



RE-328

***Country Program Evaluation:
Honduras 2001-2006***

Office of Evaluation and Oversight, OVE

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ACRONYMS

AFE	<i>Administración Forestal del Estado</i> - State Forestry Administration
BANADESA	<i>Banco Nacional de Desarrollo Agrícola</i> - National Agricultural Development Bank
BCH	<i>Banco Central de Honduras</i> - Honduras Central Bank
CABEI	Central American Bank for Economic Integration
CAFTA-DR	Central American Trade Agreement
CAS	Country Assistance Strategy
CEB	<i>Centros de Educación Básica</i> - Primary Education Centers
CEJA	<i>Centro de Estudios de Justicia de las Américas</i> - Center for the Study of Justice in the Americas
CEPAL	<i>Comisión Económica para América Latina y el Caribe</i> - Economic Commission for Latin America and the Caribbean
CESAMO	Health Center with a physician and dentist
CESAR	Rural Health Center
CFAA	Country Financial Accountability Assessment
CG	Consultative Group
CNBS	<i>Comisión Nacional de Bancos y Seguros</i> - Nacional Commission for Insurance Companies and Banks
COF	Country Office
COHDEFOR	<i>Corporación Hondureña de Desarrollo Forestal</i> - Honduran Corporation for Forestry Development
CPE	Country Program Evaluation
CPR	Country Portfolio Review
DEI	<i>Dirección Ejecutiva de Ingresos</i> - Department of Revenue
DIMA	<i>División Municipal de Aguas</i> Municipal - Water Administration Division (San Pedro Sula)
EBP	Bank's Country Strategy with Honduras
ENDESA	<i>Encuesta Nacional de Demográfica y Salud</i> - National Health and Demographic Survey
ENEE	<i>Empresa Nacional de Energía Eléctrica</i> - National Electricity Enterprise
ENESF	<i>Encuesta Nacional de Epidemiología y Salud Familiar</i> - National Survey on Family Health
ERP/PRS	<i>Estrategia para la Reducción de la Pobreza</i> - Poverty Reduction Strategy
FDI	Foreign Direct Investment
FHIS	<i>Fondo Hondureño de Inversión Social</i> - Honduran Social Investment Fund
FIDE	<i>Fundación para la Inversión y Desarrollo de Exportaciones</i> - Foundation for Investment and Development of Exports
FSO/FOE	Fund for Special Operations
GCF	Global Competitiveness Forum
GDP	Gross Domestic Product
GOH	Government of Honduras
HDI	Human Development Index
HIPC	Highly Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development

IDA	International Development Association
IFI	International Financial Institutions
IIC	Inter-American Investment Corporation
INE	Instituto Nacional de Estadísticas - National Statistics Institute
LAC	Latin America and the Caribbean
LMS	Loan Management System (of the IDB)
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goal
MDRI	Multilateral Debt Reduction Initiative
MIF/FOMIN	Multilateral Investment Fund
NGO	Non-Governmental Organization
OC	Ordinary Capital
ODA	Official Development Assistance
OECD	Organisation for Economic Co-Operation and Development
OVE	Office of Evaluation and Oversight
PAIS	Project Alert Identification System
PCR	Project Completion Report
PEU	Project Executing Unit
PMRTN	Plan Maestro de la Reconstrucción y Transformación Nacional - Master Plan for National Reconstruction and Transformation
PPMR	Project Performance Monitoring Review
PRAF	Programa de Asignación Familiar - Family Assistance Program
PRI	Private Sector Department
PRIESS	Programa de Reorganización Institucional y Extensión de los Servicios Básicos del Sector Salud - Program for Institutional Reorganization and Extension of Basic Services in Health
PRSP	Poverty Reduction Strategy Paper
SANAA	Servicio Autónomo Nacional de Acueductos y Alcantarillados - Honduran National Water Authority
SEFIN	Secretaría de Finanzas - Finance Ministry
SERNA	Secretaría de Recursos Naturales y Ambiente - Environment and Natural Resources Ministry
SIAFI	Sistema Integrado de Administración Financiera - Integrated Financial Administration System
SIC	Secretaría de Industria y Comercio - Industry and Commerce Ministry
SIERP	Sistema de Información de la ERP - PRS Information System
SINIMUN	Sistema de Nacional de Seguimiento Municipal - National Municipal Tracking System
SNITTA	Sistema Nacional de Investigación y Transferencia de Tecnología Agroforestal - National System for Research and Technology Transfer
SWAP	Sector-wide Approach
TC	Technical Cooperation
UDAPE	Unidad de Análisis de la Política Económica - Unit of Political Economy Analysis

UMCE	<i>Unidad de Medición de la Calidad de la Educación</i> - Unit for Measurement of Quality in Education
UNAT	<i>Unidad de Apoyo Técnico de la Presidencia</i> - Technical Support Unit of the Presidency
UNDP	United Nations Development Programme
UPEG	<i>Unidad de Planeamiento y Evaluación de la Gestión</i> - Management Planning and Evaluation Unit
USAID	United States Agency for International Development
WBI	World Bank Indicators
WHO	World Health Organization

EXECUTIVE SUMMARY

This is the second CPE review of Honduras. The first review was produced by this office in 2002, and focused primarily on the Bank's role in reconstruction following Hurricane Mitch. The current review's approach is to take the Bank's strategic objectives and indicators, and assess the consistency, relevance, efficiency and effectiveness of the Bank's activities.

With respect to consistency the review found that the Country and the Bank have worked together, and that the Bank's programming has been broadly consistent with country and government priorities. The Bank's approach has been to continue financing of social sector programs, while expanding programming in the areas of competitiveness and growth.

The evaluation also found that the breadth of the Bank's engagement with the country, along with the Bank's active involvement with the international cooperation is evidence of its relevance. The Bank took on a leadership role among the donor community, and maintained a high level of dialogue with the country. It provided technical support for necessary reforms in selected sectors, most prominent of which is the financial sector reform. However, OVE found that in other sectors the Bank did not tackle some of the country's most pressing issues, among them forestry, and to some degree education and justice.

In terms of identification of objectives and indicators, the Bank's programming was more evaluable than prior programming, and the Bank's projects were more evaluable than prior projects. In terms of program execution, the Bank's metrics in Honduras are on par with Bank averages. In some areas, such as technical cooperation, the Bank did better, linking a significant portion of TC to its broader lending and reform initiatives. However, problems identified include a continued reliance on Project Executing Units as a method of delivery, designing interventions that are overly complex and too demanding regarding coordination requirements. Furthermore, despite a more evaluable strategy, the Bank has not tracked results of its strategy, even as it did assist the country in strengthening its own results and information systems. The Bank has also stepped up its efforts to assess program and projects results. However, given that for the majority of projects and programs data is still not tracked, nor are results assessed, there is still much to be done. These problems in delivery attenuate what otherwise is a positive finding in terms of efficiency.

The review of the available data produced evidence on progress toward each of the strategy's pillars, although only limited progress was achieved in terms of governance and poverty metrics. The data available on macro stability and on competitiveness and business environment is positive. The evidence shows that progress has been substantial. Regarding governance the evidence reviewed shows gains in the justice sector, along with improvements in court efficiency, significant strides in financial sector indicators, and some improvement in fiscal indicators. However, in other aspects, such those related to corruption, there has been little progress. In human capital formation there were modest gains. Following a decade of fast-paced improvement in education indicators, the improvement has slowed down, and although there is continued progress in education efficiency indicators, there is no evidence of improved learning. In health, preliminary evidence suggests a reduction infant mortality. Finally, regarding poverty and income inequality, the evidence shows a modest decrease in income poverty, but little

decrease in consumption-based poverty and a widening in measures of inequality. Given the central role of poverty and welfare in the Honduran Poverty Reduction Strategy and as a stated objective of the Bank, the lack of consistent and solid gains in this area, despite the sector result mentioned above, have limited the finding regarding the Bank's effectiveness.

