the wake of Hurricane Mitch) is not reviewed here, because it was not a policy-based loan.



**a) Agricultural sector loans**

3.19 The Bank's agricultural sector program in Honduras comprised two separate operations, each of which co-financed simultaneous World Bank programs.

3.20 The first agricultural sector adjustment program (ASL I, \$60 M, 1990) co-financed the agricultural component of the World Bank's SAL II<sup>46</sup>. Its over-arching objective was to reverse the pre-1990 policies for agriculture on the premise that the main obstacles holding back the development of the sector were excessive and misguided government interventions, distorted relative prices of goods and factors of production and constraints to market access. Problems related to inadequate utilization of the natural resource base and the limited effectiveness of sectoral public institutions were also recognized, but it was decided that these issues would be tackled in a subsequent operation.

3.21 The program covered policy reforms in four major areas, to be carried out within a two-year timeframe:

- Trade and Price Policy. The program called for the elimination of agricultural price controls at the wholesale and retail levels, the elimination of quotas and other non-tariff barriers, a reduction in the level and dispersion of tariffs to within a 5%-20% range, and the maintenance of a flexible exchange rate regime, following the devaluation of the lempira effected in early 1990. In the area of trade, the GOH was required to eliminate all tariff exemptions by the first tranche, remove all import restrictions by the second tranche and, for the third tranche, eliminate all import surcharges for agricultural products and have in place a new export incentive regime and a program to eliminate and/or reduce export restrictions (i.e. taxes, quotas, licensing, etc.). In the area of prices, by the second tranche all agricultural price controls as well as producer price guarantees were to be eliminated.
- Basic Grains. The program called for the price guarantee system for maize and other basic grains to be dismantled and replaced by an administered price band system based on variable import levies, so as to keep local prices within a pre-defined band along long-term international price trends. The monopoly for grain imports of the Instituto Hondureño de Mercadeo Agrícola (IHMA) was to be eliminated and its storage and drying infrastructure were to be eventually privatized. By the second tranche, the price band system had to be in place and the rationalization of IHMA well under way.
- Agricultural Credit and Finance. The program called for the gradual elimination of subsidized credit lines for agriculture and for a substantial restructuring of BANADESA (the Agricultural Development Bank)—the public institution that is the main source of formal credit to small/medium farmers and cooperatives. It also called for the removal of interest rate ceilings and the introduction of variable interest rates to allow commercial banks to cover the higher transactions costs associated with smaller loans.
- Food Security. The program called for a food intervention program to offset the short term increase in prices of basic foods which would result from the adjustment process to be financed through the budget rather than through Central Bank transfers, along with a major restructuring and divestiture of BANASUPRO, the government agency charged with provisioning of food and other basic products to low-income families. A separately funded

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<sup>46</sup> The key components of the World Bank's SAL II included: trade reforms to reduce the anti-export bias of the trade regime; public sector management reforms to increase public sector savings, reduce fiscal imbalances and improve the efficiency of public sector current expenditures and investment programs; liberalization of credit and interest rates and measures to strengthen the regulatory and supervisory framework of the financial sector; and the elimination of policy-induced pricing and marketing distortions in agriculture.

social investment fund was developed by the World Bank to address long term nutrition and public health aspects.

3.22 Anticipated Benefits and Risks. In terms of benefits, it was stated that the “policy measures proposed in ASL I can realistically improve the growth rate of agricultural GDP in the next five years, with even greater benefits into the future”.<sup>47</sup> As to the risks, it was noted that the continuation of the macroeconomic program (flexible exchange rate, positive real interest rates, lower tariffs and other trade taxes) would be difficult to maintain in the short run as the benefits of the program would not become evident immediately and as inflation and unemployment rose in the short term. In addition, the project team anticipated difficulties in the release of the remaining price controls, the elimination of interest rate ceilings, and the restructuring of BANADESA.

3.23 Results. As it happened, staff expectations regarding both the benefits and the risks were misplaced. The expected risks did not materialize: the country complied fully with thirteen of the fourteen conditions for the release of the second tranche<sup>48</sup> and with twelve of the thirteen conditions for release of the third tranche.<sup>49</sup> Hence, the regulatory environment did improve, state intervention and real public expenditures in the sector declined, and price distortions were eliminated. Unfortunately, though, key anticipated benefits failed to materialize: agricultural GDP did not significantly increase in a sustained fashion (even before Hurricane Mitch devastated the Honduran countryside in 1998-1999), although its composition did shift from basic grains to coffee and non-traditional products for export such as melons, watermelon, and shrimp.<sup>50</sup> Owing to the labor intensive nature of these crops, this must have benefited many smallholders, although many of those who were displaced from grain production were not adequately absorbed elsewhere, with the result that rural unemployment and poverty grew.

3.24 A Project Completion Report that might have shed light on this was not produced. OVE’s sources attribute the failure of agricultural activity to revive to the fact that alternative sources of agricultural credit did not develop, even as BANADESA’s portfolio declined; that much needed investments in rural infrastructure were not carried out; that there was some slippage in the policy reforms; and that other complementary policies (such as the harmonization of basic grains policies in Central America) did not come to pass.<sup>51</sup>

3.25 The second agricultural sector adjustment operation (ASL II, \$50 M, 1992) co-financed the World Bank’s Agricultural Sector Adjustment Loan (\$60 M, 1993). The objective of ASL II was to support the implementation of the policies and structural reforms embodied in the newly approved Agricultural Modernization Law (Law 31-92, April 1992), with a view to increasing investment and productivity in the sector.

3.26 The program contained four main components to be carried out within a 30-month timeframe:

- Land Tenure. The objective was to improve land use through guaranteed and secure land ownership rights, legalized land rental arrangements, elimination of provisions that distort land use patterns, accelerated titling, and elimination of prohibitions against titling to women and holders of less than 5 ha., and a major downsizing and revamping of the National

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<sup>47</sup> See loan document PR-1736, 30 October 1990, p.23.

<sup>48</sup> A partial waiver was granted for temporarily maintaining price controls of sugar and coffee in order to participate in the 1992 Central American agricultural policy harmonization initiative.

<sup>49</sup> A partial waiver was granted regarding the legislation revising the export incentive system, which had been presented but not yet approved by the Congress.

<sup>50</sup> Chart 1.3 as well as sectoral growth and export statistics by CEPAL.

<sup>51</sup> Bank staff blame mainly policy slippages—particularly high interest rates and exchange rate appreciation—for shifting the incentives to invest towards non-tradables and the financial sector at the expense of agriculture.

Agrarian Institute (INA). Disbursements were linked to progress in the implementation of a highly detailed Land Tenure Action Plan.

- Forestry. The objective was to lay the basis for a sustainable management of the country's forest resources with increased participation of the private sector, the introduction of a standing wood auction process open to domestic and foreign investors, and elimination of any public sector activity or function regarding production, marketing and trade of forest products, such as those performed by COHDEFOR (Honduran Corporation for Forestry Development) and AFE (State Forestry Administration). To this end, a highly detailed Forestry Action Plan was developed, with loan disbursements linked to progress in the implementation of the plan.
- Rural Finance. The objective was to deepen the reforms started under ASL I by improving the efficiency of rural financial intermediation and increasing access of small farmers to credit facilities, through the elimination of credit subsidies, the divestiture of BANADESA and the establishment of private, regulated Rural Credit Banks (Cajas Rurales), along with a Land Credit Fund, a line of credit for land purchases.<sup>52</sup> Loan disbursements would be linked to progress in the implementation of a highly detailed Rural Financial Sector Action Plan.
- Government expenditure and public administration. The objective was to improve sector policy planning and coordination by strengthening and making better use of the budget process. As specified in a highly detailed Public Administration Action Plan, each sector institution would be required to have their annual budgets and plans of action approved by the Economic Cabinet before approval by the Ministry of Finance and submission to the Bank for review. In view of the complexities of the program, a technical assistance package in the form of a Policy Support Program was approved in conjunction with the loan to provide UPSA (Agricultural Sectoral Planning Unit) and the sector institutions technical support to help them develop and institutionalize the managerial capacity needed to implement the new sectoral policies. Loan disbursements were linked to progress in the implementation of the Action Plan.

3.27 Anticipated Benefits and Risks. The main expected benefit, as under ASL I, was that the improved policy regime would increase agricultural GDP growth in the next five years, with even greater benefits later on, and that such enhanced growth would in turn generate employment, foreign investment and foreign exchange. As to the risks, staff anticipated political resistance to carrying on some of the reforms, but were assuaged by the fact that the critical enabling legislation underpinning the reforms—Ley de Desarrollo y Modernización Agrícola—was already in place. They were also concerned about the GOH's institutional capacity to carry out such complex and profound reforms, but these risks were balanced by the inclusion of the technical assistance package embedded in the loan and the fact that several bilateral donors—notably USAID—were also providing technical support. Finally, they were concerned about the negative social and environmental impacts that might derive from failure to adequately implement the provisions of the forestry component, in particular. In order to meet that eventuality, terms of reference for a monitoring system to assess the social and environmental repercussions of the policy reforms were included in the environmental statement.

3.28 Results. Within six months, the country had met all ten conditions for first and second tranche releases without resort to any waivers. That meant, *inter alia*, that: INA had achieved the benchmark of granting 5,000 land titles, while reducing its staff by 50%; COHDEFOR established the system of timber

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<sup>52</sup> In the loan document, the Bank expressed misgivings about the creation of rural banks and the land credit fund, emphasizing that whatever was done in this area had to be consistent with the broader financial sector reform embodied in the Ley de Intermediarios Financieros then before the Congress.

auctions and developed management plans for 200,000 ha. of forest lands, while cutting its staff by 25%; and the Economic Cabinet approved a plan for the gradual divestiture of BANADESA, while its staff was reduced by 10%.

3.29 While the IDB and the World Bank were generally pleased with the country's compliance with policy conditionality, in Honduras the ASL II became a topic in the 1994 election campaign. At issue was the fact that while the agricultural sector bore the burden of the reforms, the loan went to the Ministry of Finance (which was natural, given that its objective was to provide balance of payments support). The measures meant to benefit the agricultural sector—such as the Cajas Rurales and the Land Credit Fund—never materialized due to lack of funding. The incoming Reina administration intended to cancel the program in 1994. It was dissuaded by the IDB and the World Bank from doing so, but it did balk at the commitment to divest BANADESA and negotiated a streamlining of the institution instead.<sup>53</sup> In 1996 the GOH cancelled the third tranche of the IDB loan, ostensibly because it was on non-concessional terms, but also because of differences over the design and handling of conditionality. The World Bank's (concessional) third tranche was released in 1997.

3.30 The *Project Completion Report* for ASL II rated project implementation as *highly satisfactory* and the attainment of development objectives as *highly probable*. This appears to overstate the case somewhat, though in the body of the report (prepared in July, 1998) it is made clear that the greatest impact and success occurred in the areas of land tenure and forestry, while in the case of rural finance and public administration the gains were much more limited. The PCR also contained some useful “lessons learned.” Regarding project design, it noted the limited capacity to implement conditionality because the reform measures had preceded efforts at institutional strengthening. In terms of project execution and supervision, the key problem was the lack of continuity on the part of IDB and World Bank staff who had been involved in project design, none of whom continued through the implementation phase. Finally, the report noted that while the relationship between the IDB and the World Bank during the design phase was productive, high staff turnover at both ends made inter-agency coordination increasingly difficult over time.

#### **b) Global Multisector Credit Loan**

3.31 Though not strictly a sectoral program, this global credit operation (\$60 M, 1992) was a policy-driven project loan, whose disbursement was conditioned on the approval of the Ley de Intermediarios Financieros. The objective of the program was to support ongoing economic and financial reforms, foster the development of financial and capital markets and provide medium and long term private investment financing. It consisted of three components: (i) the establishment of an auction mechanism to allocate resources; (ii) a loan of \$60 M for on-lending purposes; and (iii) an institutional support component to help launch the auction system and strengthen prudential supervision.

3.32 Project design was based on four basic principles, namely: (i) confine public sector lending operations to the wholesale level, using private financial institutions to on-lend to the final borrower, assuming both the market and exchange risks; (ii) assure that participating private financial institutions are adequately regulated and follow prudential banking norms; (iii) support the emergence of market-based interest rates and the elimination of credit subsidies; and (iv) minimize directed credit.

3.33 Anticipated benefits and risks. The main anticipated benefit of the project was the introduction of an auction system as a mechanism for eliciting a market price for term finance and allocating the resources among financial intermediaries with greater efficiency and transparency. Additional benefits were expected to flow from the injection of \$60 M in credit towards the modernization and diversification

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<sup>53</sup> The World Bank had opposed the idea of divesting BANADESA from the outset.

of the productive base, as well as from the strengthening of the regulatory framework and prudential supervision. The risks were deemed to lie in the absence of an appropriate economic, financial and institutional environment for the auction system to function adequately, including the possibility of collusion among auction participants, and in the capacity of market participants to adapt to the new credit allocation mechanisms and to the disappearance of subsidized credit. The project team felt confident that features built into the operation, including the temporary suspension of the auction, if circumstances warranted it, and the inclusion of a minimum rediscount rate would lead to an improvement in the overall allocation of credit. The team also felt encouraged by the enthusiastic support of the Central Bank of Honduras and other local groups and external agencies, including the IMF, despite the fact that some local bankers were far less sanguine about it.

3.34 In the event, delays in Legislative approval of the financial legislation slowed the momentum of the program. By the time the financial legislation was passed in 1995, it had become apparent that the auction mechanism was too complex for the Honduran financial environment and the qualifying conditions for participation too demanding for individual financial intermediaries. The loan was cancelled in 1997 without any disbursements having been made. A technical cooperation program linked to the loan, designed to strengthen prudential regulation and supervision, did move forward and paved the way for a number of financial operations that the IIC was able to carry out directly with private financial intermediaries in the late 1990s.

### **c) Energy Sector Loans**

3.35 The Bank's energy sector program for Honduras was a hybrid: it originally comprised an investment component (not reviewed here, \$50 M, 1991) and a sectoral component (\$55 M, 1991) to be disbursed in three tranches. A fourth tranche (\$14.8 M) as well as an additional investment component (\$20 M) were added in 1994. The original program was co-financed by the World Bank (\$50 M).

3.36 An important concern underlying this operation was the need to reduce the fiscal and external resource drain posed by the energy sector, in particular ENEE (the National Electricity Enterprise),<sup>54</sup> which threatened the overall macroeconomic situation of the country.<sup>55</sup> Accordingly, the main objectives of the energy sector program were to establish an institutional and regulatory regime for the sector, improve the operational and financial performance of ENEE, set electricity tariffs to cover long-term marginal costs, liberalize the petroleum market, and conduct a study to explore alternate sources of energy and rationalize the use of firewood.