OVE also reviewed the degree to which the recommendations from the prior CPE were taken into account by Management. In this respect one recommendation was fully implemented: that of providing policy continuity. In the cases of the recommendations regarding selectivity of programming, focusing on growth as a method of poverty reduction, addressing issues relating to project executing units and focusing on results, there has been partial implementation. The last recommendation was that the Bank develop a plan to strengthen the Honduran civil service. Despite efforts to address human resource issues in Health and Education, OVE did not find evidence of a civil service reform strategy, as outlined in the prior CPE.

Given the findings of this report, summarized above, OVE proposed the following set of recommendations:

1. The Bank should work with the country and development partners to sharpen its strategy for poverty reduction. This effort should be based on:

- Identification of mechanisms that would promote pro-poor growth;
- Assessment of the incidence of benefits of all Bank-supported programs, particularly in programs impacting the real sectors;
- Identification of mechanisms and policies that will encourage the poor to accumulate assets, and more broadly, escape poverty.

2. The bank should continue efforts to integrate its program with the country. In particular:

- Incorporate the tracking of Bank strategy indicators with the country's monitoring systems and review the progress toward the indicator targets periodically with GOH.
- Move away from Project Executing Units as a delivery mechanisms, instead relying on line ministries or country entities to manage project execution, and accelerate the move toward SWAPs.

3. Results-based management requires the identification of the effectiveness of Bank programs and policies, which in turn requires rigorous evaluation designs and appropriate data on results. The Bank should intensify its efforts to produce estimates of project impact, focusing on measuring adequate baseline information and developing, ex ante, strategies to assess program effectiveness. This is particularly relevant for projects that focus on the real sectors, for which this practice is not well developed.

I. THE COUNTRY CONTEXT

A. Overview

- 1.1 This is the second Country Program Evaluation (CPE) on Honduras produced by this office. The first CPE covered the period of 1990 to 2000. The period reviewed by the current CPE is from 2001 to 2006¹. This covers the Bank's latest programming cycle, which includes the end of the Carlos Flores administration, as well as the Ricardo Maduro administration.
- 1.2 The period of analysis starts at a point in time where Honduras was in the final stages of reconstruction, following the advent of Hurricane Mitch in 1998. After Mitch the Partido Liberal and the Flores administration developed a reconstruction plan, which later was changed to become the fully-fledged Poverty Reduction Strategy Plan (PRSP), in 2001. The PRSP was widely discussed within the country, and there is agreement that given the extent of dialogue involved in drafting the strategy, that it encompassed a true consensus of civil society.
- 1.3 In 2002 the National Party won the presidential election. President Ricardo Maduro assumed the presidency, but for the first time since its return to democracy, the governing party did not have a majority in Congress, forcing the National Party to form alliances in order to gain a governing majority, first with the Christian Democrats and later with other factions. The transition of power was also atypical because it was preceded by a series of agreements to which both parties pre-committed, regarding the precepts of a reform agenda. These included a reform of the selection process of the Supreme Court, so that it would be uncoupled with the normal electoral cycle, and a separation of municipal and congressional ballots from the presidential party, which produced a proliferation of smaller parties in Congress. These measures, along with the National Party's embrace of the PRSP, developed by the predecessor as an instrument for setting strategic objectives, is a break from prior, more conflictive transitions of power.
- 1.4 Honduras' macro performance during the first half of the decade compares favourably to LAC, however, most of the growth in per capita terms was wiped out by a rapidly increasing population. The average growth rate for the period was 3.4%, although growth increased monotonically from 2001 to 2006, meaning that it has improved continuously. In comparison the growth rate of LAC as a whole was just shy of 2%². The period is also relatively stable; in sharp contrast to the historically volatile growth that the country had experienced during the prior two decades. However, the increases in population neutralized Honduras' growth, producing per capita results no better than LAC, and overall worst than other Highly Indebted Poor Countries (HIPC).
- 1.5 Honduras's economic performance was facilitated by favourable terms of trade, robust growth among major trading partners, particularly in 2003-2005 (and the US in particular), and no supply shocks above and beyond the increase in fuel prices. The highest growth sectors during the period were utilities and public administration. However, they had little impact on output given the small share of the sectors.

Agriculture, on the other hand, grew at a modest rate, but given its importance in the share of output, was responsible for largest expansion in GDP, followed closely by manufacturing. In the case of agriculture, this is a break with the historical decline that the sector had experienced during the last two decades³. In the case of manufacturing the increase in output is driven by the maquila sector, which continued to post robust results. Lastly, the country has experienced an increase in tourism. The sector's expansion has been from 4% of output in 2000 to nearly 6%, according to the latest figures. It is of note that the increase in output was mostly due to changes in commodity prices, and to the external macro environment⁴.

Table 1.1: Growth

	<i>GDP Growth</i>				
	<i>1960s</i>	<i>1970s</i>	<i>1980s</i>	<i>1990s</i>	<i>2000-2005</i>
Honduras	4.92%	5.77%	2.51%	2.76%	3.96%
Central America	6.36%	4.64%	1.14%	4.81%	3.64%
HIPC	3.29%	3.39%	1.68%	2.14%	4.07%
Latin America	5.25%	5.64%	1.74%	3.01%	2.62%
Low and Middle	4.89%	5.31%	3.37%	3.42%	5.22%
Low Income	3.89%	3.37%	4.48%	4.56%	5.68%
OECD	5.27%	3.42%	3.13%	2.56%	2.23%

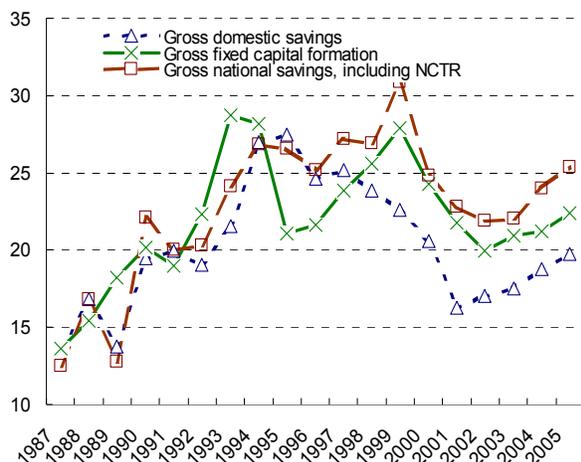
	<i>GDP p.c.Growth</i>				
	<i>1960s</i>	<i>1970s</i>	<i>1980s</i>	<i>1990s</i>	<i>2000-2005</i>
Honduras	1.65%	2.49%	-0.66%	-0.11%	1.56%
Central America	3.18%	1.99%	-1.11%	2.41%	1.40%
HIPC	0.75%	0.55%	-1.18%	-0.42%	1.60%
Latin America	2.46%	3.12%	-0.35%	1.31%	1.21%
Low Income	2.65%	3.08%	1.40%	1.77%	3.85%
Lower Middle Income	1.44%	0.85%	2.03%	2.36%	3.73%
OECD	4.16%	2.59%	2.50%	1.87%	1.52%