3.37 The disbursement of the first tranche was contingent upon the creation of CNEE (the National Energy Commission) to oversee the overall development of the sector, and CNSSP (the National Public Services Supervisory Commission), a public utilities rate-setting body meant to wrestle regulatory functions away from the Congress. Subsequent tranche disbursements were linked to progress in the phasing-out of electricity subsidies and in the implementation of several action plans: a Management and Operational Restructuring Plan, along with a contract-plan to track improvements in the operational efficiency of ENEE to be monitored by CNSSP; a Plan to Reduce ENEE's Electricity Losses; a Plan for the Liberalization of the Petroleum Market and the development of a Plan for Fuel Substitution.

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<sup>54</sup> ENEE's financial situation deteriorated significantly in the late 1980s on account of a number of factors: over-investment in Hydroelectric Project El Cajon (co-financed by World Bank and IDB) which coupled with disappointing export sales, the revaluation of the basket of currencies against the dollar and the 50% devaluation of the lempira led to an unsustainable external debt burden; and the 1966 Public Administration Law which transferred tariff-setting authority from ENEE to the Congress and allowed other political interference, which effectively froze rates below marginal costs, padded the payroll and resulted in no payment by public and semi-public institutions.

<sup>55</sup> Frequent natural disasters interfered with the initiation of reforms. The 1993 drought led to serious power shortages and a substantial deterioration of ENEE's financial situation.

3.38 Anticipated benefits and risks. The main benefits were expected to flow from the development of a coherent energy sector strategy, along with a better division of labor and enhanced coordination among sector agencies, with the major effort centered on improving the operational, financial and administrative capacity of ENEE. The main risks were deemed to reside in possible resistance to the reforms by ENEE unions and others and continued political interference in matters such as tariff-setting, as well as unfavorable developments in such variables as interest rates and the exchange rate to which ENEE was particularly vulnerable on account of its very large dollar-denominated debt. The project team felt, nevertheless, that the government commitment to the reforms, the front-loading of conditionality, and enhanced supervision on the part of the Bank were enough to mitigate such risks.

3.39 First and second tranche disbursements by both the IDB and the World Bank proceeded swiftly and simultaneously, in May and November, 1992. Thereafter, the two Banks parted ways. The World Bank eventually disbursed the third tranche in April 1997, granting partial waivers regarding ENEE's operational and financial performance and certain elements in the liberalization of the petroleum market. By contrast, in exchange for releasing the third tranche and agreeing to supply additional investment funds to ease the electricity shortages of 1994, the IDB negotiated an additional tranche that sought to deepen the reform program by making the new resources again conditional on the approval by the Congress of a Ley Marco del Subsector Electrico to allow, *inter alia*, for the privatization of ENEE.

3.40 In the event, an Electricity Law was passed, but it did not meet the Bank's approval, as it did not go far enough in allowing private participation in the sector or in "de-politicizing" the tariff-setting process. The GOH cancelled the loan in September 1997. The unmet conditions of the energy sector program became second tranche conditions in the Public Sector Reform Program (PSRP) approved in 1995 (see below).

3.41 Results. Despite the circumstances that eventually led to the cancellation of the loan, some results were achieved, including: the institutional changes required by the first-tranche conditions, the passage of the Ley Marco which despite deficiencies facilitated greater private participation in the power generation segment, the reduction of electricity losses, and tariff adjustments in the direction of scarcity pricing that helped improve the financial situation of ENEE. The Project Completion Report classified the program as *satisfactory* in its implementation and *probable* in terms of attaining its development objectives. The report however makes it clear that the latter assessment was based not on what had actually occurred—which was deemed to be inadequate—but on the assumption that ENEE's situation would only improve if it were privatized and that there was a fair chance of that happening because of the conditionality now attached to the PSRP and the IMF program. The PCR also acknowledged the perception that the IDB was less flexible than the World Bank and that tensions had arisen between GOH and IDB's senior management. For its part, the GOH evaluation noted that "Bank involvement was extensive, but in many regards, instead of useful and efficient, it was authoritarian, especially regarding conditionalities, and showed little regard for their implications, or for imperfections in the local setting," adding that despite having followed the guidelines to harmonize the functions of sector agencies, in the end, the Bank gave regulatory agencies neither much chance to participate nor much feedback (see PCR, p.23).

#### **d) Public Sector Reform Program**

3.42 The Public Sector Reform Program (\$160 M, 1995), with parallel financing from the World Bank (\$55M), sought to modernize Honduras's public sector and remove structural imbalances that cause recurrent fiscal imbalances. A major collateral objective of the operation was to ease Honduras external debt burden by enabling it to prepay an Ordinary Capital loan in the amount of \$100 M dating back to the El Cajon hydroelectric project.

3.43 The program consisted of three components:

- Public Services Reform: aimed at enhancing the normative and regulatory role of the state, while expanding the role of the private sector in the provision of public services through privatization and concession, particularly in four areas:
  - *Telecommunications*: the program called for the approval of a new Ley Marco de Telecomunicaciones to modify HONDUTEL's statute, creating a new, separate regulatory body (CONATEL) and allowing for private participation in the sector. Disbursement of the second tranche was conditioned on opening the bidding for telephony services, and of the third, on the effective transfer of operations to one or more private parties of basic, long distance and international telephony services.
  - *Airports*: the program called for the approval of two new laws: Ley de Aviacion Civil and Ley de la Empresa Hondurena de Aeropuertos y Servicios de Navegacion Aerea, and the concessioning of at least two of the four airports.
  - *Electricity*: the program called for modification of the Ley Marco del Sub-Sector Electrico, so as to improve the regulatory regime and create incentives for the participation of the private sector in electricity generation and distribution. As a condition for third tranche disbursement, energy distribution at the national level must be fully privatized.
  - *Ports*: the program called for the development of a strategy for eventual private sector participation in this area.
- Institutional Reform: aimed at reducing the size and improve the structure and operational efficiency of government institutions through reconcentration, deconcentration, decentralization, function transfers and outsourcing of services from the private sector; it also seeks a sustained reduction in public sector employment of at least 10%. The program called for approval of a new Ley de Administracion Publica and targets those institutions responsible for the bulk of public expenditures, as well as those in charge of economic policy and investment programming. Tranche disbursements are linked to progress in the implementation of detailed Action Plans for the restructuring of each of the following institutions:
  - *Education*: emphasis on refocusing attention and resources on primary and secondary education while transferring responsibility for technical education to the private sector.
  - *Health*: emphasis on refocusing resources on basic health services and developing new service delivery models.
  - *Public Works and Transportation*: refocus on policy and regulatory role of SECOPT, while transferring operational activities to the private sector.
  - *Natural Resources*: strengthening the Secretariat's regulatory role and deepen the sectoral restructuring started under the Agricultural Sector Program.
  - *Finance, Planning and Economy Secretariats*: Finance to focus on strictly fiscal activities; Planning Secretariat to be dissolved, transferring its investment programming

functions to Finance and its social investment functions to a special unit to be created at the Presidency; and Economy to concentrate on support and regulation of activities transferred to the private sector.

- Public Management Reform: The program supported the improvement of information systems for integrated human resource management and payroll control throughout the public sector. It also supported the development of an integrated financial management system, including budgeting, national accounts, treasury and public debt modules, to allow for decentralized execution while retaining central control. Likewise, it sought to strengthen and improve the investment programming function.

3.44 Anticipated Benefits and Risks. The main anticipated benefits from the program were deemed to flow from two sources: (i) the reduction in the external debt burden linked to the prepayment to IDB of \$100M of ordinary capital and a 50% reduction in HONDUTEL's debt following privatization; and (ii) the efficiency gains and fiscal savings to be derived from the rationalization of the public sector and private participation in the provision of public services.

3.45 A study commissioned by the Bank for this purpose estimated the program to yield a reduction in total external debt in the range of 3.1% - 5.1% and annual debt service savings of some \$27.5 M (i.e. \$15 M due to prepayment of the El Cajon loan and \$12.5 M as a result of a 50% decline in HONDUTEL's debt). At the same time, the permanent fiscal savings flowing from the PSRP were estimated at some 2.5% of GDP, not counting those related to the electricity sector.<sup>56</sup> It is noteworthy that the study assumed "conservatively" a sale price for HONDUTEL of \$440 M. When it was actually put up for sale last year, the highest bid was only \$80 M, so the GOH backed down.<sup>57</sup> owing to the impact of Hurricane Mitch on the economy, the valuation of HONDUTEL changed significantly because of new (temporarily depressed) market conditions and because of the physical losses suffered by HONDUTEL as a result of the disaster.

3.46 As to the risks, three main ones were foreseen. The first related to political commitment to the reforms. Staff were optimistic on account of the politically costly decisions already made by GOH regarding cutbacks in public sector employment and telecoms. The other risks related to the lack of qualified personnel and complexities in the implementation and monitoring of the program. They felt these risks were adequately addressed by the \$16.7 M technical cooperation component of the program and the fact that the legal aspects of the conditionality were all front-loaded.

3.47 Results. The execution of this extremely complex program, whose implementation required ten different detailed Action Plans and four major pieces of legislation, has been difficult. Arguably, it would have been even more difficult had the IDB (as indicated by Management) not been able to modify the World Bank's initial, ambitious, government-wide design, thus bringing the operation down to a four-ministry scope. PPMRs have rated the execution as *unsatisfactory* from the outset—for six years in a row—and the last PPMR downgraded its rating to a *low probability* of attaining its development objectives.

3.48 Only the first tranche has been disbursed on time. There was progress in the institutional and public sector management components of the program, but not enough to release the second tranche. This tranche was released on account of the Mitch emergency and required four waivers (out of a total of 13 conditions), all of them related to private sector participation in public services delivery. Since then the GOH attempted but failed to sell HONDUTEL, as mentioned, passed enabling legislation and

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<sup>56</sup> See Honduras. *Propuesta de Prestamo para un programa de reforma del sector publico*, (PR-2100), 28/11/95; Anexo I-2.

<sup>57</sup> Bank staff attribute the significant change in the valuation of HONDUTEL to the physical losses suffered by HONDUTEL as a result of Hurricane Mitch and to (temporarily depressed) market conditions.



concessed the four main airports. The main point of contention, carried over from the sectoral energy program, i.e., passage of enabling legislation to privatize ENEC, has now become moot, since in November 2001 the World Bank and the IDB released their respective third tranche on the grounds that: (i) the country had made substantive progress in most areas of modernization and restructuring of the role of the state as originally envisaged under the loan; and (ii) a stable macroeconomic framework has been maintained, as evidenced by the conclusion, on October 5, 2001, of an agreement with the IMF regarding the third year of the program under the Fund's Growth and Poverty Reduction Facility.<sup>58</sup>

### e) Assessment of Policy-based Lending

3.49 Looking at policy-based lending in Honduras as a whole, on the basis of available documentary evidence and numerous interviews with stakeholders, and with the benefit of hindsight, the following can be concluded:

#### *Program design and conditionality*

3.50 Over time, the design and conditionality of sectoral programs have become progressively more extensive and complex, often encompassing matters of process as well as of policy. This raises issues about the appropriate scope of the programs, the adequate prioritization of conditions, the test of criticality to be applied in deciding whether a particular policy action should be covered by conditionality and the degree of detail with which compliance is to be monitored. A recent review of IMF conditionality, which included relevant experiences from the World Bank as well, noted that “conditionality was most effective where it was parsimonious, focusing on a small number of truly important measures.” This description does not apply to the conditionalities in IDB lending over the period.<sup>59</sup>

3.51 Program design must also be mindful of the country's capacity to implement reforms.<sup>60</sup> In Honduras, which (according to many people interviewed for this report) is conservative by nature, lacks a technocratic elite and suffers from institutional weaknesses (both public and private), the appropriateness of an all-encompassing approach to reform and conditionality is subject to question. The problem of conditionality overload seems to have been compounded by inappropriate sequencing between policy reforms and institutional strengthening. In addition, there appear to have been misalignments in the built-in incentive structure of the programs, whereby the costs of the policy decisions were borne by the reforming sectors while most of the rewards accrued to Finance.

3.52 The issue of ownership also needs to be raised. With the possible exception of a short period in the early 1990s, Honduras's attitude to reform has been mostly one of resignation—do whatever it takes to get the funding. By most accounts, its input into program design has been minimal and even some project managers still do not fully grasp—or fully share—“the concept.” Here is an area where deeper and more sustained policy dialogue might help both to improve program design and enhance buy-in to the reforms, through a mutual learning process. Beyond the initial effort of putting the program together, there seems to have been scope for greater Bank involvement in helping GOH explain and “sell” the programs, particularly since many of the provisions contained therein required the cooperation of the National Congress and others beyond the core economic agencies.<sup>61</sup>

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<sup>58</sup> See IDB, *Honduras. Loan 967/SF-HO for a public sector reform program. Report on eligibility for release of the third tranche*. PR-2100-3, October 23, 2001; and World Bank, *Honduras – Public Sector Modernization Structural Adjustment Credit. Release of Third Tranche and Associated FY98 and FY01 IDA Reflows*, IDA/R2001-0164, October 11, 2001.

<sup>59</sup> See IMF, *Conditionality in Fund-Supported Programs—Policy Issues*, Feb. 16, 2001, p.57.

<sup>60</sup> The lesson was taken into account during the third programming cycle.

<sup>61</sup> With the benefit of hindsight, it also seems unfortunate that early on in the decade the Bank did not address the policy making weakness by, for example, sending some 30-50 promising professionals to a first rate university program abroad. A critical mass of highly qualified, like-minded public policy specialists could have made a great difference in Honduras. However, in comments on a draft of this report, this suggestion was dismissed by Bank staff: “Por otra parte, parece aventurado en un reporte de evaluación, hacer elucubraciones como las señaladas [en el párrafo

3.53 Finally, there is an inherent tension in an instrument that is supposed to be at once fast-disbursing and a tool to induce long term structural and institutional change. In the case of Honduras, with the exception of the first agricultural sector loan, where conditions were essentially one-off macro adjustments, and later on the Social Protection and Transition Loan, sectoral loans have not been fast-disbursing instruments at all, so that their contribution to smoothing out external imbalances has been far less than originally intended. Moreover, the existence of large undisbursed balances from these slow-executing operations may, in fact, have discouraged other potentially more useful loans.

#### *Program implementation and supervision*

3.54 In Bank circles Honduras has the reputation of being a reluctant reformer.<sup>62</sup> And so it may be. Yet, it would be wrong to attribute poor implementation simply to lack of GOH commitment:<sup>63</sup> on occasion, GOH has taken bold and politically costly measures—a 50% devaluation, a 70% increase in electricity rates, the dismantling of agricultural price supports and price controls, eliminating credit subsidies, liberalizing trade and interest rates, reducing public employment by 16-17%, etc. It has also managed to push through a reluctant Congress what amounts to an impressive amount of legislation—modernization of agriculture, electricity, telecommunications, civil aviation, financial institutions and public administration, to name a few. At the same time, it has made significant strides in consolidating a frail and still imperfect democracy, and in restoring civilian control over the armed forces and severing their stranglehold on certain activities (e.g. telecoms). This is a considerable accomplishment.

3.55 Yet, for all its efforts, Honduras is not a “new” country: its governance structure is essentially unchanged and from this derives its main problem. The public sector is still regarded as a source of privilege and patronage; much of the private sector remains uncompetitive; corruption is reportedly rampant,<sup>64</sup> and with inexorable regularity every four years, the political process unglues the economy in the race for the spoils of power.

3.56 It is not clear what the Bank itself can do about this. Further emphasis on establishing a professional civil service and more effective and transparent budgetary and procurement processes seems needed. And recent efforts to strengthen the judiciary and legislative branches may bear fruit. Meanwhile, the renewed involvement of the international community at large in the wake of Hurricane Mitch and the HIPC/PRSP process may provide the best chance yet of setting Honduras on the road to the kind of fundamental transformation the country clearly needs. The Bank has been, and will need to continue to be, associated with this process.

## **2. Social compensation**

3.57 Bank financial support for the social sectors in Honduras in the 1990s was heavily concentrated on two social compensation programs: the Social Investment Fund (Fondo Hondureño de Inversión Social, FHIS) and the Family Allowance Program (Programa de Asignaciones Familiares, PRAF). The FHIS and the PRAF were set up by the GOH in early 1990—with financial support from the World Bank, USAID, KfW, SIDA, UNDP and others—as temporary emergency response mechanisms to mitigate the impact of the structural adjustment and stabilization program on the poorest and most vulnerable groups, in the case of the FHIS, through employment-generating investments in social infrastructure activities; in the case of the PRAF, through the distribution of cash vouchers to low income families.

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3.53] sobre el impacto que hubiese tenido en Honduras el financiamiento al inicio de los noventa de una elite tecnocrática en el exterior. Mantener recursos humanos calificados en un país como este depende de algo más que la sola capacitación.”

<sup>62</sup> Staff at the World Bank appear to have a more benign view of the country in this regard. See the Release of Third Tranche document for the PSRP (document IDA/R2001-0164, October 11, 2001).

<sup>63</sup> Recurring theme in Bank staff commentary on a draft of this report.

<sup>64</sup> Cf. Transparency International's Corruption Perceptions Index for recent years.

3.58 Support for FHIS and PRAF accounts for 17% of overall Bank lending to Honduras over the decade and fully 68% of total social sector lending—indeed, the different phases of the two operations were the only form of social sector lending that occurred between 1990-1996. Between 1997 and end 2000, the Bank approved: two projects in education (for a total of \$29.6 M), a project to reorganize the health system (\$36 M), a project for integrated urban poverty reduction (\$8.1 M), and the social protection and transition program mentioned earlier (\$30 M).

#### a) FHIS

3.59 Since its inception in 1990, the FHIS has undergone three institutional transformations, roughly coinciding with the three different Honduran administrations. Its original 4-year mandate during the Callejas administration was to promote, finance and supervise (though not directly execute) projects targeted to the poor, particularly in three areas: (i) *Basic social infrastructure*: schools, health centers, water and sewage, small irrigation projects, road repairs, etc.; (ii) *Basic needs*: nutrition, health, education, school lunch programs, etc.; and (iii) *Microenterprise*: support through credit and technical assistance. During this first phase (1990-1993), FHIS executed mostly projects proposed by line ministries and worked through private local contractors.

3.60 In late 1994, the Reina administration extended the FHIS through end-2002, and turned it into the regular mechanism for promoting and financing basic social infrastructure. During this second phase (1994-1997), employment generation as an explicit target of the program was dropped. Instead, the program was to focus on the provision of basic social infrastructure targeted to the poor on the basis of a poverty map, and within each locality, project selection was to be demand-driven within a limited menu of standardized options, with gender, ethnic and environmental aspects factored into project design.

3.61 Since 1998, community-driven Municipal Social Investment Plans came into fashion to enhance project quality, ownership and sustainability. While the reconstruction effort after Mitch threw off some of those plans, it also created a new spirit of collaboration between the FHIS, communities and municipalities that should help propel decentralization in the period ahead. Indeed, in 1999 the National Congress passed a decree that extends once again the life of the FHIS through end-2012, and among other aspects, authorizes its Executive Director to “transfer the functions and operational, technical and financial responsibilities of the Fund to the municipalities in support of the State’s decentralization policy...”<sup>65</sup> With this, the FHIS is poised to become a cornerstone of the decentralization process.

3.62 From the outset, what made the FHIS unique and remains its most notable feature is its operational autonomy. It is a decentralized arm of the Office of the President that operates under an exceptional legal regime—it is not subject to government procurement regulations, it is not bound by the Civil Service statute, and it is allowed to negotiate directly its own external funding. It is this extraordinary flexibility that has made the FHIS the swiftest public sector executing agency in the country—and the darling of both domestic politicians and external donors.

3.63 Bank support for the FHIS. Since 1992, the IDB has supported the FHIS through four consecutive (in some cases even overlapping) operations.

3.64 The FHIS I Program (\$31.5 M, 1992) was intended to finance 50% of FHIS activities from mid-1992 through end-1993, focusing on five areas:

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<sup>65</sup> See Congreso Nacional, Decreto Numero xx-99.

- *school rehabilitation*: repair, expansion and rehabilitation of some 460 schools and kindergartens (at an average cost of \$40,000 each);
- *basic school furnishings*: some 167,000 units of furniture for schools and kindergartens (at an average of \$40 each);
- *rehabilitation of health centers*: repair, replacement, rehabilitation and expansion of some 70 basic health facilities (at \$40,000 each);
- *construction of latrines*: construction of some 57,000 simple latrines (at an average cost of \$100 each); and
- *sanitary training*: training in the use and maintenance of latrines for some 46,000 families, directed primarily at women.

3.65 Results. According to the *Project Completion Report*, the program benefited 1,300 communities and the targets for the rehabilitation of schools and health centers were surpassed (200% and 169%, respectively), while those for school furnishings and latrines were partially met (82% and 71%, respectively).<sup>66</sup> Overall implementation was rated as satisfactory, even though it was delayed by some 26 months on account of a number of factors, including the change in the Honduran administration, which in turn led to a change in the leadership in FHIS. Targeting was considered adequate: 70% of investments were made in the poorest municipalities and in the rest, investments were made in marginal areas. Economic and social impact was deemed high: FHIS investments in 1990-1994 represented 11% of social spending, 50% of total investment in social infrastructure (except for housing), and generated an estimated 1.3 million man/months of employment.

3.66 The PCR points out three main weaknesses. First, if proper use and sustainability of the investments was to be ensured, better coordination between FHIS and line ministries on the one hand, and with local communities, on the other, was needed. Second, monitoring and quality control needed improvement. Finally, two factors conspired against a proper evaluation of the development impact of the program: project design did not include quality and efficiency indicators, and the country was released from its contractual obligation to conduct an ex-post evaluation of the program.<sup>67</sup>

3.67 The Bank's FHIS II Program (\$40 M, 1995) was part of a larger poverty abatement package: it was done in tandem with a PRAF program (see below), and had parallel financing from the World Bank and the KfW. It consisted of three components:

- *Institutional strengthening*: to improve the managerial and operational capacity of the FHIS, including funding for improved monitoring and evaluation of the program, and remuneration of its technical and managerial structure<sup>68</sup>.
- *Infrastructure*: rehabilitation and expansion of schools, health centers, community facilities, roads, small bridges, environment, watersheds, etc., plus furnishings for the above and basic supplies for schools and health centers. A subcomponent was to address specifically small water and sewage projects in rural areas.

<sup>66</sup> There is a discrepancy between the Bank and GOH regarding the results. The latter puts the rate of compliance as follows: schools, 241%; health centers, 169%; school furnishings, 100%; latrines, 105%.

<sup>67</sup> An issue not noted in the PCR but that with the benefit of hindsight perhaps should have been, was the assumption in the project document that because Honduras was not prone to earthquakes and the incidence of hurricanes was low, the building codes need not take account of these eventualities. In the event, over the last decade, Honduras suffered not one but two major hurricanes—Gert in 1993 and Mitch in 1998—and the latter blew away a high proportion of FHIS structures.

<sup>68</sup> This component was supported by a TC operation as well.

- *Basic needs:* food and nutrition programs, health and hygiene training, etc., including programs directed at indigenous peoples.

3.68 Unlike its predecessor, FHIS II included a vast system of indicators to monitor and evaluate progress and impact, as well as other design features to address the shortcomings from the previous program, such as: detailed project eligibility criteria, better mechanisms for targeting and identifying priorities and effective demand; detailed annual investment plans based on a poverty map and local demand; provisions to enhance coordination with line ministries, municipalities and communities in order to ensure adequate use and maintenance of the facilities; better management information systems; better supervision by FHIS to improve quality control; and enhanced internal and external auditing provisions. These design features, in turn, were meant to help mitigate the main anticipated risks, i.e. the politicization of FHIS activities, resource loss due to lack of adequate internal financial controls, and poor quality and inadequate maintenance of the facilities.

3.69 Results. The PCR (undated) judges the fulfillment of physical and operational objectives to be satisfactory. It explains this outcome with reference to the project's efforts at institutional and managerial strengthening of FHIS,<sup>69</sup> better focused investments and (to a degree) the decentralization of investment decisions to municipalities and local communities. The bulk of investments (73%) was directed to communities classified as either "very poor," "poor," or "regular." As indicated in the last available PPMR, most of the components stipulated in the Loan Document were implemented, with targets either surpassed (education, health) or nearly attained (water, sanitation).

3.70 Further insights into the quality and impact of FHIS activities during 1994-1998 (in general, not specifically those linked to the IDB program) can be gained through an ex-post evaluation of the FHIS commissioned by the World Bank.<sup>70</sup> According to the report, FHIS resources were reasonably well targeted to the poor, though the beneficiaries of health, education and latrine projects tended to be poorer than those benefiting from water and sewage projects: in general, health projects were found to have the most progressive distributional effect, while sewage projects were highly regressive. The FHIS reportedly also had considerable impact on expanding the coverage of social infrastructure, except for potable water. Interestingly enough, while the expansion of health centers clearly increased the demand for health services, school projects do not seem to have improved school enrollment rates. The report also notes that project selection generally agreed with local priorities, resulting in a relatively high sense of ownership of the works, but confirms certain concerns we also heard elsewhere in our interviews regarding faulty designs and poor project supervision, higher costs than equivalent municipal works, some cronyism between contractors and supervisors, too much emphasis on the physical rather than on less tangible aspects of development, and the politicization of the FHIS.<sup>71</sup>

3.71 The FHIS III Program (\$50 M, late 1998), done in conjunction with a World Bank loan (\$45 M), is broader in range and complexity than its predecessors, and consists of a number of disparate programs and activities organized under three major headings:

- *Investment:* includes a critical emergency response component (supplies of food and medicines, reconstruction of basic social infrastructure, etc.) plus a program to support municipal social investment plans (from a menu of 40 different types of projects) under a new participatory modality whereby communities take the lead in identifying and prioritizing the projects.

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<sup>69</sup> TC operation ATN/SF-4944-HO.

<sup>70</sup> See, Walker, I., R. del Cid, F. Ordonez y F. Rodriguez, *Evaluacion Ex-Post del Fondo Hondureno de Inversion Social (FHIS 2)*, May 1999 (mimeo).

<sup>71</sup> Most of these aspects were confirmed by the IDB's mid-term evaluation of FHIS III, cited below.

- *Basic needs*: includes a Social Assistance program complementary to PRAF, targeted to vulnerable groups (women, the elderly, street children) not served by FHIS regular activities; “Nuestras Raices”, a program targeting the special needs of poor ethnic groups, including a cultural component to be determined in conjunction with the Ministry of Anthropology and History; and a Training component to strengthen local participation and municipal management<sup>72</sup>.
- *Institutional strengthening*: essentially covers the emoluments of FHIS technical and managerial staff on a declining scale, while GOH gradually assumes this responsibility.

3.72 In parallel to these activities, a Strategic Diagnosis was to be conducted exploring, *inter alia*, the future role of the FHIS, how to better integrate FHIS activities within the overall social policy framework, how to effectively transfer responsibility for the project cycle and maintenance to the municipalities, and how to improve the environmental quality of the projects.

3.73 Results to date: According to the July 2001 PPMR, 80% of the resources had been disbursed, the achievement of the expected development objectives was highly probable, but progress in implementation was deemed unsatisfactory, on account of delays in execution of the second component. A recently completed Mid-Term Review of FHIS III<sup>73</sup> recommends enhancing community participation in such phases of the project cycle as financing, noting that community contributions to non-FHIS projects are generally much higher. It also recommends strengthening the contracting and supervision processes, improving project prototypes, improving targeting of services to the poor, ensuring that emergency funds are not diverted to non-emergency activities, and clarifying and expediting activities under the Basic Needs component, which are lagging far behind schedule. The Strategic Diagnosis, which was presumably an integral part of the overall effort, has not been carried out.

3.74 The FHIS IV Program (also known as the Poverty Reduction and Local Development Program and also done in conjunction with a World Bank \$60 M operation) approved in late 2000, incorporates innovative and experimental aspects. Conceived as a two-phase, \$60 M 5-year operation under the new Multiphase Lending (MPL) approach,<sup>74</sup> it seeks to straddle several administrations and support the transformation of the FHIS into a central instrument of Honduras Poverty Reduction Strategy.

3.75 **Phase I of FHIS IV** (\$25 M) includes four components to be completed over a two year period:

- *Social infrastructure investment* (\$24.2 M), basically to finance the backlog of Municipal Social Investment Plans drawn up in 1998 and crowded out by the post-Mitch reconstruction efforts. To ensure sustainability, project eligibility will be contingent on the existence of duly trained social auditors and Works Maintenance Organizations to monitor construction and maintenance work at the local level.
- *Three pilot programs to strengthen local communities* (\$900,000):
  - Participatory Planning (PP) pilot in 30 municipalities to test different micro-planning techniques to better match problems and solutions at the local level. Recognizing that communities often suffer from grave social problems that cannot be solved through the

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<sup>72</sup> The Social Assistance and Nuestras Raices programs, which are more akin to PRAF, were nonetheless included here at the behest of the World Bank, who does not support the PRAF.

<sup>73</sup> Cf. Informe de Mision de Medio Termino, FHIS III, Enero del 2001.

<sup>74</sup> This new modality was approved by the Bank’s Board of Executive Directors in March 2000.

standard 40-item menu of social infrastructure solutions, a negative investment menu<sup>75</sup> will be tested in 10 of the participating municipalities.

- Delegation of Project Cycle (DOPC) pilot in 20 of the most advanced municipalities to test operational delegation of the following project cycle activities: identification (pre-cycle), development, execution, and maintenance (post-cycle). In all cases, FHIS would retain its project evaluation function and continue to perform its normative and monitoring role.
  - Works Maintenance pilot, will address financial, institutional and local issues in a plan to establish universal maintenance of FHIS works built since 1998, and will be carried out in the same municipalities taking part in the PP pilot.
- *Institutional strengthening of the FHIS* (\$400,000), financing of a Technical Support Unit and technical-administrative activities to support the process of institutional adaptation. For the first time, there is no built-in support for FHIS salaries: instead, GOH will finance all FHIS remuneration out of its own resources.
- *Evaluation of Phase I* (\$300,000), consists of an evaluation by an independent firm, as a requirement for Phase II financing. The evaluation will focus on the results of the pilots, performance and process indicators, qualitative assessments and progress on addressing the shortcomings found in the mid-term review of FHIS III noted above.