Source: WBI

- 1.6 This expansion was achieved through improvements in productivity (i.e. without an appreciable increase in labor and capital). During the period total factor productivity increased at an annual rate of 2%, reversing a decade-long trend of negative productivity growth.
- 1.7 The growth in output was accompanied by a similar expansion in exports, but there was no further diversification in the exported commodity basket. Exports grew over the period at an annual rate of 3.4%. Although export performance was in tandem with the overall performance of output, it did not stand out as a dominating source of growth and foreign exchange. The composition of exports favored maquila, tourism and coffee. The increased diversification and move away from traditional exports that was achieved during the 1990s was sustained, although there was no further change in export commodity composition during the period⁵.
- 1.8 The financing of investment changed with respect to the 1990s, from internal to external savings. During the period Honduras finds a dramatic widening of the savings-investment gap, with financing of investment gradually moving toward foreign sources and away from domestic savings. The trade deficit was on the order 21 percent in 2000, and has steadily increased to 28% for 2005. However, this increase has been offset by changes in

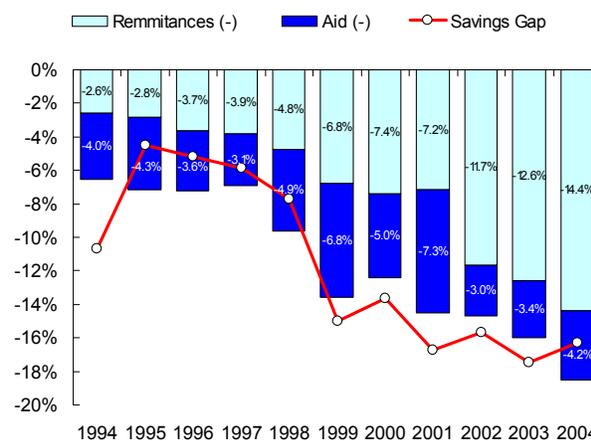
remittances, which increased from 3% of GDP to 25.5% in 2006. Indeed, the drastic increase in remittances, along with a steady flow of foreign aid has in large part closed the balance of payments. In both cases these flows will likely endure for the short- and medium-run, although it is not clear that they are sustainable sources of financing the savings gap in the long run. In the case of remittances these will likely continue for the next few years, given that Honduran migration to the United States lagged that of other countries in Central America such as El Salvador and the Dominican Republic, and will peak later.

Figure 1.1: Savings and Investment (% GDP)



Source: WDI, BCH, IMF article IV, and own calculations

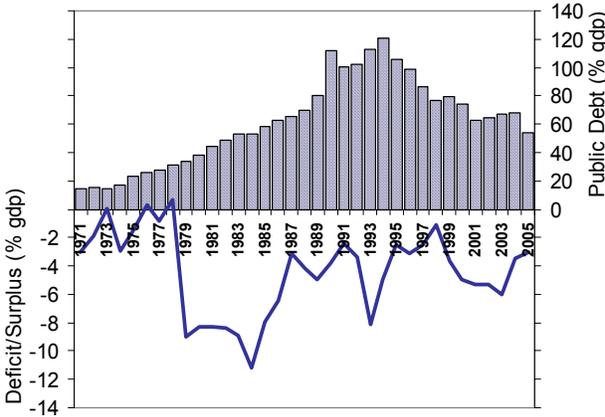
Figure 1.2: Saving Gap and Financing Inflows



- 1.9 Historically, the country has had a close relationship with the United States, both during the years of military government and during the last five democratic regimes. During the 1980s much of the country's development assistance was from the United States. This pattern was interrupted in the early 1990s, at which time development assistance subsided, leading to rapidly accumulating debt, reaching well above 100% of GDP in the mid 1990s. When the fiscal scenario became untenable the country faced closure of credit markets and went into arrears with most of its creditors. This picture changed in the mid to late nineties, at which time the country re-established a dialogue with the IMF, and agreed to a debt restructuring program under HIPC. The advent of Mitch in 1998 accelerated the flow of aid to Honduras, and attracted the attention of the bilateral donor community, which until that point had not had as strong a presence in Honduras as they did in other HIPC countries. It also served as leverage in advancing the reform agenda of donors in the country.
- 1.10 The relief effort for Mitch set the tone for the HIPC decision point, which Honduras reached in June of 2000. Both debt rescheduling and the debt forgiveness by the Paris Club and by the Multilaterals had an impact on the debt profile, and made additional funds available, generating large positive net flows for Honduras during the period under review. However, toward the mid of 2002 the country engaged the IMF in a prolonged and acrimonious negotiation process regarding the completion point and the new PRGF

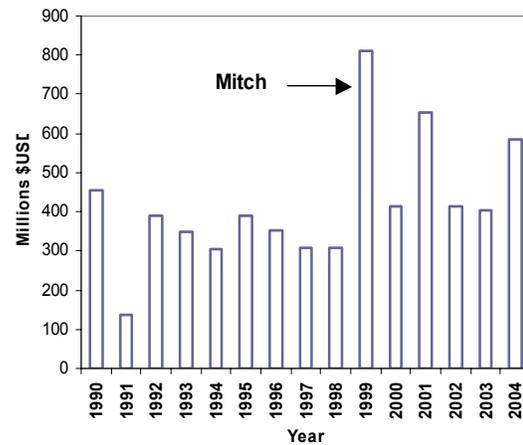
agreement. The Fund's main concern was the increases in public sector spending, driven mainly by increases in expenditure with teachers, which could put the macro stability in jeopardy. Eventually an agreement was reached, but at the cost of a long negotiation process, which took up both time and political capital.

Figure 1.3: Fiscal and Debt



Source: BCH and GDF. Values do not include MDRI.

Figure 1.4: Net Aid Transfers



- 1.11 The problems with the IMF negotiation notwithstanding, the country's fiscal performance during the period of review is better than it had experienced during the 1990s. The country has maintained a primary fiscal surplus, in the neighbourhood of 4% (includes NFPS). This fiscal performance, along with a new round of debt rescheduling and forgiveness in the context of the Multilateral Debt Relief Initiative (MDRI) produced a sustainable debt/GDP profile, even if it does not allow for much latitude to deal with possible economic downturn risk⁶. It should be noted that this fiscal scenario was attained without decreases in poverty-alleviation spending. Indeed, Poverty spending during the period remained high, at roughly 8.5% of GDP⁷.
- 1.12 Despite the sustained spending on HIPC-related programs, this increased effort has produced modest gains in terms of advances toward social indicators. In health there have been modest improvements in infant and under-five mortality⁸, but no evidence of improvement in the incidence of HIV/AIDS⁹. In Education there have been gains in pre-primary coverage, as well as completion rates for secondary education, but there has also been a slight worsening of the primary enrolment rate, and no gains in student achievement. Overall, data from household surveys points to a modest improvement in the overall efficiency of the education sector, as measured by accumulated overage across birth cohorts. Both comparisons with LAC and comparisons with other Central American countries, for series that are tracked broadly across the region, show that Honduras' performance in Health and Education has not improved at a rate comparable with its neighbours. This has resulted in a loss vis-à-vis other HIPC countries. The relative advances made by Honduras are presented in Table 1.2, along with data on comparison groups.

Table 1.2: Basic Social Indicators: changes between 2000 and 2005

Indicator	Change	Assessment	Position relative to	
			LAC	HIPC
Health				
Life Expectancy (years)	0.9	<i>improved</i>	<i>neutral</i>	<i>lost ground</i>
Infant Mortality Rate (per 1000)	-5.0	<i>improved</i>	<i>gained ground</i>	<i>neutral</i>
Under5 Mortality Rate (per 1000)	-2.4	<i>improved</i>	<i>lost ground</i>	<i>lost ground</i>
Education				
Preschool enrollment	-3.8	<i>worsened</i>	<i>lost ground</i>	<i>lost ground</i>
Primary enrollment (net)	1.7	<i>unchanged</i>	<i>gained ground</i>	<i>lost ground</i>
Secondary enrollment (net)	4.9	<i>improved</i>	<i>neutral</i>	<i>lost ground</i>

Source: WBI, Endesa and SIERP

- 1.13 In terms of poverty, the data on poverty as measured by living standards surveys shows very little improvement, while the data as measured by employment surveys shows a decrease in both extreme and overall poverty, concentrated in the last year of this report (2006)¹⁰. Of the outcome-related social MDG goals set by the PRSP, half were on track to being accomplished, but most of these were not directly related to welfare or social outcomes. Survey data on household income also show an increasingly concentrated income in the top deciles. The poorest Hondurans have seen their relative position deteriorate in the last five years. The inequality increases are not due to changes in composition from rural to urban or from agricultural to other activities; rather, they are due to increases in the inequality within occupational and geographic groups¹¹.
- 1.14 One of the objectives of both the country and the Bank during the period was to improve the quality and access to Justice, and also to address issues of violence. Honduras is a violent country, with homicide rates above the LAC average¹². It is also consistently ranked poorly with regard to its Judicial system¹³. Recent diagnostics of violence in Honduras continue to show high levels of homicide and other violent crime, much of which is related to organized crime. However, there is no consistent data over time that would allow for an assessment of the change in crime indicators over time, making a cross-time assessment difficult. In any case, both the anecdotal evidence and based on the latest diagnostics suggest that violence continues to represent a fundamental development challenge.

B. Perspectives

- 1.15 Based on the overview above, Honduras has been successful in obtaining, thus far, macro stability. This has been the most important achieved result of the period under review. The country has also been successful at generating some growth, and likewise some gains in boosting exports. However, many of these gains are not due to fundamental changes in the economy or in the organization of production, but rather due to positive supply shocks. In the case of growth, deterioration in prices, terms of trade, or a downturn in the global economic environment, or of a natural disaster, could lead to a return to historically low and unstable growth patterns. In the case of natural disasters, the country's position as one of the riskiest countries in the region has specific implications regarding future impacts on growth¹⁴. The advent of Central American Free Trade

Agreement (CAFTA-DR), however, represents a unique opportunity to realize gains from trade within the region, even as it also poses significant challenges in terms of losses in tax revenue and the elimination of tax advantages, particularly in maquila.

- 1.16 Honduras also faces a challenge in increasing the efficiency of its spending. HIPC has implied an increase in spending, under which the country has had multilateral and bilateral debt, in the form of upcoming payments due, cancelled in exchange for further spending. This increased spending has not, however, been accompanied by demonstrated gains in the quality of public spending. The Bank and Honduras will need to work to increase the effectiveness of spending.
- 1.17 The poverty and inequality results, in particular, are of concern. Despite the expansion of the agricultural sector and the maquila, and the ability of these sectors to produce growth results, poverty rates showed only modest improvements, and inequality has increased. This is due to deterioration in the distribution of income, and in failures in the conditions required in order to allow the benefits of growth to reach the poor. In this particular context, CAFTA-DR may also present a challenge to income distribution, to the extent that some of the rural poor may see deterioration in their real incomes¹⁵.
- 1.18 Although fiscal stability has so far prevailed, there are factors that will become unavoidable in the future, and which will have direct incidence on public finances. The first is the public sector's ability to properly manage the pressures brought by organized groups on wages. This has in the past produced unsustainable projected wage bills. This challenge on the spending side is matched by predicted falls in revenue, as revenues from imports and revenues from tax exemptions from maquila and other sectors are to expire as a consequence of CAFTA-DR.
- 1.19 A more long run pending issue is the country's savings gap. Although this is no immediate problem, the sustainability of the financing of this gap may become onerous over time. Currently, the large inflows of remittances, and to a lesser degree a constant positive net flow of resources from donors and from the multilaterals, have attenuated the pressures associated with the gap. Although in the short run these conditions are likely to prevail, they do not represent a longer-term strategy for generating foreign exchange.

II. THE BANK'S PROGRAM

- 2.1 This chapter reviews the quality of the Bank's programming. Given that the period under review is limited to one strategy, most of the chapter's assessments will focus on that strategy, which was developed in 2002 and approved by the board early in 2003¹⁶.
- 2.2 Both the Bank strategy and the PRSP strategy prepared by the Government were outgrowths of the Plan Maestro de la Reconstrucción y Transformación Nacional (PMRTN). The plan Maestro had been designed in 1998 as an emergency response plan to Hurricane Mitch. However, beyond the immediate goal of reconstruction, the Plan Maestro had two consequences. The first is that it allowed for identification of national priorities and objectives. The second consequence was that it enabled Honduras to attract the attention of the international community—and of bilateral donors in particular.
- 2.3 The Bank's strategy with Honduras (EPH) contains a primary objective of "...*apoyar al Gobierno en la reducción de la pobreza a través de la promoción de un mayor crecimiento sostenible liderado por aumentos en la competitividad y el incremento de las capacidades productivas de los pobres.*" (EPH, 3.2) In other words, the model being applied is that growth will lead to poverty reduction, and that increases in competitiveness and in human capital would lead to growth. The strategy also identifies more specific objectives, largely consistent with the above: (1) increase the competitiveness of productive activities, (2) develop human capital, and (3) consolidate governance. In practice, the thrust of the strategy, as was the case with the previous strategy, was growth. This is well laid out by paragraph 3.5. Referring to the three objectives, the strategy paper states that "*Cabe destacar que estas tres áreas estratégicas están estrechamente interrelacionadas por cuanto la gobernabilidad, el desarrollo institucional y el desarrollo del capital humano constituyen factores esenciales para aumentar la competitividad y el crecimiento.*" (EPH, 3.5) This cements the working hypothesis that improvements in both governance and human capital would also lead to increases in competitiveness and growth and consequently poverty.
- 2.4 The Bank's strategy is broadly consistent with the country's strategy, as articulated in the PRSP paper. The PRSP was prepared by the GOH and was approved by the IMF in 2001, as a condition for the participation in HIPC. The PRSP document spells out the underlying model in a way analogous to the IDB document, namely, "*The fundamental objective of the Strategy is to reduce poverty significantly and sustainably, based on accelerated and sustained economic growth, whose benefits are distributed with equity, through greater access by poor people to the factors of production, including the development of human capital, and through the provision of social safety nets in favor of groups living in extreme poverty.*" (PRSP, p. 51).
- 2.5 The Bank's strategy was considerably more evaluable than its prior strategy with Honduras. The strategy identified a series of indicators corresponding to both the Bank and the country, being that both sets would be tracked by the Bank. Of these indicators, the country level indicators tended to contain more baseline values (46% versus 29%), and tended to be focused on outcomes (86% versus 57%). On the other hand, the Bank indicators tended to contain more explicit targets than did the country indicators (46%

versus 32%). Problems still remain with lack of identification of proper baseline and target information. The evaluability of Governance indicators is still poor.

- 2.6 At the project level, the ex ante evaluability index is just over 0.5, meaning that 50% of project baselines, targets and milestones were defined. If we consider indicators that were appropriate for their corresponding objectives the index falls to 0.36¹⁷. OVE's review also found that evaluability has increased over time. The projects approved in 2004-2005 had logical frameworks that systematically provided better indicators at the outcome level. The ex ante evaluability index for early projects was 0.43. For later projects this had increased to 0.59.