3.76 The move to **Phase II** will be triggered by the fulfillment of targets for which specific process, outcome and impact indicators have been assigned. Phase II (\$35 M) is anticipated to have three components to be carried out over a 3-year period:

- *Social infrastructure investment*: will finance the preparation of new Municipal Social Investment Plans using the participatory planning method validated in the Phase I pilot, and including possibly new menu items from the negative menu tests.
- *Operational delegation of the project cycle* to selected municipalities meeting established criteria.
- *Evaluation of Phase II* to assess compliance with the general objectives of the program, anticipate the medium-term requirements of the Poverty Reduction Strategy and alternative FHIS interventions within it.

3.77 Since the implementation of the loan began in late 2000, it is too early to identify results. Given the innovative approach of the program, extensive monitoring and lesson learning by the Field Office and project design teams would be warranted.

#### **b) Family Assistance Program (PRAF)**

3.78 The PRAF seeks to improve the living conditions of the poor, using modest income transfers as incentives to improve the nutritional, educational and health profile of its beneficiaries. Like the FHIS, it

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<sup>75</sup> The negative menu excludes any activity associated with housing, construction and repair of government buildings, community centers, civil service wages, public sector equipment, microcredit, vehicles, any religious activity or building or one with a political affiliation, patron saint festivals, activities related to the local lottery or gaming, combat ordnance of any kind, heavily traveled roads, or new rural roads.

is also ascribed to the Office of the President, but unlike the FHIS, it does not operate under a special regime.

3.79 The Bank has supported PRAF through two consecutive operations.

3.80 PRAF I (\$20 M, 1995, done in conjunction with FHIS II), comprised four components to be developed over a 3 year timeframe:

- *Institutional strengthening of the PRAF*: supports basic institutional needs, such as the salaries of the managerial corps, vehicles and equipment.
- *Voucher program (Bono escolar, BE)*: targeted to the poorest families in the poorest schools, it consists of a monthly voucher given to the mother per each child (up to three per family) attending first through third grade during the 10 months of the school year. It is meant to stimulate school attendance and reduce the rate of desertion and repetition. Program aim: 300,000 beneficiaries over 3 years.
- *Infant/maternity voucher program (Bono materno-infantil, BMI)*: consists of a voucher given to women who are very poor, pregnant and/or with children under 5 years of age who are malnourished or disabled, and who submit to periodic prenatal control, immunization and growth control for the children, and training programs in health and nutrition. Program aim: 203,600 beneficiaries.
- *Promote sustainability of PRAF*: in order to induce a multiplier effect and lasting impact beyond the PRAF itself, three additional activities were included: occupational training (target: 11,200 women), school cooperation committees (target: 2,100), and community organizations dealing with oral rehydration and respiratory infections (target: 600 each).

3.81 Results. The project finished disbursing at end-2000, was rated in the PPMR as satisfactory in terms of implementation, as having a high probability of achieving its development objectives and as having come close to meeting its targets: school vouchers, 108%; maternal vouchers, 84%; training, 92%; school committees, 78%; and health units, 100%. Even so, analyses undertaken in preparation for PRAF II noted certain basic flaws in PRAF activities thus far: a preoccupation with processes (i.e. voucher distribution) rather than results; poor targeting (i.e. 40% of BMI beneficiaries and 30% of BE recipients in the poorest areas are in the two highest quintiles); and little evidence that demand incentives per se were improving the health, educational or nutritional condition of the poor.

3.82 The PRAF II Program (\$45.3 M, late 1998), seeks to help the PRAF make the transition from a model of social compensation to one of capital accumulation by the children of the poorest families among the poor. To this end, the current system of loosely targeted demand incentives will be replaced by one that is better targeted to the poorest of the poor and that offers both demand and supply incentives to induce behavior modification both in the households and among service providers of health and education services. Indeed, a major interest of the program is to evaluate the cost-effectiveness of demand-only incentives vs. supply-only incentives vs. a combination of both types of subsidies—which explains the highly controlled experimental quality of its design.

3.83 The program comprises three components:

- *Nutrition and Infant/Maternal health*. The current BMI voucher will be replaced by two types of subsidies: (i) a \$48 per capita per year transfer (maximum two per family) to promote better nutrition for children and pregnant women and at the same time incentivize their



demand for health services (target: 69,000/yr); and (ii) a supply side subsidy to NGOs to provide nutrition and hygiene training to some 27,000 beneficiaries per year, and a transfer of \$5,000 each to some 150 rural health centers to provide adequate health services to PRAF beneficiaries.

- *Education.* The current BE voucher system will also be replaced by two types of transfers: (i) a demand subsidy of \$38 per year per child under 13 attending grades 1-4, up to three per family (target: 112,500 /yr); and (ii) an educational development incentive (IDA) provided to parental school associations through NGOs, to benefit 400 schools at an average \$4,000 each.
- *Institutional Strengthening of the PRAF:* to radically improve the targeting system of beneficiaries on the basis of a new national household survey, improve the monitoring and evaluation capabilities of the PRAF and its management and information systems. Two evaluations are contemplated—after the first and third years of operation—on the basis of a complex system of progress indicators included in the program.

3.84 Results to date: According to the December 2000 PPMR, two years into the program, 23% of the resources had been disbursed, implementation was rated as satisfactory and it was deemed probable that the program would attain its development objectives. PRAF II is actively developing lessons, having them taken on board in the design and implementation of new projects. A recent mission detected problems with the design of the supply incentives for education, insofar as the parental school associations have no legal standing (*personeria juridica*) under Honduran law, and therefore cannot be entrusted with handling the subsidy. This has meanwhile been resolved with the passage of a law enabling the Ministry to recognize the legal standing of these associations. The first full evaluation of the program was scheduled to take place at end-2001.

### **c) Overall assessment of social compensation programs**

3.85 The Bank has relied heavily on FHIS and PRAF to further social development in Honduras. These two programs have received two thirds (2/3) of all social sector resources. FHIS appears to have made a contribution in the reducing basic needs deprivation. But poverty still remains an endemic problem in Honduras, so the cumulative impact of these and other programs has yet to show clear benefit.

3.86 Reliance on the FHIS to achieve social development goals may have undermined some of the objectives of the Bank's reform efforts in Honduras. First the FHIS operates under an exceptionally favorable "special regime". If, instead of creating a special regime for one institution, the operational environment for the whole public sector had been improved, the overall impact of the Bank's programs might have multiplied many-fold. Moreover, the position of the FHIS—in terms of resources, power and attention—has come partly at the expense of line ministries and municipalities, which were in need of reinforcement. Some municipalities, in particular, feel that the FHIS undermines their efforts to provide better quality municipal services albeit with cost-recovery provisions.

3.87 The FHIS's centralist approach also got in the way of the budding process of decentralization that has slowly evolved since the early 1990s. Even now, when the national trend is to decentralize, the leadership of the FHIS is opposed to it, arguing (not without justification) that one of the keys to the FHIS's success has been its centralized, standardized and top-down *modus operandi*.<sup>76</sup> This raises the separate but related question of whether the highly advertised FHIS project cycle technology geared to the production of a high volume of standard products (a "sausage factory model") will be useful to

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<sup>76</sup> Interview with OVE, March 2001.

municipalities likely in need of low volumes of differentiated products instead—an issue that the FHIS IV Program will have to deal with in due course.<sup>77</sup>

3.88 The evolution of the social compensation programs themselves denotes a clear trend toward higher levels of sophistication in project design, and an explicit objective to consolidate the FHIS and PRAF as permanent institutions. Yet, arguably the FHIS should be regarded as a transitory strategy, whose main indicator of success is its own demise. If it is to be made permanent, however, then its role in the overall scheme of things needs to be clarified, and its direct tie to the Presidency should perhaps be severed.

### 3. Emergency relief

3.89 The Bank responded to the destruction wrought by Hurricane Mitch by re-directing and stepping up operational activities and by fostering the development of a framework for action for the donor community and the GOH. Immediately after the event, the Bank deployed missions to Honduras and the other affected countries to assess damage and identify short-term and longer-term operational needs. Bank staff participated in working groups with the GOH, the World Bank and others to prepare action plans in transport (roads and bridges), water and sanitation, social infrastructure, housing, energy and telecommunications, agriculture and natural resources, and disaster preparedness. The Bank reprogrammed funds in the amount of \$88 M from projects in execution to free resources for emergency assistance and reconstruction; approved 11 new loans related to reconstruction and transformation between October 1998 and the end of 2000 (\$284.9 M; Table 3.5); increased net resource transfers to \$22.3 M in 1999—the highest level achieved in any year since 1993 (Table 3.4); approved 55 technical assistance operations between October 1998 and February 2001, including support for the production of the government's *Plan Maestro de Reconstrucción y Transformación Nacional* (MPRNT); and brought the international community together in several Consultative Groups devoted to assessing damage, agreeing on a framework for reconstruction and transformation, mobilizing resources, and monitoring progress.

3.90 The Bank shaped the quality and scope of the emergency response through its role in the Consultative Group held in Washington in December 1998 and by promoting and guiding what has become known as the Stockholm process. The May 1999 CG meeting in Stockholm, attended by UN organizations and other multilaterals, bilateral agencies, the World Bank, and a contingent of academics and civil society representatives, was more than a venue for resource mobilization.<sup>78</sup> It became the venue to discuss and set out six principles that were to guide the process of reconstruction and transformation in Honduras and the affected neighboring countries: (i) reduce the social and environmental vulnerability of the region—the overriding goal; (ii) reconstruct and transform Central America on the basis of an integrated approach stressing transparency and good governance; (iii) consolidate democracy and good governance, reinforcing the process of decentralization of government functions and powers, with the participation of civil society; (iv) promote respect for human rights as a permanent objective; (v) coordinate donor efforts guided by priorities set by the recipient countries; and (vi) intensify efforts to reduce external debt. Developed in special workshops during the Stockholm meeting, these principles convey an ambitious vision of needed political, social and economic change. Its different elements are taken up in the MPRNT and, as Table 3.5 shows, in the Bank's operational response.

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<sup>77</sup> A pilot for the decentralization of the FHIS project cycle is now in operation thanks to the insistence of the Bank; it may well come to be seen as a strategic breakthrough engineered by the Bank if it proves successful and ends up being adopted by FHIS in the future.

<sup>78</sup> On resource mobilization and donor coordination, see Section C below.

TABLE 3.5  
HONDURAS: IDB PROJECT REFERENCE TO STOCKHOLM PRINCIPLES <sup>1/</sup>

PROJECT NUMBER	PROJECT TITLE	APPROVAL DATE	AMOUNT	SOCIAL, ENVTL VULNERABILITY	TRANSPARENCY, GOOD GOVERNANCE	DECENTRALIZATION, PARTICIPATION	HUMAN RIGHTS, EQUALITY	DONOR COORDINATION	DEBT REDUCTION
HO0143	ROAD AND WATER INFRA-EMERGENCY PROGRAM	20-Jan-99	18.8	X		X			
HO0164	EMERGENCY ROAD COMPLEMENTARY PROGRAM	2-Feb-00	26.8	X		X			
HO0146	HOUSING PROGRAM AFTER HURRICANE	9-Jun-99	10.4	X				X	
HO072	INVESTMENT IN WATER AND SANITATION	8-Dec-99	26.0	X					
HO0132	FAMILY ASSIGNMENT PROGRAM STAGE II	24-Nov-98	45.2	X		X	X		
HO0131	SOCIAL INVESTMENT PROGRAM (FHIS-III)	2-Dec-98	50.0	X		X	X	X	
HO0145	SOCIAL PROTECTION AND TRANSITION	8-Sep-99	30.0	X		X		X	
HO0144	RURAL ECONOMY REACTIVATION	20-Sep-00	30.0	X		X			
HO0184	INTEGRAL PROG. URBAN POVERTY ALLEVIATION	2-Nov-00	8.1	X					
HO0161	POVERTY ALLEVIATION AND LOCAL DEVELOP. (FHIS-IV)	29-Nov-98	25.0	X		X	X	X	
HO0176	PROCUREMENT CONTRACTING TRANSP. EFFICIEN.	28-Jun-00	14.6		X			X	

Source: Adapted from J. Garrido and K. Dougouih, *Responding to Natural Disasters: The Role of the Inter-American Development Bank's Lending in Restructuring Central America After Hurricane Mitch*, *WCLAL Interaction*, Washington Office on Latin America, 2001 (p. 9).

<sup>1/</sup> Checks in the different cells refer to project objectives.

3.91 A look at the execution of this operational response reveals both good progress and delays, respectively, in parts of the post-Mitch reconstruction portfolio, the latter implying that it will take time to turn the Stockholm vision into reality. For example, according to the latest PPMRs:<sup>79</sup>

- The Emergency Road Complementary Program (HO-164) is hampered by institutional deficiencies, low quality of studies and engineering work, the fact that the initial selection of works in the aftermath of the Hurricane had to be based on preliminary data, the lack of capability of the local construction industry, scarcity of counterpart funds, and few incentives for qualified personnel to remain in the executing agency. The loan was declared eligible for disbursement in August 2001, 17 months after its approval by the Board in February 2000 (6% disbursed to-date). The revision of engineering studies that became necessary and was undertaken at the instigation of the Country Office took more than a year, and this period was not foreseen in the initial design of the operation. Cost overruns now call for international competitive bidding, which takes time and implies that the implementation plan updated in August 2001 may not be able to be complied with.
- The Investment in Water and Sanitation Project (HO-0072) was approved in December 1999 and obtained legislative ratification in October 2000. With the help of consultancy services paid for under the C&D Action Plan, the Borrower is working to comply with the conditions for first disbursement, one of which is the presentation by the National Congress of a new law governing the water and sanitation sector. The deadline for first disbursement has been extended to April 2002.
- The Project on Transparency and Efficiency of Public Procurement (HO-176) has reportedly met with political resistance in the Congress and has not started in an operational sense. However, the Executing Unit is now established, the new law on public procurement (sought by the donor community, among other stakeholders) has been passed, and international bidding for different consulting services is proceeding. According to the December 2001 PPMR it is assumed that the project will achieve its objectives, the assumption being based

<sup>79</sup> In comments on a draft of this report, the Bank pointed out numerous explanations for the implementation delays described in this section—many not reflected in the PPMRs, the source for this section. An effort has been made to introduce these explanations and considerations into paragraph 3.93. Note that institutional and political factors appear to be key sources of delay.

on the strength of the mandate of Stockholm and the strong interest by the international community and civil society.