Table 2.1: Evaluability of Strategy Indicators

Pillar	Indicators	w BL (%)	w TG (%)	Outcome Ind. (%)
<i>Competitiveness</i>	Bank: 15	3 (20)	5 (33)	11 (73)
	Country: 13	7 (54)	5 (38)	13 (100)
<i>Human Capital</i>	Bank: 10	5 (50)	6 (60)	4 (40)
	Country: 7	4 (57)	4 (57)	6 (86)
<i>Governance</i>	Bank: 10	2 (20)	5 (50)	5 (50)
	Country: 8	2 (25)	0 (0)	5 (63)
<i>All</i>	Bank: 35	10 (29)	16 (46)	20 (57)
	Country: 28	13 (46)	9 (32)	24 (86)

Table 2.2: Programmed and Approved Lending, by pillar

Pillar	Programmed		Approved	
	Millions	%	Millions	%
<i>All Lending</i>				
<i>Competitiveness</i>	179.6	39	192.1	42
<i>Human Capital</i>	177.5	39	166.1	36
<i>Governance</i>	103	22	100.5	22
<i>Investment Lending</i>				
<i>Competitiveness</i>	154.6	41	167.1	45
<i>Human Capital</i>	117.5	31	106.1	28
<i>Governance</i>	103	28	100.5	27

- 2.7 The Bank's strategic thrust was centered on competitiveness. This was shown rhetorically above, and is corroborated by the placement of actual Bank funds. Programming was concentrated in the pillar of *competitiveness*, followed by *human capital*, both with roughly 40 percent of lending, and *governance* with 20 percent. This percentage drops if approvals are considered, in which case competitiveness increases its margin over human capital by 6 percentage points. If PBLs are excluded, the margin increases even more to 17 percentage points. These numbers are broadly consistent with the rhetorical approach of the strategy, and reflect a clear emphasis in generating growth and improving conditions for private sector development, which in turn would produce welfare increases and poverty reduction.
- 2.8 In terms of other Bank instruments, the sector distribution also favored growth and competitiveness. This is the case of the MIF operations, which focused on micro-credit, small and micro-enterprise development and export promotion, with six approved operations during the period. There were two MIF operations approved under the

governance pillar (airport security and water regulation); there were none under the human capital pillar. The MIF operations are explicitly linked to Bank lending in the strategy paper, and are rhetorically consistent with the strategic pillar of competitiveness¹⁸.

- 2.9 The IIC also had an active presence in Honduras. The country has eight operations in execution and five of those approved during the period. The country also has a proportion of approved lending on par with the region average, and the risk ratings on operations are slightly better (less risky) the regional average. In terms of approved operations, half of the amount is in financial sector, and the other half in textiles, agribusiness or manufacturing. However, it should be noted that the IIC operations were not incorporated into the Bank's strategic programming (the country strategy).
- 2.10 Unlike regular lending, the MIF, and the IIC, PRI was not active in Honduras during the period. There was only one operation programmed and approved—an operation for the reform and strengthening of the water company in San Pedro Sula, following the privatization of the municipal water company (DIMA) to an Italian consortium¹⁹.
- 2.11 New lending has been supported by TCs. In most cases the TC program was linked to the lending program. The percentage of TCs that are explicitly linked to a loan is higher than the region average and the Bank average. Furthermore, in some cases, such as the Financial Sector reform, the reform program would have been difficult to implement without the TC²⁰. Despite these results, it should be noted that in some cases Bank clients were vocal regarding the lack of Bank help in dealing with technical issues associated with a loan²¹.
- 2.12 One of the problems identified with the Bank's strategy was the lack of a clear pathway by which the programs contained in the portfolio, as well as those proposed in the pipeline, would act to achieve the strategy's objectives. In the case of the competitiveness and governance pillar, the Bank programmed both sector projects (in Forestry, Infrastructure, and Finance and Credit), as well as a program to enhance competitiveness through FIDE. However, by looking at the specific objectives of the sector operations, it is not possible to discern a logical relationship among them, or indeed between the projects and the strategy's competitiveness objectives.
- 2.13 The strategy also does not identify the pathways by which competitiveness—and the strategy components in general—will work toward poverty reduction. The only explicit and documented path is through growth: and the strategy does identify the negative poverty elasticity of income. However, the strategy does not develop either (i) how specific activities and projects in the competitiveness pillar will directly generate income or welfare impacts for the poor, nor (ii) under what conditions and through which pathways the project's immediate impacts can be expected to reduce poverty.
- 2.14 The evaluation also found that the specific operations approved under the strategy in some cases did not tackle the central development needs of the country. This is seen most clearly in the forestry sector. A review of the forestry challenges shows that the most important issues were not the ones identified or addressed in Bank lending²². In

particular, the sector's regulatory challenges, as well as those related to transparency of policy are related mostly with inadequate incentives facing the regulatory agency, lack of transparency and discretionary nature in which regulatory policy is implemented, inadequate tenure definitions and rights, and poor coordination between actors involved. These issues are not treated front in center in the Bank's lending. A similar story can be told regarding education. Although diagnostics of the sector identify the acrimonious political relationship between teacher unions and the State as the major sector problem, the Bank's program did not tackle this issue directly, nor do the loans approved have the issue as a fundamental development objective²³.

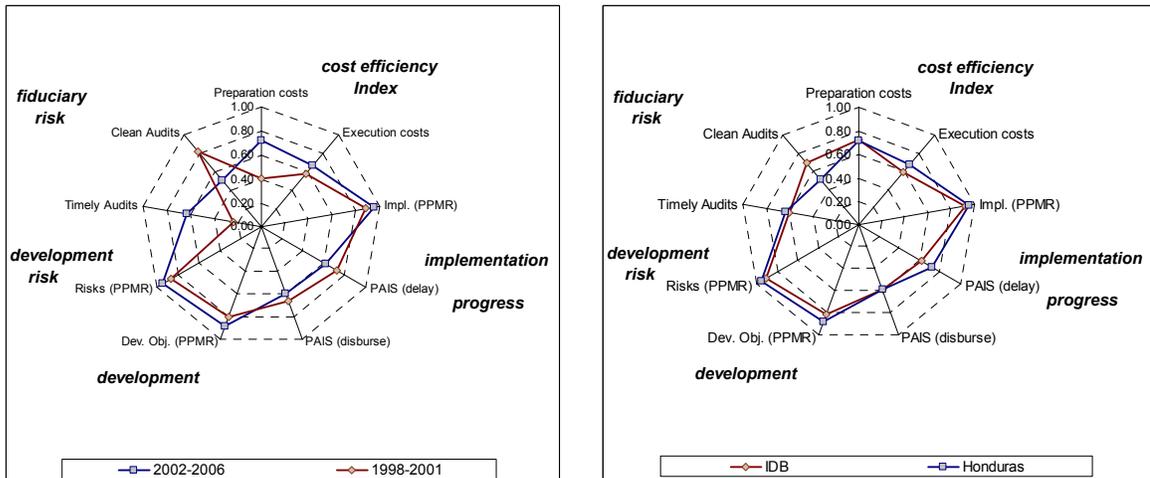
III. DELIVERY

3.1 In this section delivery results are discussed. In the first part overall metrics of delivery are presented and compared to the Bank. The second part of the chapter discusses the specific issues that have impacted the Bank’s delivery, as illustrated through case examples. The chapter concludes by summarizing Management’s compliance with the recommendations provided by OVE in the last CPE.

A. Overall delivery results

3.2 According to most metrics tracked by OVE, Honduras is squarely in the median or slightly above the Bank’s execution. These results are presented in Figure 3.1 below. This is the case of cost efficiency, implementation progress, self-assessment of development objectives, and risks. The only dimension in which Honduras is significantly worse than the Bank is in the auditor’s opinions of audited financial statements.