- Approved in June 1999, the Post-Hurricane Housing Program (\$10.4 M) was to be executed over a twelve-month period in response to the immediate challenges of the post-hurricane environment which were to speed the definitive resettlement of the affected population and to initiate rebuilding in safe areas. The program had 4 components: the Complementary Subsidy for Housing to provide demand side grants to displaced households (\$8.4 M); institutional development of the Complementary Fund for Housing, to set up national and local operations of the Fund and finance subsidies for a pilot period; Housing Reconstruction Support (an information clearing house; maps identifying habitable areas in local jurisdictions); and Technical Assistance for Housing Policy and Institutional Reform. The Complementary Fund was designed as a vehicle through which donors would contribute additional resources and coordinate their activities in the reconstruction of homes.

Despite extraordinary Bank support to project design and initiation, the operation never got off the ground. Progress is rated unsatisfactory with respect to all components and outputs owing to a lack of borrower commitment, problems with the compliance of contract conditions, problems with the executing agency's institutional and human resource capacity (the hiring of the manager of the Complementary Fund was repeatedly fraught with irregularities), and lack of progress in legislative approvals. But the project is also affected by the competing availability of grant funding from bilateral donors for the housing sector. In any case, despite the fact that the program had been the subject of an official request, the executing agency was not committed to it. Key decisions to initiate the program were slow in coming, or as with the case of the Fund Manager, taken incorrectly. The Public Works Ministry (SOPTRAVI) which had only recently assumed responsibilities for the housing sector, had little experience and was ill equipped to take on a leadership and coordination role.

Since the hurricane, housing reconstruction in Honduras, supported by bilateral donors and the government's own direct-build program, has been uneven and slow. It is notoriously difficult to provide households with access to permanent, safe housing and services in a post-disaster environment. It will never be known what benefits might have been derived from enhanced sector coordination that the operation was meant to provide.<sup>80</sup>

3.92 Therefore, while it is premature to evaluate the Bank's emergency response to Hurricane Mitch, the evidence suggests lessons regarding what the Bank can and cannot do in such situations. The Bank can play, and has played, a key role during the first days, weeks and months after the disaster—as a source of technical, financial, and, indeed, moral support to the government; and as a locus for rallying the international community around the common goal of reconstruction and transformation. The Bank played a role in redefining the longer-term challenges under changed circumstances and in addressing them through a series of new loans. On the other hand, the presence of enormous institutional difficulties on the borrower's side, demonstrated how difficult it is to generate operational results in the short run in terms of reconstruction or effecting structural change.

3.93 An area of great importance in the reconstruction context is the reactivation of production supported by the loan for the revitalization of the rural economy (\$30 M, approved in September 2000; only the second agriculture project since the agricultural sector loans almost a decade earlier). The project resulted from the recognition that “any strategy aimed at combating poverty would require a balance between the economic and social dimensions of government action and a reorientation of social spending,

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<sup>80</sup> The source of most of these points are staff comments on a draft of this report.

taking account of the relative importance of rural poverty vis-a-vis urban poverty.”<sup>81</sup> The project places emphasis on improving the competitiveness of rural productive sectors, especially the agrifood sector, and operates through three components: (i) formulation of relevant national policies; (ii) improving plant and animal health and food safety services; and (iii) promoting productive investment in rural areas. According to the most recent PPMR, the project is largely on track, except for the second component which at this point is classified as unsatisfactory.

3.94 The remaining operations listed in Table 3.5 are in various stages of advance, again according to the most recent PPMRs.<sup>82</sup> The Social Protection and Transition loan (HO-0145) is fully disbursed. The Road and Water Infrastructure Emergency Program (HO-0143) is now almost fully disbursed. The Integral Program on Urban Poverty Alleviation (5% disbursed) and the Poverty Alleviation and Local Development Program (23% disbursed) are listed as proceeding on track.

## C. Non-Financial Products

### 1. Policy dialogue

3.95 The objective of policy dialogue is to inform strategic choice, generate stakeholder input into program and project design, foster ownership, support the process of programming, and deal with problems of execution to the extent that they cannot be resolved through the portfolio review process. Prior to 1998—and with the partial exception of the topic of debt—the dialogue between the Bank and GOH appears to have focused not so much on policy and issues of strategic choice as on programming, the negotiation of conditionality, and implementation issues. The Country Papers contain repeated references to the need for dialogue in these areas. They also mention “conjunctural” topics that dominated the debate at given times and were deemed to call for dialogue, e.g., the merits of maintaining macroeconomic stability and the need for public utilities to recover costs through user charges in *CPP-90*, the need to increase the productivity of investment in *CP-95*, and the professed intention to conduct a continuous dialogue about aspects of program implementation in *CP-99*. However, there are no systematic records on how this dialogue was carried out and what conclusions were drawn.

3.96 Policy dialogue in the more analytical and strategic sense of the term took the form of a Policy Dialogue Paper (PDP) prepared for the transition between the Reina and the Flores administration in 1998.<sup>83</sup> The PDP and a Powerpoint presentation by the Research Department which compared the state of reform in key policy areas in Honduras with that of other Latin American countries (based on research reported in the 1997 IPES<sup>84</sup>) formed the basis for discussions with President Flores and the Economic Cabinet in conjunction with a programming mission in July 1998.

3.97 The ensuing Mission Report<sup>85</sup> was laconic, stating merely that there was diagnostic consensus between the authorities and the Bank on the need to (i) take fiscal measures to improve revenue collection and rationalize spending; (ii) reduce poverty, particularly in rural areas; (iii) continue the task of modernization of the state; and (iv) develop physical infrastructure. It also reported agreement on a pipeline of operations for 1998 and 1999.

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<sup>81</sup> Document PR-2508 Rev.

<sup>82</sup> HO-0131, HO-0132 and HO-0161 (all of which are playing an important role in reconstruction-cum-poverty alleviation) are discussed in the section on social compensation.

<sup>83</sup> IDB, *Honduras de Cara al Siglo XXI*, January 1998. The product of the PDP was introduced by Region 2 in 1998 as a means to engage senior policy makers on matters of development policy at the beginning of new administrations. This PDP was a solid compendium and reference document on the state of reform in Honduras in 1997-98. It took an encyclopedic approach, listing 15 “global” and 8 “sectoral” themes for discussion with the new administration, the all-encompassing approach being justified on the grounds that this was an opportunity to educate a new group of decision-makers about development policy. Surprisingly, this PDP does not cite the voluminous study *Honduras 2005: Construyendo Nuestro Progreso* that was produced by the GOH (UDAPE or Unidad de Analisis de Politicas Economicas) in September 1997.

<sup>84</sup> IDB, *Informe de Progreso Economico y Social, 1997*.

<sup>85</sup> CP-1538-1, 21 August 1998.

3.98 There have been other instances of policy dialogue during the past three years, at the sectoral, applied level, for example, seminars with government officials and civil society groups in 1999 that were informed by a policy paper on the rural economy.<sup>86</sup> Other examples include the role of INDES in strengthening social sector management among a large number of Honduran leaders, recent Bank support to the preparation and implementation of the country's Poverty Reduction Strategy, as well as advances in policy dialogue initiated in roundtable discussions on education with the support of IDB, UNDP, USAID, GTZ and others.

3.99 It would appear that policy dialogue has become more important over the years, yet it is difficult to assess the activities undertaken in its name because (as in the case of technical cooperation) there is no systematic information about the extent, depth, and results of given instances of dialogue. Bank staff contend that policy dialogue has always been of the strategic and policy-analytic kind, suggesting that the problem for evaluation is the absence of records on dialogue, not the absence of dialogue. Now, what written documentation there is, particularly the CPs, supports the more limited view of dialogue throughout much of the decade. Also, the absence of records implies an absence, or at least a paucity, of analytical papers which rather supports our earlier contention to the effect that the "home-grown" analytical underpinning of programming and policy advice was limited during the period under review. (The IPES97 is cited by Bank staff as the main source of analysis that was perused—an important book, but not one noted for the specificity of its treatment of the Honduran development challenge.) Given the potential importance of policy dialogue and knowledge transfer, particularly in a situation in which the scope to make financial transfers is limited, it would seem indispensable, as called for in the case of TCs, to build systematic records and some sort of learning framework to keep track of policy dialogue, its results for the Borrower and the Bank, and its relationship with programming, the operational portfolio and financial transfers.

## **2. Resource Mobilization and Coordination of Bilateral Donors**

3.100 In the mid-1990s the responsibility for organizing, chairing and generally providing leadership to Consultative Groups for Central American countries passed from the World Bank to the IDB. Even before Hurricane Mitch occurred, the Bank and GOH began to prepare the first IDB-chaired CG for Honduras, with the meeting to take place in early 1999. The Hurricane changed this arrangement, leading (as mentioned earlier) to three CGs devoted to resource mobilization for affected Central American countries in the framework of reconstruction and transformation and to one CG for Honduras in February 2000. This latter event was a follow-up to the Stockholm meeting of May 1999 at which donors pledged nearly \$ 2,800 M for Honduras, covering a four-year period, to finance emergency relief, reconstruction and transformation programs, as well as debt relief (Table 3.6; see also Chart 3.3 on the post-Mitch rise in official net disbursements in favor of Honduras). The Bank was tireless in engaging the donor community on behalf of Honduras. Government officials and donor agency representatives that OVE invited to comment on the Bank's convening role and the framework provided for resource mobilization expressed appreciation of the IDB's role and contribution.

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<sup>86</sup> IDB (Regional Operations Department 2), *Honduras Post-Mitch: Problems and Opportunities for Development of the Rural Economy*, Working Paper, 1999.

**TABLE 3.6**  
**HONDURAS: DONOR INDICATIONS OF SUPPORT AT THE STOCKHOLM CG MEETING, 1999-2003**

Millions of US\$ <sup>1/</sup>		PRIORITIES
<b>Bilateral</b>	1,078.4	
France	33.0	Education, culture, infrastructure
Germany	72.4	Social and physical infrastructure, education, technical and vocational training, forestry, FHIS
Italy	66.5	Community development, water/sanitation, import finance
Japan	62.0	Basic infrastructure, health (inc. water supply/sanitation), agriculture, housing
Netherlands	28.9	N/A
Spain	268.5	Infrastructure, education, judicial, legislature, security, culture, technical training
Sweden	99.0	Infrastructure, rural water and municipal development
United States	373.6	Health, education, private sector development, shelter, environment, forestry, disaster preparedness, judicial, accountability (municipalities), AIDS prevention, titling and feeder roads
Other Bilateral	74.5	Housing, forestry, municipal water, transparency
<b>Multilateral</b>	1,685.0	
EC	142.9	Health, education, economic integration, democratic strengthening
NDF	20.4	N/A
WFP	81.0	Food aid
IDB	730.0	
IDA	702.4	As per CAS
Other Multilateral	8.3	Immunization, reproductive health, housing, disaster management, municipal development, children rights
<b>Total Indications</b>	<b>2,763.4</b>	

*Source:* Adapted from World Bank, *Honduras Country Assistance Strategy*, January 27, 2000, Annex F, p. 2.

<sup>1/</sup> Donor amounts as reported by IDB from information submitted at the CG Meeting (May 28, 1999). Excludes \$346.8 million indicated for regional programs, and US\$ 1,006.2 million where donors did not indicate a country allocation within Central America.

3.101 By guiding the CG process the Bank thus invested significantly in the communication-intensive task of donor coordination. Box 2.2 indicates that the Bank made an effort in *CP-99* to inventory the contributions of other donors to the objectives of the MPRNT and to situate its own activities in the overall framework of external assistance. Today, this framework is perhaps more consistent and coordinated than ever in the history of foreign aid in Honduras. Mitch came with a silver lining in that it concentrated the collective mind of donors and the GOH on the joint task of reconstruction, spawning a mechanism of coordination, the *Grupo de Seguimiento*, established in Stockholm, which operates at three levels: ambassadorial, technical, and 13 sectoral working groups, with a rotating pro-tempore secretariat. The *Grupo* is a vehicle for information exchange and dialogue among donors, GOH and civil society, meant to continue in support of the poverty reduction strategy under HIPC. The Bank is a leading participant in this process.

3.102 The existence of this mechanism does not, however, mean that there are not still significant sources of inefficiency in the form of differences in procedures among donors and overlapping engagements in certain sectors while others (such as natural disaster preparedness) are not adequately covered. Donors will always behave according to their own rules, but there is merit in building on the post-Mitch achievements in terms of mission coherence, by working toward greater operational rationality. The Bank should be more active in this regard, both at the bilateral and the multilateral level.

3.103 In fact, there may further scope for Bank leadership in donor coordination beyond the convening of CGs. As the main multilateral donor the Bank carries weight and has tremendous potential leverage with the donor community, but donors' perception is that it does not use this leverage strategically.<sup>87</sup> Most bilateral agencies are small and therefore concerned about their visibility and impact. They are looking to the Bank as a source of leverage of their considerable knowledge often acquired in the context of small projects close to the ground. In their view, the Bank should study these experiences and, where appropriate, scale them up, using its influence with the government to induce necessary policy change. This seems worth exploring in the context of the GOH's Poverty Reduction Strategy under HIPC, developed in 2000-2001 in close consultation with stakeholders (civil society, the private sector, donors,

<sup>87</sup> View expressed by bilateral donor representatives interviewed in Tegucigalpa, March 2001.

others). The Strategy provides a comprehensive framework “to choose the mix of public actions that have the highest impact on poverty reduction.”<sup>88</sup> It represents an unprecedented opportunity for donor coordination going forward.

#### **D. Assessment**

3.104 Pursuant to the objectives of the present Chapter, the purpose of this section is to assess the efficiency and effectiveness of program delivery and execution. With respect to the first of these evaluative criteria it is useful, at the outset, to distinguish between efficiency as a measure of how economically resources, or inputs, were converted to outputs, and efficiency as a measure of the “swiftness” of implementation. The first measure of efficiency cannot be assessed, because the Bank’s resource framework does not lend itself to this kind of analysis: the available cost indicators are incomplete and cannot reasonably be related to output indicators at the level of individual operations or the program as a whole. On the second measure, the analysis of this Chapter pointed to a portfolio marred by difficulties. Many projects have taken considerably longer in implementation than originally estimated in loan documents, and some projects or tranches have had to be cancelled over the years because they lost relevance, or attempts to salvage them failed. Both the Bank and the Borrower bear responsibility for the implementation delays, the former often in connection with problems related to the design of operations which can translate into problems of ownership, the latter on account of institutional weaknesses and inefficient administrative procedures, among other considerations.

3.105 Many projects in Honduras make use of Project Implementation Units (PIUs) to expedite execution. Presumably, the record of implementation would have been worse without the PIUs. On the other hand, a recent study by ROS on the Bank’s experience with PIUs notes that they often operate as enclaves in the overall system and frequently do not assist, and sometimes may undermine, the ability of executing agencies to subsequently manage project resources during the operational phase.<sup>89</sup> In the case of Honduras it is not clear whether the reliance on PIUs amounts to a series of ad hoc resolutions of capacity problems, or whether it is a strategy to renew the public sector through attrition of capability-deficient ministries and public offices. The Bank should clarify its position on this subject. The ROS study suggests that capacity building should not be viewed as a by-product of PIUs but rather as an objective in its own right, with respect to which the role of the PIUs in strengthening the respective line ministries should be specified.

3.106 The role of the Country Office is a key topic to consider in the context of program implementation—the Office’s main task. Given the hazards of implementation, one cannot but ask about the role of the Office in addressing and solving them. OVE interlocutors<sup>90</sup> were of the view that there is still considerable scope for honing the role of the Office, suggesting that it may need to shift increasingly into a partnering mode, in addition to its traditional auditing mode, and that it may need to be further strengthened in support of this shift. Bank staff have strong views on this:<sup>91</sup> the staffing and budget of the Office have grown steadily and significantly since 1995 in line with the Bank’s commitment to improve the portfolio; the partnering mode has long since been a reality; and the traditional division of labor whereby Headquarters is in charge of design and the Country Office of execution is a thing of the past: Country Office staff participate in design, and in the process are developing the ownership that is needed to motivate a strong role in execution. However, while the resources of the Office have grown, so has the portfolio; and with the portfolio in continued need of improvement, questions regarding the role and appropriate resourcing of the Office remain.

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<sup>88</sup> [www.worldbank.org/poverty/strategies/overview.htm](http://www.worldbank.org/poverty/strategies/overview.htm)

<sup>89</sup> IDB, *ROS – Special Study on IDB Experience with Project Implementation Units and Institutional Sustainability*, August 2000.

<sup>90</sup> Present and former government officials.

<sup>91</sup> Comments on a draft of this report.



3.107 Turning to effectiveness, it is useful to recall the definition of this evaluative dimension given earlier: “the extent to which the objectives of the Bank’s strategy and program have been, or are expected to be, achieved.” This concerns both the output of individual operations and the development outcomes engendered by them. The output of selected operations has been surveyed in the program review in this Chapter. While the survey was hampered by information constraints,<sup>92</sup> it nevertheless permits the qualitative conclusion that much has been achieved. The policy-based lending operations of the first and second programming cycles, reviewed rather critically in this Chapter, have nonetheless contributed to initiation of the needed modification of the economic-institutional landscape in Honduras. The social compensation programs have created delivery and implementation structures and have played a major role in fostering community-based services that reached many poor people. The reconstruction effort has proceeded quite rapidly despite great difficulties in the form of new floods, a drought in 2001, and the collapse of foreign markets relevant to Honduras. Part of the Bank’s operational contribution to this effort suffered from the implementation delays that were noted above. But there were also Bank projects that displayed rapid results, e.g., the Social Protection and Transition Loan (HO-0145) that disbursed over a twelve-month period and, among other aspects, permitted the establishment of a “Social Cabinet” that assumed responsibility for the coordination of the GOH’s Poverty Reduction Strategy. Other important achievements include the mobilization of the response to Mitch and donor coordination, and the Bank’s contribution to debt reduction throughout the decade. Important milestones in this respect were the debt swap of 1996, the Bank’s contribution to HIPC debt relief from 2001, and technical support for different aspects of debt management and negotiations. As indicated earlier, TC projects proliferated and, while they were not analyzed for this report and, as noted, are not adequately documented, there are indications that TC, on the whole, has made important contributions toward the achievement of program results.

3.108 Development outcomes in several economic, institutional and social areas of Bank engagement were favorable. In the economic domain, the reforms that the Bank supported contributed to improved economic management, led to fiscal adjustment, and included trade liberalization that eliminated most export taxes, reduced tariffs and import restrictions, simplified discretionary protective measures, devalued and floated the *Lempira*, and later expanded the legal framework for the promotion of exports and the accommodation of foreign direct investment.

3.109 This contributed to a measure of growth and diversification of exports. There was diversification within the primary sector (a shift to selected higher-value agricultural products, with bananas, basic grains, and import-substituting food agriculture more generally, lagging behind) and between the primary sector and the rest of the economy. Exports of manufactured goods such as soaps and detergents, wood manufacture and textiles grew. But total exports grew less than imports and GDP, as noted in Chapter 1, leaving the country to cope with a chronic trade gap and underscoring the fact that the Honduran economy is not an export-driven one, but rather one driven by aid and remittances. Box 3.1 presents an overview of changes in selected economic indicators during the decade: inflation and debt service declined, foreign direct investment increased, the real exchange rates displayed a tendency to appreciate, and incomes grew only slightly, low wages being a factor in what export growth there was in the face of an appreciating exchange rate.

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<sup>92</sup> Information constraints include the fact that (i) some PCRs that were due have never been produced; (ii) PPMRs are not a good source on project outputs as they tend to focus more on process issues; and (iii), as noted in this Chapter, the outputs of non-financial products are not well documented. More fundamentally, information constraints arise from the absence of results frameworks in projects.

**BOX 3.1**  
**HONDURAS: ECONOMIC INDICATORS**

	<b>1990</b>	<b>1998-99</b>
GDP per capita index (1995 prices) <sup>1/</sup>	100	103
	<b>1991</b>	<b>1999</b>
Real wage index (minimum wage) <sup>2/</sup>	100	103.8
	<b>1991</b>	<b>2000</b>
Change in consumer prices (%) <sup>2/</sup>	34.0	11.1
	<b>1991</b>	<b>2000</b>
Real effective exchange rate index (%, decline indicates appreciation) <sup>2/</sup>	100	87.9
	<b>1991</b>	<b>1999</b>
Interest payments due / exports (%, exports of goods, nonfactor services) <sup>2/</sup>	21.1	8.2
	<b>1985</b>	<b>1998</b>
Imports of goods & services/GDP (%) <sup>1/</sup>	29.9	53.3
	<b>1990</b>	<b>1999</b>
Direct foreign investment (Millions of US\$) <sup>3/</sup>	38.0	220.0

Source or calculated from:

<sup>1/</sup> CEPAL, *Anuario Estadístico*, 2000.

<sup>2/</sup> Honduras: *Situación económica reciente*, 2001.

<sup>3/</sup> UNDP, *Informe sobre desarrollo humano: Honduras*, 2000.

3.110 The bottom line in terms of growth is as described in Chapter 1: there is too little of it in per capita terms to make a significant dent in poverty. In Honduras, the “first-generation” reforms did not go very far (and by their design could not have gone very far) in terms of addressing the more intractable institutional, governance, and systemic challenges that stand in the way of more rapid and equitable progress.

3.111 These challenges became an important locus of Bank engagement in the mid-1990s. Not surprisingly, the outcomes so far in this area are far more tentative and trail behind Honduras’s achievements in modernizing and diversifying selected segments of its economy. The conversion of the civil service into an effective resource to support the public purpose, the reform of the judicial system and public security, improved patterns of public sector management and public expenditure, and greater transparency with reduced corruption remain priority areas perhaps best portrayed as “work in progress.”

3.112 Meanwhile, one can point to some significant achievements in the social sectors. Initially to deal with the social cost of adjustment and later to accelerate improvements in terms of social indicators and poverty reduction, the Bank played an important role in the social sectors during the 1990s, and it is important to note that some indicators of social outcomes improved quite considerably during the decade—an observation that (as in the case of other areas of engagement) does not imply causality between Bank action and these developments. As indicated in Box 3.2, key poverty and health indicators improved, population growth declined, and both years of schooling and net primary enrolment improved. (The net secondary enrolment rate declined, which is problematic from a labor productivity and competitiveness point of view.) It is likely that the observed improvements in “basic needs poverty” (measured as the number of households not meeting certain basic needs) can be ascribed to such programs

as FHIS, PRAF and numerous smaller “basic needs” programs supported by NGOs and the international community in different parts of the country.

<b>BOX 3.2</b>		
<b>HONDURAS: SOCIAL INDICATORS</b>		
<b>EDUCATION</b>		
	<b>1990</b>	<b>1999</b>
Years of Schooling, male <sup>1/</sup>	3.9	4.9
Years of Schooling, female <sup>1/</sup>	3.8	4.7
	<b>1980</b>	<b>1997</b>
Net primary enrolment rate (% of relevant age group) <sup>2/</sup>	79.0	88.0
Net secondary enrolment rate (% of relevant age group) <sup>2/</sup>	44.0	36.0
	<b>1991</b>	<b>1999</b>
Literacy rate (%) <sup>1/</sup>	78.1	81.1
<b>HEALTH</b>		
	<b>1985-90</b>	<b>1995-00</b>
Infant mortality rate (infants under 1, per 1,000) <sup>3/</sup>	58.9	35.0
	<b>1980</b>	<b>1999</b>
Under 5 mortality rate (per 1,000) <sup>2/</sup>	103.0	46.0
	<b>1985-90</b>	<b>1995-00</b>
Life expectancy at birth (years) <sup>3/</sup>	65.4	69.8
	<b>1991</b>	<b>1999</b>
Access to piped water (%) <sup>1/</sup>	79.6	88.5
Access to sanitation (%) <sup>1/</sup>	34.2	51.8
<b>POVERTY</b>		
	<b>1991</b>	<b>1999</b>
Poverty incidence (% of households) <sup>4/</sup>	75.0	66.0
	<b>1990</b>	<b>1999</b>
BN - Poverty (% of households not meeting basic needs) <sup>4/</sup>	82.0	74.0
	<b>1991</b>	<b>1999</b>
Human Development Index <sup>1/</sup>	0.604	0.651
<b>OTHER</b>		
	<b>1985-90</b>	<b>1995-00</b>
Population growth (%) <sup>3/</sup>	3.1	2.7

Source or calculated from:

<sup>1/</sup> UNDP, *Informe sobre desarrollo humano: Honduras*, 2000.

<sup>2/</sup> World Bank, *World Development Report*, 2001/2001.

<sup>3/</sup> CEPAL, *Anuario Estadístico*, 2000.

<sup>4/</sup> GDH, *Poverty Reduction Strategy Paper*, 2001.

3.113 Judging the overall impact of eleven years of cooperation with Honduras is not straightforward. Three considerations compete for attention. First, positive outcomes can be detected in domains in which the Bank was active. However, recalling Chapter 1 it is apparent that they pale in relation to the size of the challenge. (For example, the sources of volatility and vulnerability have barely been tackled during the 1990s, despite their critical importance from the point of view of safeguarding past achievements and insuring against future losses.) Second, the 1990s were a decade of turmoil for Honduras, implying that implementation was challenging not only because of institutional shortcomings but also because of the recurring need for crisis management. Third, there were shortcomings in the Bank’s programming, project design, and execution. It may be surmised that, absent these deficiencies, there would have been more far-reaching results, although this is a counterfactual question the answer to which will forever be unknown. What seems fair to say is that the record is mixed and the challenge ahead is to accelerate results in strategically chosen areas of intervention going forward.

## ***IV. Recommendations***

4.1 The Poverty Reduction Strategy drafted by the GOH in consultation with civil society in 2001 provides a framework for the country and the donor community to pursue specified medium and long-term objectives centered on the lasting reduction of poverty. For the next Country Paper, the Bank will be called upon to frame its contribution in the context of this strategy. Based on the foregoing analysis and evaluation of the Bank's country program since 1990, the following recommendations are offered with a view to further strengthening the Bank's contribution to development in Honduras:

4.2 *Focus and selectivity.* The Bank and the country need to explore further the issue of focus and selectivity. For the next Country Paper, the relative merits of concentration versus a more diffused approach should be clarified in the context of an approach to programming that would include: (i) a statement of Bank intent which embodies strategic choices based on a diagnosis of key development challenges; (ii) a meaningful, evaluable set of objectives; (iii) a strategy for attaining those objectives based on an analysis of alternative courses of action; and (iv) a results framework, i.e., indicators against which Bank action and developments on the ground can be assessed.

4.3 *Growth.* Bank interventions should give adequate weight to growth (and indeed to the need to reduce aid dependency over time) in the context of Honduras's Poverty Reduction Strategy. Poverty reduction is not sustainable in the longer run without growth. In recent years poverty reduction through social compensation has been possible only because it was financed by aid. The wisdom of providing debt-generating finance to pay for current welfare requirements needs to be examined closely and should be addressed in the next Country Paper in the context of a reassessment of the development priorities that guide the country and the Bank.

4.4 *Policy continuity.* The need for programming to respond to emergencies during the 1990s has interfered with the requirement for continuity in addressing key longer-term development challenges. Increasingly, the Bank should advocate the merits of continuity. Among other aspects, this implies that it examine further what role it can play to assist Honduras in stepping up measures to mitigate the sources of vulnerability and volatility that the country can control.

4.5 *Execution.* Building on past efforts, the Bank and the country should continue to explore the options available to accelerate sustainable patterns of implementation. A plan to strengthen the Civil Service should be devised. And, on a different plane, the role of project implementation units in a broad strategy of capacity building should be examined anew. Capacity building should not be viewed as a by-product of project implementation units, but calls for a more comprehensive approach.

4.6 *Results.* As implied in the first recommendation, the Bank should shift from an input-driven mode of programming and portfolio management to a results-driven one. For the next Country Paper this means that objectives and priorities should not only be stated in terms of the support to emanate from the Bank, but in terms of the outputs and outcomes to be achieved over time.