Figure 3.1: Execution metrics for Honduras and the Bank



Note: OVE’s elaboration based on the Bank’s LMS system, the Bank’s PPMR and PAIS system, from the Bank’s EFAS reporting system, and from the Bank’s OPR Costs and Time Reporting systems. PAIS refers to percentage of the portfolio not on alert at year’s end (2001 and 2006); PPMR (DO, IP, AS) refers to proportion of the portfolio that was satisfactory (IP and DO) or that had high assumptions during the periods 1998-2001 and 2002-2006. Cost indices are calculated as predicted cost/actual cost, where predicted costs are estimated from an OLS regression of costs on approved project amount. This ratio is then calculated as the proportion with costs equal to or below predicted values. Fiduciary indicators are: % of projects for which statements were delivered on time and the % that were found to be clear by the auditors. Values reported by PAIS are for 2002 and 2006.

3.3 A comparison over time reveals that many delivery metrics improved over the period. Categories related to project preparation costs and execution costs improved by 32 and 8 index points, respectively (reflecting lower costs per approved dollar, as measured by the Bank’s systems). All three categories reported in the PPMR have also improved, even as the metrics tracked by the PAIS system show a less efficient implementation progress. The more positive outlook reported by specialists in the PPMR constitutes a bank-wide pattern; however, in the case of Honduras the reported improvement is slightly greater than bank-wide metrics²⁴.

3.4 In terms of financial flows, the Bank's net flows have provided financing for the country's current account deficit. This flow has been generally uncorrelated with current revenue, although much more volatile than revenue²⁵. However, the importance of multilateral financing for this type of support in general has been reduced by the increase in remittances in recent years. In terms of providing financing for the current account, the IDB's net flows are today less relevant. From the point of view of monetary and fiscal policy, the management of remittance flows has become a more pressing need than the management of donor and multilateral aid flows.

B. Specific Issues

3.5 Before discussing specific issues it is useful to summarize the method by which the international cooperation organized itself and interacted—formally—with the GOH. The normative for this interchange was through a system of advisory meetings between GOH and the international cooperation, comprised of the G-16 (group of 16)²⁶. The levels of discussion were both high-level (country ambassador and representatives) and technical. The technical discussion was conducted in thematic groups (mesas) in which the GOH and members of the international cooperation met regularly to discuss progress in the sector. Based on interviews conducted during the missions to Honduras, as well as through the documentation reviewed, it is clear that the Bank was actively involved in this process of consultation, and indeed in many instances took on leadership of the group. The Bank participated in several of the thematic tables, and held regular meetings with GOH regarding the Bank's program. The Bank also supported the institutionality of the G-16 and the consultative group for Honduras, by providing resources and by promoting meetings of the groups.

3.6 The review of delivery uncovered a series of patterns that are directly relevant to the delivery of the Bank's program. The first is the role of PEUs in development. The data reviewed show that the Bank has moved toward reducing the number of units operating in Honduras, but at the same time the data show that this model (PEU) remains at the core of most Bank operations. In the case of Health, as well as in the case of Financial sector reform, the Bank reduced the burden on Honduras, by working with other donors and coordinating both programming and delivery efforts under the same roof. This is an improvement over the situation described by the Bank at the moment of the approval of the 2002-2006 strategy. Although discussions were in place at the time of this report regarding implementing SWAPs in Honduras, this has yet to materialize.

3.7 A second issue related to executing units is the degree to which they can contribute to the country's institutionality. During OVE's mission it became clear that in most Bank operations, the knowledge gained from executing projects has not been transferred to the established bureaucracy. In the case of PRAF, for example, the norms that govern the IDB-supported program are different than the non-IDB PRAF. Indeed, the two programs have drifted apart over time, with the PRAF not financed by the IDB taking on an increasingly varied and, according to interviews, unfocused set of functions. In Health and Education the same is true. There is no evidence that the implementation by the PEU is producing institutional strength that is portable across the borders of the PEU²⁷.

- 3.8 The evaluation also found that the complexity of projects and the stringent coordination requirements implicit in the Bank's design of projects has negatively impacted the execution of the Bank's program. In general, there are few examples of complex operations that were successful. In the case of the financial sector PBL, an operation that is certainly complex and demanding in coordination, the government bought in fully and the operation has been considered from an operational point of view, a success.
- 3.9 Problems with coordination and complexity are present in many of the Bank's operations. In the environmental group of projects, at the time of this review all of them were disbursing slowly, and were either on alert or very close to being on alert, and in most cases this was due to accumulation of one or more of the PAIS system's disbursement flags. The *Islas de la Bahia* project required coordination between three ministries, four municipalities, and groups in civil society. In the case of MARENA, the coordination demands of the program were likewise demanding, leading top-level policy-makers to single the project out as an underperforming loan²⁸. The problem is not isolated to the environmental projects. The second Justice loan has also suffered. In this case the loan requires coordination between the three branches of justice. Interviews in country as well as with Bank specialists suggest that at some points there had been at least one of the three big branches interested in moving the loan forward (particularly the supreme court), but that to this point it has not been possible to generate the support of all three in a concerted manner. In the case of the Competitiveness loan, an operation jointly executed by SIC and FIDE, interviews conducted as well as the PPMR information reviewed suggests that difficulties in coordination between the two agencies has been responsible for much of the program's delay²⁹.
- 3.10 The last issue of execution that emerged from OVE's mission and review is the lack of political support for Bank's reforms. This is the case in the Bank's support of municipal development, and in the Bank's operation to design a new procurement model for Honduras. In each of these cases the political environment for reform, or even for implementation of new administrative systems, did not materialize in the manner required for the projects to execute normally. In the case of municipal development, in which the Bank's major project during the period was the multiphase in support of Tegucigalpa and San Pedro Sula, the components associated with public works executed reasonably well; however the Bank's approach of privatizing service deliver and recovering costs, as well as reforming municipal finance and accounting practices, met with substantial resistance at the local level. In the case of procurement reform, a project in which the Bank specifically singled out the importance of executing the project in a timely manner³⁰, the project's reform components have lagged behind in execution. The problems identified during OVE's missions included the lack of local support to change the procurement norms in the manner demanded by the PEU. In terms of results, the Bank's documentation points to an improvement in the efficiency of procurement metrics. However, data on the program's original development objective are not available as the original indicators were dropped during execution. According to interviews with the Ministry of Finance, although GOH recognized the value of ad hoc audits financed by the loan, they were in disagreement with the manner in which the new procurement system was being implemented in the line ministries³¹.

C. COF examples

- 3.11 Although the review focuses mainly on the lending part of the portfolio, the evaluation also looked at specific instances of non-lending or small projects. The sample reviewed was based on the Country Office's identification of what they considered to be successful operations: four operations were identified. A full review of the non-lending operations can be found in the Annex; highlights are reported below.
- 3.12 The first finding is that among the four operations reviewed, two of them reported on results. Of the two operations that reported results, one operation supported coffee producers and a second operation supported what would be the implementation of the financial sector reform. In the case of the financial sector reform, the operation was by all accounts very useful for the country's reform, and was also timely in its placement. Its results are thus linked to those of the broader operation, and are reviewed elsewhere in this CPE. Regarding the operation in support of coffee producers an effort was made to collect some information on producers. The reflexive findings suggest an improvement in the quality of coffee produced. However, the assessment did not apply what are today standard tools in impact evaluation, to the assessment of beneficiary welfare. This is a theme seen across projects reviewed in this CPE: although social projects have done better at applying best practices in program and project evaluation, the effort is still incipient with respect to productive sector (e.g. coffee producers) projects.