**ANNEX 1**  
**HONDURAS: IDB LOAN APPROVALS, 1990-2000**  
(Millions of US\$)

<b>PROJECT NUMBER</b>	<b>PROJECT NAME</b>	<b>APPROVAL DATE</b>	<b>APPROVED AMOUNT</b>
<b>STRUCTURAL ADJUSTMENT</b>			
HO0082	AGRICULTURE SECTOR LOAN	6-Dec-90	60.0
HO0044	ENERGY SECTOR HYBRID PROGRAM	13-Nov-91	55.0
HO0027	AGRICULTURE SECTOR LOAN II	18-Dec-92	50.0
HO0112	ENERGY HYBRID PROGRAM - ADDITIONAL TRANCHE	7-Dec-94	20.0
<b>REFORM &amp; MODERNIZATION OF STATE</b>			
HO0099	RTC CUSTOMS SYSTEM STRENGTHENING PROGRAM	21-Jan-93	1.4
HO0101	MODERNIZATION OF THE STATE PROGRAM	20-Dec-95	160.0
HO0109	JUDICIAL SYSTEM MODERNIZATION	13-Mar-96	7.2
HO0137	TC ESTABLISHMENT EXECUTIVE REVENUE OFF	18-Nov-98	3.0
HO0176	PROCUREMENT CONTRACTING TRANSP. EFFICIEN.	28-Jun-00	14.6
HO0123	NATIONAL CONGRESS MODERNIZATION	6-Dec-00	2.6
<b>SOCIAL INVESTMENT</b>			
HO0051	SOCIAL INVESTMENT FUND OF HONDURAS	29-Jul-92	31.5
HO0113	HONDUREAN SOCIAL INVESTMENT FUND II	28-Jun-95	40.0
HO0114	FAMILY ASSISTANCE PROGRAM	28-Jun-95	20.0
HO0078	BASIC ALTERNATIVE EDUCATION	3-Dec-97	6.6
HO0032	REORGANIZATION HEALTH SYSTEM	6-May-98	36.0
HO0132	FAMILY ASSIGNMENT PROGRAM STAGE II	24-Nov-98	45.2
HO0131	SOCIAL INVESTMENT PROGRAM (FHIS - III)	2-Dec-98	50.0
HO0145	SOCIAL PROTECTION AND TRANSITION	8-Sep-99	30.0
HO0184	INTEGRAL PROG. URBAN POVERTY ALLEVIATION	2-Nov-00	8.1
HO0161	POVERTY ALLEVIATION AND LOCAL DEVELOP. (FHIS -IV)	29-Nov-00	25.0
HO0141	3RD. CYCLE TRANSFORM. BASIC EDUCATION PROG.	6-Dec-00	23.0
<b>PRODUCTIVE SECTORS</b>			
HO0034	MULTISECTORIAL GLOBAL CREDIT PROGRAM	2-Dec-92	60.0
HO01 19	MODERNIZATION OF AGRICULTURAL TECHNOLOGY	2-Oct-96	15.0
HO0144	RURAL ECONOMY REACTIVATION	20-Sep-00	30.0
<b>INFRASTRUCTURE</b>			
HO0039	MUNICIPAL DEVELOPMENT PROGRAM	12-Dec-90	49.5
HO0044	ENERGY SECTOR HYBRID PROGRAM	13-Nov-91	50.0
HO0040	ROADS REHABILITATION	18-Dec-91	110.0
HO0112	ENERGY HYBRID PROGRAM-ADDITIONAL TRANCHE	7-Dec-94	14.8
HO0125	ELCOSA THERMO PLANT	26-Apr-95	10.5
HO0128	SEWERAGE PROJECT FOR PUERTO CORTES	19-Nov-97	13.8
HO0115	SAN PEDRO SULA & CENTRAL DISTRICT DEV.	18-Nov-98	63.0
HO0072	INVESTMENT IN WATER AND SANITATION	8-Dec-99	26.0
<b>ENVIRONMENT</b>			
HO0035	ENVIRONMENTAL MANAGEMENT CAJON WATERSHED	24-Nov-93	20.4
HO0028	BAY ISLANDS ENVIRONMENTAL MANAGEMENT	14-Dec-94	19.1
<b>EMERGENCY</b>			
HO0143	ROAD AND WATER INFRA. EMERGENCY PROGRAM	20-Jan-99	18.8
HO0146	HOUSING PROGRAM AFTER HURRICANE	9-Jun-99	10.4
HO0164	EMERGENCY ROAD COMPLEMENTARY PROGRAM	2-Feb-00	26.8
<b>PREINVESTMENT</b>			
HO0050	PREINVESTMENT	8-Sep-93	8.0
HO0178	PREINVESTMENT PROGRAM	20-Dec-00	12.0
<b>TOTAL</b>	<b>37 PROJECTS</b>		<b>\$1,247.3</b>

Source: ROS.

**ANNEX 2**  
**HONDURAS: TECHNICAL COOPERATION, 1990-2000**  
(Thousands of US\$)

<b>TC NUMBER</b>	<b>TC NAME</b>	<b>APPROVAL DATE</b>	<b>APPROVED AMOUNT</b>
<b>INSTITUTIONAL STRENGTHENING</b>			
TC9001158	STRENGTHENING OF NATIONAL HOUSING POLICIES	14-Feb-90	313.0
TC9006108	MANAGEMENT OF PRIORITY WATERSHED AREAS	16-Oct-90	5.0
TC9109085	REGULATORY FRAMEWORK ELECTRIC SUBSECTOR	23-Sep-91	30.0
TC9202467	SUPPORT TO COHDEFOR	22-Apr-92	30.0
TC9203093	STRENGTHENING TAX ADMINISTRATION SYSTEM	17-Mar-93	1,160.0
TC9306194	HEALTH CARE ADMINISTRATION PROGRAM	3-Jun-93	35.0
TC9411050	SUPPORT TO DIRECCION GENERAL DE ADUANAS	14-Oct-94	12.0
TC9410284	STRENGTHENING OF TAX ADMINISTRATION	3-May-95	1,750.0
TC9502487	INST. STRENGTHENING TO FHIS & PRAF	28-Jun-95	1,600.0
TC9507180	STRENGTHENING OF JUDICIAL SCHOOL	16-Aug-95	10.0
TC9507312	PROGRAMS & PROJECTS SYSTEM EVALUATION	24-Aug-95	6.0
TC9504061	MODERNIZATION OF THE JUDICIAL SYSTEM	13-Mar-96	1500.0
TC9609035	STRENGTH. OFICINA GUBERNAMENTAL DE MUJER	21-Oct-96	20.0
TC9608300	SUPPORT TO UDAPE	20-Dec-96	750.0
TC9704380	MUNICIPAL STRATEGY IN PUERTO CORTES	9-Jun-97	100.0
TC9701344	CUSTOMS ADMINISTRATION MODERNIZATION	19-May-98	650.0
TC9810319	TEGUCIGALPA URBAN DATA AND CADASTRE	22-Oct-98	150.0
TC9812053	INST. FRAMEWORK FOR MVRM IN HONDURAS	23-Dec-98	100.0
TC9903005	PROCUREMENT POLICY SUPPORT-CENTRAL AMERICA	4-Mar-99	80.0
TC9905005	STRENGTHENING INST. DE NINEZ Y FAMILIA	7-Jun-99	80.0
TC9903050	MODERNIZATION OF THE NATIONAL CONGRESS	1-Jul-99	149.0
TC9905034	SUPPORT THE DESIGN & SOC. SECTOR POLICY	3-Aug-99	100.0
TC9903004	PLANIF. RECONSTRUCTION TEGUCIGALPA	5-Aug-99	410.0
TC9908021	MODERNIZATION OF THE NATIONAL CONGRESS	16-Sep-99	95.5
TC0004010	LOCAL SUSTAINABLE DEVELOPMENT PROGRAM	8-May-00	88.4
TC0009021	SUPPORT FOR COMPTROLLER OFFICES	18-Sep-00	3.5
TC9801300	COUNTRY ENVIRONMENTAL STRATEGY	13-Nov-00	652.0
TC0010033	INTEGRATED MANAGEMENT WATER RESOURCES	12-Dec-00	150.0
<b>PROJECT PREPARATION</b>			
TC9003146	PPF: SECTORIAL ENERGY PROGRAM	9-May-90	16.50
TC9004269	DEVELOPMENT OF PUBLIC MUNICIPAL SERVICES	1-Aug-90	16.00
TC9007073	AGRICULTURAL SECTOR LOAN (HO-0082)	19-Nov-90	150.00
TC9008021	AGRICULTURAL SECTOR LOAN II	29-Nov-90	150.00
TC9202483	MULTISECTORIAL CREDIT PREPARATION	22-Apr-92	24.60
TC9205205	PPF: SUPPORT AGRICULTURAL PLANNING UNIT	3-Aug-92	150.00
TC9306467	PPF HO0028: ENVIR. PROGRAM IN BAY ISLANDS	23-Aug-93	150.00
TC9402455	JUDICIAL SECTOR MODERNIZATION	10-May-94	26.00
TC9409310	ENERGY SECTOR HYBRID PROGRAM	7-Dec-94	2,000.0
TC9410482	SUPPORT WATER & SANITATION SECTOR REFORM	15-Feb-95	148.0
TC9603053	DIAGNOSTIC-CONGRESS/LEGISLATIVE SECTOR	8-Mar-96	60.0
TC9704504	ACTION PLAN C AND D COUNTRIES	1-Jan-97	575.6
TC9602245	PREFEASIBILITY STUDY LOS LLANITOS HYDROE	17-Jan-97	385.0
TC9705180	SHORT TERM ENGINEERING CONSULTANCY	14-May-97	14.0
TC9709033	LOS LLANITOS HYDROELECTRIC PROJECT	8-Oct-97	63.5
TC9610412	TC TO DECENTRALIZED SERVICE PROVIDERS	3-Mar-98	450.0
TC9803413	BASIC MUNICIPAL SERVICES: SAN PEDRO SULA	1-May-98	500.5
TC9803421	BASIC MUNICIPAL SERVICES: TEGUCIGALPA	1-May-98	742.5
TC9907018	SOCIAL ENGINEERING METHODOLOGY	26-Jul-99	150
TC9907031	PREPARATION PUBLIC PROCUREMENT PROGRAM	2-Aug-99	20
TC9908025	TRINATIONAL WATERSHED MGMT. PROJ. LEMPA	16-Sep-99	150
TC9911119	ADMINISTRATIVE STRENGTHENING	12-Nov-99	14
<b>TRAINING</b>			
TC9405136	CONSULTANCY TO SECPLAN	15-Jun-94	30.0
TC9404112	DIAGNOSTIC LABOR MARKET/TRAINING NEEDS	29-Jun-94	30.0
TC9604332	APPLICATION OF ABCDESPANOL METHODOLOGY	10-May-96	5.5
TC9702368	SEMINAR FOR MAYORS WATER & WASTEWATER S.	23-Apr-97	9.9
TC9911109	EFFICIENCY & TRANSPARENCY PROGRAM	11-Nov-99	5.5
TC9910033	SOCIAL MANAGEMENT & POLICY DESIGN	31-Jan-00	55.4
TC08002003	FORESTRY CERTIFICATION	29-Mar-00	150.0
TC9809396	MUNICIPAL TRAINING PROGRAM	26-Jul-00	750.0

Source : ROS.

Note : Excludes MIF-Financed TCs (see Annex 3).

**ANNEX 2 (cont.)**  
**HONDURAS: TECHNICAL COOPERATION, 1990-2000**  
(Thousands of US\$)

<i>TC NUMBER</i>	<i>TC NAME</i>	<i>APPROVAL DATE</i>	<i>APPROVED AMOUNT</i>
<b>PRIVATE SECTOR SUPPORT</b>			
TC9005473	CTI: COMMUNITY PRODUCTIVE ENTERPRISES	31-Aug-90	14.0
TC9008055	SUPPORT RURAL WOMEN MICROENTREPRENEURS	24-Jan-91	18.0
TC9005423	INSTITUTIONAL STRENGTHENING OF CADERH	29-Jul-91	120.0
TC9006471	CACAO PRODUCTION AND COMMERCIALIZATION	29-Jul-91	120.0
TC9110149	STM TO FEDECOCH INHBIER AND AHH	17-Sep-91	28.0
TC9105108	SUPPORT TO FUNHDEMU	22-Jul-92	128.0
TC9105116	SUPPORT TO ODEF	22-Jul-92	146.0
TC9302126	SMALL PROJECTS PACKAGE PREPARATION	5-Mar-93	30.0
TC9003047	SUPPORT TO INHBIER	7-Sep-93	120.0
TC9105124	SUPPORT TO FEDECOH	7-Sep-93	120.0
TC9106132	SUPPORT TO HERMANDAD OF HONDURAS AHDH	7-Sep-93	120.0
TC9207300	SUPPORT TO FINCA	7-Sep-93	130.0
TC9501330	NATIONAL AGRICULTURE & RURAL IND. CENTER	17-Jan-95	20.0
TC9708209	PRIVATIZATION SOLID WASTE SERVICES	5-Dec-97	500.0
TC9806198	SUPPORT TO COOPERATIVA MIXTA OCOTEPEQUE	15-Apr-98	175.0
TC9802069	ENTREPRENEUR ENVIRONMENTAL CENTER	7-Jul-98	150.0
TC9808265	INST. STRENGTH FUNDACION COVELO	10-Sep-98	34.2
TC9902061	SUPPORT FEDERACION AGROEXPORTADORES	24-Feb-99	6.1
TC9805493	SUPPORT RURAL MICROENTREPRENEURS	2-Jun-99	130.0
TC0008031	STRATEGIC ALLIANCES FOR MICROENTERPRISE	15-Sep-00	10.0
<b>EMERGENCY RESPONSE</b>			
TC9309370	EMERG. CAUSED BY NATURAL DISASTER: "GERT"	11-Nov-93	200.0
TC9810591	EMERGENCY PLAN: HURRICANE MITCH	5-Nov-98	50.0
TC9811250	RECONSTRUCTION AFTER HURRICANE MITCH	6-Nov-98	150.0
TC9811747	WATER SECTOR EVALUATION DISASTER DAMAGES	12-Nov-98	10.0
TC9811987	EVAL. DISASTER DAMAGE TEGUCIG. WATER SEW.	20-Nov-98	150.0
TC9812006	TRAINING IN BRIDGES INSTALLATION	1-Dec-98	20.0
TC9809461	CONSULTATIVE GROUP PREPARATION	7-Dec-98	150.0
TC9902043	URBAN TRANSPORT STUDY FOR TEGUCIGALPA	3-Mar-99	160.0
TC9903026	EXPERIENCES IN EMERGENCY PROJECTS	12-Mar-99	8.7
TC9903014	STRATEGY FOR RECONST. OF TEGUCIGALPA	22-Mar-99	90.0
TC9812009	NATIONAL RECONSTRUCTION PROCESS	7-Apr-99	1,000.0
TC9806293	DISASTER MITIGATION IN CENTRAL AMERICA	16-Apr-99	75.0
TC9903007	EMERGENCY PROG. FLOOD PROTECTION WORK	19-May-99	400.0
TC9905044	SUPPORT TO DAMAGED INFRASTRUC. REHAB. PROJ	20-Sep-99	150.0
TC9910018	PREPARATION CONSULTIVE GROUP	17-Dec-99	150.0
ITC9911148	GEOTECHNICAL STUDY CA-5 ROAD FAULTLINES	18-Jan-00	110.0
TC0001029	TRAINING ON ROADS ENVIRONM. PROTECTION	3-Apr-00	110.0
TC0003008	TRAFFIC SAFETY IMPROVEMENT	5-Apr-00	149.9
<b>OTHER</b>			
TC9004178	ADVISE ON THE EXTERNAL DEBT NEGOTIATION	12-Jun-90	3.5
TC9007487	REHABILITATION OF THE HANDICAPPED	29-Nov-90	13.0
TC9109118	NATIONAL WATERSHED PROGRAM	10-Oct-91	23.0
TC9203358	BIDDING OF FUNDS	13-May-92	14.0
TC9403148	SUPPORTING PROGRAM FOR FIGHTING AIDS	10-May-94	30.0
TC9403122	SUPPORT TO PROGRAM FOR FIGHTING AIDS	26-Oct-94	1,800.0
TC9507388	INTEGRATION OF AQUACULTURE & IRRIGATION	5-Feb-96	47.0
TC9611056	ECOLOGIC STUDIES OF PAROLE LA TIGRA	23-Dec-96	76.0
TC9702350	SUPPORT TO MERCHANT MARINE AUTHORITY	18-Apr-97	150.0
TC9801433	QUANTITATIVE ASSESSMENT OF POVERTY	9-Feb-96	93.8
TC9807185	SHARE OPERATION & DESIGN EXPERIENCIES	10-Jul-98	15.0
TC9807374	CONSULTING GROUPS EXPERIENCES	24-Jul-98	3.7
TC9908012	PARTICIPATORY BUDGETING PROCESS	4-Aug-99	2.5
TC9910003	Y2K INFORMATION SYSTEMS, SAN PEDRO SULA	14-Oct-99	150.0
TC9907028	URBAN ROADWAY EFFICIENCY PROGRAM	25-Oct-99	150.0
TC9910023	CONSENSUS ON EDUCATION REFORM	25-Oct-99	100.0
TC9909029	AGRIBUSINESS MASTER PLAN VALLE COMAYAGUA	3-Nov-99	71.3
TC9912051	SUPPORT FOR MUNICIPAL DEVELOPMENT	7-Jan-00	150.0
TC0002031	WORKSHOP NAT. STRATEGY LAND USE PLAN	17-Feb-00	15.0
TC9911112	MUNICIPAL INDICATORS DEVELOPMENT	17-Feb-00	100.0
TC0001035	INSTITUTIONAL STUDY WATER RESOURCES SPS	13-Mar-00	100.0
TC0006009	VOCAT. TECHNICAL EDUCATION REFORM	20-Jun-00	145.0
TC0008000	LEGAL REVISION OF LAND USE PLANNING	14-Aug-00	30.0
TC9912041	SUPPORT FOR HO'S SOCIAL SECTOR PROGRAMS	3-Oct-00	41.4
TC0010030	SUPPORT CONSULTING EVENTS CIVIL SOCIETY	13-Nov-00	61.0
<b>TOTAL</b>	<b>135</b>		<b>25,538.8</b>

Source: ROS.