D. Prior CPE Recommendations

- 3.13 On April 5, 2002 OVE presented to the Board of Directors the CPE for Honduras covering the period 1990-2000. The Board adopted those recommendations. Table 3.1 below summarizes OVE's findings regarding the implementation of the CPE recommendations by Management.
- 3.14 The Bank acted to support policy continuity of the most important Honduran poverty-reduction programs, such as FHIS and PRAF. Issues here include better integrating the portion of PRAF financed by the Bank with the national program. In the case of FHIS the Bank is supporting the institution's change from a financier and supplier of local investment to a facilitator of municipal investment capabilities. In terms of focusing on growth, the strategy places growth front and center, but the mechanisms by which growth will be pro-poor are not established. The Bank is also moving to reduce the execution transaction costs—education and Health are two examples where collaboration in execution with other IFIs has been substantive; the Bank is still far from moving toward a SWAP in most sectors. The two areas with the worst compliance record are the lack of progress in focusing on results and the civil service reform. Although the Bank supported the development of a system for tracking PRSP implementation, it has not established a system for determining effectiveness of Bank-supported programs and projects. These are pending issues for the new strategy. In the specific case of outlining a strategy for reform of the civil service, the Bank promoted initiatives to address human resources in areas where a civil service was already established (e.g. education). However, the Bank did not develop or promote the reform of the administrative civil service³².

Table 3.1: Compliance with prior CPE recommendations

<i>Recommendation</i>	<i>Compliance findings</i>	<i>Notes</i>
Focus and selectivity in programming	Partial	The strategy is better focused; the identification of projects still lacks a clear criteria for selection.
Focus on growth as part of poverty reduction	Partial	Focus of strategy is growth; link to poverty reduction is missing.
Support policy continuity	Yes	Bank's continued support for established programs such as PRAF, FHIS, and Education and Health are to be noted.
Address the issues associated with PEU	Partial	Increased efforts to coordinate with WB projects; however, still short of moving toward SWAPs.
Develop a civil service plan	No	This was also a recommendation of CFAA, Bank programming, among other documents. There is an initiative underway to strengthen civil service in SEFIN. There were also efforts at rationalizing human resources in Education and Health. However, the legal and institutional framework for a professional civil service, which was the core of the recommendation, has not been addressed.
Focus on results	Partial	Bank supported tracking of results (SIERP) and has taken first steps to implement results based budgeting; Bank's assessment of results from its own projects has been lacking. Bank has also supported improved monitoring of results recently through the PRODEV initiative, as well as results-based budgeting through its PBL.

IV. RESULTS

4.1 This section reviews the results of the Bank’s partnership with Honduras. The chapter is divided along three lines, which correspond to the pillars identified by the Bank’s country strategy. The first are the activities that impacted productivity and growth; the second are programs that were targeted toward the development of human capital, mainly education, health, and social protection; the third are the reforms targeted toward improving governance. In each section we present a table that tracks the strategy results, based on the Country Portfolio Reviews (CPR), and supplemented with information from the project level reports (PPMR). The table also documents changes in outcomes from country sources and from third party sources. As can be seen, in most cases there is no tracking of strategy indicators by the Bank, even as it is clear that the country has made strides in tracking its PRSP indicators through the SIERP system.

A. Productivity and growth

4.2 Table 4.1 below shows the identification of results expected from the Bank’s strategy as related to the competitiveness pillar. As can be seen, for most of the Bank implementation indicators information is not available.

Table 4.1: Strategy Indicators and OVE findings for Competitiveness Pillar

Objective	Indicators	Source	Progress toward objectives
Improve investment climate	<u>Bank Indicators</u>		
	▪ PRGF fiscal measures	IMF	Partially met
	▪ Competitiveness strategy implemented	N/A	N/A (Not an indicator)
	▪ Number of firms listed in investment registry	N/A	Not tracked
	▪ Advances in training negotiators	N/A	Not tracked
	<u>Country Indicators</u>		
	▪ Increase in non-real estate investment	N/A	Not tracked
	▪ Increase in exports	WB	Increase (38% to 41%)
	<u>Alternate Indicators</u>		
	Increase in non-real estate investment	BCH	No change (23%)
Strengthen financial system	<u>Bank Indicators (same as Country)</u>		
	▪ Basel ratios, portfolio at risk ▪ Investment by PYMES	PEU/CNBS N/A	Ratios improved ⁽¹⁾ Not tracked
Improve infrastructure	<u>Bank Indicators</u>		
	▪ Transp. costs- prog. areas	N/A	Not tracked ⁽²⁾
	▪ Accident rates- prog. areas	N/A	Not tracked
	▪ Reduction ENEE op costs	N/A	Not tracked
	▪ Increase private sector participation in generation	N/A	Not tracked

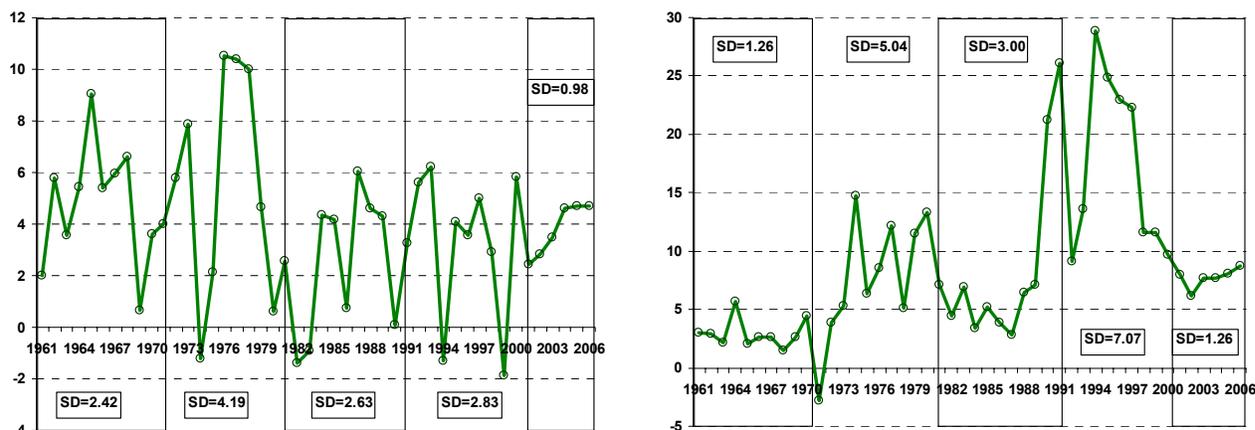
Objective	Indicators	Source	Progress toward objectives
	<u>Country Indicators</u> <ul style="list-style-type: none"> ▪ Transp. Cost (country) ▪ Generation capacity increase ▪ Generation costs decrease 	N/A WB N/A	Not tracked Increased: 3.9 to 4.5*# Not tracked
	<u>Alternate Indicators</u> <ul style="list-style-type: none"> ▪ Maintenance of roads ▪ Coverage in electricity 	SIERP SIERP	Increased: 34% to 51% Increased: 57% to 64%
Development of rural econ.	<u>Bank Indicators</u> <ul style="list-style-type: none"> ▪ % “transparent” concessions ▪ Wood processing capacity ▪ Losses from drought in project area ▪ Private sector loans in rural areas 	N/A N/A N/A N/A	Not tracked Not tracked Not tracked Not tracked
	<u>Country Indicators</u> <ul style="list-style-type: none"> ▪ Rural incomes ▪ AG GDP ▪ Rural tourism GDP ▪ Non-traditional exports ▪ AG exports ▪ Coffee margins (World-HO) 	OVE (EPH) OVE (BCH) N/A CPR OVE (FTC) OVE (ICO)	Little change (2% decrease) ⁽³⁾ No change Not tracked Little change (1% increase) No change (to US only) No change ⁽⁴⁾
Efficiency of natural resource use	<u>Bank Indicators</u> <ul style="list-style-type: none"> ▪ Inst. framework strengthened ▪ Sector strategy developed 	N/A PPMR/CPR	N/A (not and indicator) ⁽⁵⁾ Strategy developed
	<u>Country Indicators</u> <ul style="list-style-type: none"> ▪ Protected Areas w/ local mgt ▪ Forest Coverage 	SIERP SIERP	Little improvement (21 to 23) No improvement/unclear ⁽⁶⁾
<p>⁽¹⁾ See Annex on financial sector performance.</p> <p>⁽²⁾ The CPR identifies that transportation times have been reduced by 40%, but there is no data on costs.</p> <p>⁽³⁾ Average household income or rural areas with respect to urban decreased from 32% to 30%. In terms of real incomes there was a drop of 11%.</p> <p>⁽⁴⁾ Price difference between paid to producers in HO and international index for Arabica remains constant at \$11.</p> <p>⁽⁵⁾ Values not properly updated in SIERP (identical amounts reported for PRSP years)</p> <p>⁽⁶⁾ The CPR identifies approval of the “Programa Nacional de Ordenamiento Territorial” and the “Ley de Ordenamiento Territorial” as evidence of advances toward the objective.</p> <p>* Indicates 2004 values; # Indicates preliminary</p>			