Note: Excludes MIF-Financed TCs (see Annex 3).

**ANNEX 3**  
**HONDURAS: MULTILATERAL INVESTMENT FUND**  
(Thousands of US\$)

<i>PROJECT NUMBER</i>	<i>PROJECT NAME</i>	<i>APPROVAL DATE</i>	<i>APPROVED AMOUNT</i>
<b>REIMBURSABLE OPERATIONS</b>			
HO0147	FEM. ENTERPRISE DEVELOPMENT	19-Jul-99	400.0
HO0157	WORLD RELIEF DE HONDURAS	19-Jul-99	400.0
HO0151	FAMILY AND ENVIRONMENT	21-Jul-99	100.0
HO0154	COVELO FOUNDATION	21-Jul-99	200.0
HO0148	COMMUNITY SUPPORT INTERNATIONAL FOUNDATION	28-Sep-99	300.0
HO0150	BROTHERHOOD HONDURAS	8-Oct-99	100.0
HO0162	EL PROGRESO S.A. SOLIDARITY INVESTMENT	8-Oct-99	100.0
HO0166	COOPERATIVA LA PROSPERIDAD	26-Nov-99	80.0
HO0169	COOP. MIXTA PORTENA LTDA COOMPOL	26-Nov-99	150.0
HO0171	FINANCIERA SOLIDARIA S.A.	13-Dec-99	500.0
HO0163	FEDERACION COOP. AHORRO AND CREDITO HON.	13-Dec-99	300.0
HO0167	PESPIRENSE FRATERNITY COOPERATIVE	7-Mar-00	150.0
HO0177	TAULABE LTD CREDIT AND SAVING COOPERATIVE	7-Mar-00	200.0
<i>SUBTOTAL</i>	<i>13 OPERATIONS</i>		<i>2,980.0</i>
<b>NON-REIMBURSABLE OPERATIONS</b>			
TC9506231	RURAL ENTERPRISES DEVELOPMENT PROGRAM	23-Jan-96	1,892.3
TC9503055	REGUL. AGENCY FOR TELECOMMUNICATIONS	29-May-96	1,130.0
TC9410440	STRENGTH. BANKING & INSURANCE COMMISSION	29-May-96	1,530.0
TC9602427	MEDIATION AND ARBITRATION CENTER	16-Dec-96	497.0
TC9609168	ENTREPRENEURIAL PRIVATE INVESTMENT	4-Jun-97	1,950.0
TC9802209	SUPPORT SAN PEDRO SULA ROAD CONCESSION	7-Apr-98	300.0
TC9805485	INSTITUTIONAL STRENGTHENING OF FINSOL	4-Jan-99	300.0
TC9810070	POTABLE WATER AND SEWERAGE	21-Apr-99	750.0
TC9810377	MICROENTERPRISES NETWORK EXPANSION	12-May-99	700.0
TC9906029	SUPPORT PROG. PROD. SECTOR & SMALL ENTER.	7-Jul-99	1,700.0
TC9904020	INSTITUTIONAL STRENGTHENING OF BANCOMER	25-Apr-00	270.0
TC9904022	INSTITUTIONAL STRENGTHENING OF BANHCAFE	30-Aug-00	273.0
TC9912014	COMPETITIVENESS OF TEXTILE SECTOR	25-Oct-00	1,100.0
TC9909024	STRENGTHENING OF FINANCIAL SECTOR	29-Nov-00	1,456.9
<i>SUBTOTAL</i>	<i>14 TCs</i>		<i>13,849.2</i>
<i>MIF TOTAL</i>	<i>27 OPERATIONS</i>		<i>16,829.2</i>

Source: ROS.



**ANNEX 4**  
**HONDURAS: INTER-AMERICAN INVESTMENT CORPORATION**  
**(Millions of US\$)**

<i>TC NUMBER</i>	<i>TC NAME</i>	<i>APPROVAL DATE</i>	<i>APPROVED AMOUNT</i>
HO0003A	ZIP CHOLOMA	Oct-90	2.5
HO1002A	ZIP BUFALO	Dec-91	5.9
HO1015A	BGA (formerly Bancahsa)	Dec-93	3.5
HO0003B	ZIP CHOLOMA -II	Dec-97	1.5
HO1028A	BANCO FICOHSA	Jan-99	7.0
HO1015B	BGA II	Sep-99	7.0
HO1032A	FICENSA	Dec-99	4.0
HO1 029A	ZIP BUENA VISTA	Jan-00	7.5
HO1033A	DEL TROPICO	Dec-00	3.0
<b>TOTAL</b>	<b>9 PROJECTS</b>		<b>\$41.9</b>

*Source: ICC.*

**ANNEX 5**  
**HONDURAS: SMALL PROJECTS, 1990 - 2000**  
**(Thousands of US\$)**

<i>PROJECT NUMBER</i>	<i>PROJECT NAME</i>	<i>APPROVAL DATE</i>	<i>APPROVED AMOUNT</i>
SP/SF-91-24-HO	SUPPORT APROCACAHO	29-Jul-91	500.0
SP/SF-91-25-HO	SUPPORT TO CADERH	29-Jul-91	500.0
SP/NF-92-22-HO	SUPPORT TO ODEF	22-Jul-92	500.0
SP/ST-93-22-HO	SUPPORT TO FINCA	22-Jul-93	500.0
SP/EM-98-02-HO	COOP. OCOTEPEQUE	15-Apr-98	500.0
SP/SF-99-06-HO	SUPPORT FINACOOOP	2-Jun-99	200.0
SP/EP-93-23-HO	SUPPORT TO FEDECOH	7-Sep-93	350.0
SP/EP-93-24-HO	ASOCIACION HERMANDAD	7-Sep-93	450.0
SP/EP-93-25-HO	SUPPORT TO INHBIER	7-Sep-93	450.0
<b>TOTAL</b>	<b>9 PROJECTS</b>		<b>\$3,950.0</b>

Source: ROS.

**ANNEX 6  
LIST OF CONTACTS\***

**Government**

<i>Name</i>	<i>Title</i>	<i>Institution</i>
Mario Aguero Lacayo	Secretario Ejecutivo, Comisión Consultiva de Privatización	Secretaría de Finanzas
Gustavo Alfaro	Ministro	Secretaría de la Presidencia
Sergio Canales	Viceministro	Secretaría de Obras Públicas, Transporte y Vivienda (SOPTRAVI)
Hugo Castillo	Viceministro de Finanzas	Secretaría de Finanzas
Efraín Corea	Analista de Área de Políticas y Programas	Secretaría de Estado del Despacho Presidencial, UNAT
Efraín Díaz Arrivillaga	Director Ejecutivo	Secretaría de Agricultura y Ganadería (PRONADERS)
Daniel Figueroa	Vicepresidente	Banco Central de Honduras
Danery Funes	Viceministro de Presupuesto	Secretaría de Finanzas
Glenda Gallardo	Ministra	Secretaría Técnica y de Cooperación Internacional (SETCO)
Norman García	Director	Exportadores (FIDE)
Orlando Garner	Director Crédito P.	Secretaría de Finanzas
Leslie Inestroza	Coordinador Programa	Unidad Ejecutora DEI
Roberto Larios Silva	Alcalde	Municipalidad San Pedro Sula
Tomás Lozano	Ministro	Secretaría de Obras Públicas, Transporte y Vivienda (SOPTRAVI)
Daniel Macías	Co-Gerente Proyecto Promosta	SAG
Marco Tulio Mejía	Coordinador General	Secretaría de Educación
Sandra de Midence		
Rosa L. Montes de Oca	Directora General	Comisión Presidencial de Modernización del Estado
Jorge Navarro	Coordinador del Área de Estudios	Secretaría de Estado del Despacho Presidencial, UNAT
Gabriela Núñez	Ministra	Secretaría de Finanzas
Oscar Núñez-Sandoval	Asesor del Director Ejecutivo	Banco Mundial
José María Palacios	Magistrado	Corte Suprema de Justicia
Raúl Pineda y Diputados	Asesor Presidencia	Congreso Nacional
Manuel Ramírez	Director	UNAT
Moisés Starkman Pinel	Ministro-Director	Presidencia de la República, Fondo Hondureño de Inversión Social (FHIS 3)
Jorge Yllescas Oliva	Director Ejecutivo	Dirección Ejecutiva de Ingresos, D.E.I.

**Donors**

Jeff Avina	<i>Representante Residente</i>	PNUD
Oscar Borjas	Gerente Regional en Honduras	Banco Centroamericano de Integración Económica
Margarita Bueso	Oficial Proyecto	PNUD
Martín del Campo	Oficial Proyecto	Banco Mundial
Chungsuk Cha	Representante Residente	Fondo Monetario Internacional
Francisco Funes	Consultor	PNUD
Duty D. Greene	Economista, Oficina de Estrategia y Apoyo a Programas	USAID
Wilfried Liehr	Director, Agencia de la GTZ en Tegucigalpa	Cooperación Alemana de Desarrollo
Humberto López	Economista de país	Banco Mundial
Sergio Membreño	Oficial Proyecto	PNUD
Fernando Mudarra	Director	España/AECI
Ryuichi Nasu	Subdirector	Agencia de Cooperación Internacional del Japón
Shad Prashad	Consejero (Cooperación) y Cónsul	Embajada de Canadá en Honduras

\* Field visits to Honduras in March 2001 (5 days) and May 2001 (4 days).

Jan Robberts	Consejero, Sección para la Cooperación con Honduras	Embajada de Suecia
Pablo R. Schneider	Presidente	Banco Centroamericano de Integración Económica
María Simó	Encargada Oficina Comercial	Ministerio de Comercio Exterior de España
Todd Sloan	Especialista Descentralización	USAID
Alfredo Stein H.	Oficial de Programas, Sección para la Cooperación con Honduras	Embajada de Suecia
Marvin Taylor Dormond	Contralor	Banco Centroamericano de Integración Económica
Takahiro Yamauchi	Segundo Secretario	Embajada de Japón en Honduras

#### Private Sector

Armando Aguilar Cruz	Ex-Ministro de Hacienda	
Gustavo Aguilar López	Director Ejecutivo	Consejo Hondureño de la Empresa Privada
Federico Álvarez	Ex-Representante BID	Sector Privado
Amelia Bayón Gimeno	Abogada, Consultora ONG	Sector Privado
Guillermo Bueso	Ex-Ministro Gabinete Económico Presidente	Banco Atlántida
Jesús Canahuati	Presidente	Asociación Hondureña de Maquiladores
Javier Chacón	Gerente General en Honduras	Sara Lee Intimate Apparel
Henry Fransen Jr.	Director Ejecutivo	Asociación Hondureña de Maquiladores
Julieta Handal	Presidenta	Consejo Hondureño de la Empresa Privada (COHEP)
Jorge Ramón Hernández	Coordinador	Equipo de Campaña MADURO
Jacobo Kattán	Director	Asociación Hondureña de Maquiladores
Ivonne Membreño	Coordinadora UTP-PROCINCO	Asociación Hondureña de Maquiladores
José Molina Deras	Regulador	Asociación Hondureña de Maquiladores
Sonia Palomo Chinchilla	Secretaria General	Consejo Hondureño de la Empresa Privada
Waleska Pastor	Ex-Ministra FHIS	
Raja Rajan	Tesorero	Asociación Hondureña de Maquiladores
Antonio Tavel Otero	Presidente	CDC Xerox
Carlos Young Reyes	Gerente de Finanzas	Del Trópico

#### Civil Society

Mauricio Burdeth		FOSDEM
Julieta Castellanos		Foro Ciudadano
Rafael Flores		Interforos
Marco Orlando Iriarte	Secretario Ejecutivo	Foro Nacional de Convergencia (FONAC)
Guadalupe López	Presidente	Asociación Municipios (AMHON)
José Filadelfo Martínez	Secretario General	Interforos
Víctor Meza		Foro Ciudadano
Alan Paredes	Vice Presidente	Asociación Municipios (AMHON)

#### IDB/IIC Group

Carola Álvarez		
Marcelo Antinori		
Richard Archi		
Ladislao Brachowicz		
Alfredo del Campo		
César Castellón		
Caroline Clarke		
Horacio Delgado		
Rodrigo Elliot		
Carlos Gargiulo		
Camille Gaskin-Reyes		
Giovanni Giovanelli		

Tatsuji Hayakawa		
Robert Kaplan		
Ezequiel Machado		
Ana Macloughlin-Moppett		
Miguel Manzi		
Andrés Marchant		
Juan Carlos Martínez		
Rodrigo Mayén Girón		
Gina Montiel		
Martín de Moya		
Yassuo Niishimoto		
Lionel Nicol		
Steven Reed		
Charles Richter		
Ana María Rodríguez		
Jorge Roldán		
Juana Salazar		
Jorge Sapoznikow		
Helge Semb		
Juan Pablo Severi		
Jennelle Thompson		
Paul Trapido		

**Other**

Keith Andrews	Director General	Zamorano
Mario Contreras	Director Ejecutivo	Zamorano
Antonio Flores	Decano Académico	Zamorano
Wilfredo Girón		Universidad Nacional Autónoma de Honduras (UNAH)
Alcides Hernández	Consejo Directivo	Universidad Nacional Autónoma de Honduras (UNAH)
Cristiana Nuño de Figueroa	Presidenta	Colegio Hondureño de Economistas
Eleonor Howard		