4.3 The Bank focused its productivity strategy on three main lines of action. The first was its collaboration of financing of the HIPC initiative. The second was its support for a collection of operations in infrastructure, rural development and financial sector reform. The third was support for specific operations to improve the business environment and to increase exports in the priority areas identified by the Bank.

4.4 The Bank’s programming documents consistently indicate that macroeconomic stability is a precondition for growth and in the long run a precondition for poverty reduction. This view is reflected also in the IMF and in the country’s PRSP. The evidence is broadly consistent with this precept, and the results from the last five years point to a systematic improvement in the macro picture. The data reviewed show an improvement in growth, and a reduction in the magnitude of fiscal deficits, as well as improvements in overall debt ratios. Assessments from the IMF, the IDB, as well as this office show that debt

sustainability is not an issue in the short run, even as it continues to be a long-term concern. Furthermore, the volatility of macro aggregates, such as growth and inflation, is markedly better than in prior years. These positive macro-fiscal results contributed to Honduras reaching HIPC completion point in 2005. It should also be pointed out that with the MDRI, Honduras will have further improvement in its debt picture.

Figure 4.1: Percentage change in GDP (left) and in CPI (right)



Source: WDI, BCH

- 4.5 The Bank’s second approach to growth and productivity was to invest in specific sector activities, and to reform the financial sector. The Bank during the period executed operations in agriculture and rural development. The latest transportation, energy, forestry and tourism sectors programmed have not executed and therefore they are not reviewed here. However, it is worth noting that OVE’s prior CPE highlighted the value of reconstruction infrastructure projects¹. From Table 4.1 we see that the results in agriculture are not particularly positive. After an increase in the variety of exports in the sector during the 1990s, including an increase in non-traditional exports, the data for the current period shows that such improvements have been maintained but have not expanded. The data also show that the country has been successful in recovering from the impacts of Hurricane Mitch³³. The sector has seen an expansion in shrimp and other commodities, but this expansion was mostly prior to the strategy’s implementation; the recent growth in agricultural exports has been in coffee, due to a recovery in coffee prices. However, an assessment of export growth shows that no new export items emerged as a dynamic source of growth during the period³⁴.
- 4.6 Two agriculture operations were in execution during the period of review: an agricultural technology and extension program and a rural productive investment program. In addition, the FOMIN executed programs in productive investments and credit. The extension operation implemented an extension model based on the private sector’s provision of extension, changing the role of the government to a regulatory and planner role. The project did not produce data on its effectiveness, but information on execution

¹ Although these projects were already reviewed as part of the prior CPE it is worth noting that the most recent PCRs show that the projects have had a significant impact on transportation cost metrics.

provided by the Bank calls into question the conditions necessary for the private sector to take up the role of extension³⁵. Also, the Bank's assessment of the program indicates that the sector strategy and institutional changes proposed by the program were not implemented and incorporated into the government's bureaucracy (SNITTA). The second operation did produce results. Although results are likely estimated with error, due to the lack of baseline information and to the lack of an adequate evaluation framework, the results that are available suggest that the project had impact on incomes and on farm productivity of beneficiary producers, in the range of 20%.

- 4.7 The Bank also promoted a reform of the financial sector as a mechanism to boost productivity. The strategy identified the lack of adequate rural credit, as well as the vulnerability of the financial sector as two of the most important restraints to productivity. To deal with this a financial sector reform PBL, along with a credit program for rural areas were programmed. The financial sector reform has produced initial results. As can be seen in Tabled 4.1 there have been increases in Basel ratios of the financial sector, suggesting a decrease in vulnerability. This is also consistent with the positive execution performance of the project³⁶. It should be noted, however, that the project has thus far fallen short of the Basel targets set in the context of the IMF's program with Honduras. This required a waiver on the part of the Fund in 2005 with respect to the financial sector targets. With respect to increased rural credit, the operation was not approved. Currently, Honduras is relying on the MCC (Millennium Challenge Corporation) for financing of much of its rural development program.
- 4.8 The Bank did not collect data on rural credit, nor was the data obtained by OVE from the CNBS disaggregated enough to assess the evolution of rural credit³⁷. However, the evolution of rural incomes, as well as rural poverty, has not improved at the aggregate level. Rural income, as a share of urban income, continues to decline, as does the real value of average household income in rural areas. These results are suggestive that the positive effects of financial stability notwithstanding, it alone has not been enough to produce rural welfare gains. It is possible that the lack of complementary credit for rural production may have attenuated any positive effect of the financial sector reform on rural poverty, although this is a hypothesis that is beyond the scope of this CPE.
- 4.9 The Bank's support for exports and for improvements in the business environment were through a combination of technical cooperations and a loan to be jointly executed by the SIC and FIDE. Two factors likely explain the increase in exports: favorable changes in the terms of trade (particularly coffee) and reduction in transaction costs for doing business with the United States in textiles and other maquila. The period also saw Honduras investing in reducing transaction costs in Puerto Cortez, in an attempt to find a competitive niche in which to compete with other providers of textiles and other maquila products. The activities promoted by the competitiveness loan focused on improving the business environment and on increasing Honduras' position vis-à-vis regional trade agreements. Although information to validate these advances was not identified or tracked, competitiveness indices, mostly based on opinion polls, are suggestive of modest improvements in competitiveness. This is the case of the Global Competitiveness Forum, in which the competitiveness index clearly shows Honduras improving its ranking. A decomposition of the index components shows that most of the increase has been from

the Macroeconomic Management component (the country rank increased by 13 points), reflecting the country's strides toward greater macro and fiscal stability. Index components more closely tied to technology and business environment did not see such an improvement³⁸.

B. Human Capital

4.10 The Bank's program with Honduras has included most forms of Human Capital investments. The Bank continued its support of two of the main poverty-targeted programs, PRAF, the conditional cash transfer program, and FHIS, the Honduran social investment fund. The Bank also had two Health sector operations, two operations in education, and three projects supporting decentralization of municipalities.

Table 4.2: Strategy Indicators and OVE findings for the Human Capital Pillar

Objective	Indicators	Source	Progress toward objectives
Targeting of public policy	<u>Bank Indicators</u> <ul style="list-style-type: none"> ▪ Inst. and budget framework developed for tracking PRSP ▪ Social spending targets met 	Interviews SIERP	Yes (SIERP in operation) Targets met ⁽⁷⁾
Social sector quality/coverage	<u>Bank Indicators</u> <ul style="list-style-type: none"> ▪ PRSP education targets ▪ Unemp. workforce trained ▪ Active workforce trained ▪ PRSP health targets ▪ Increase targeting in primary health ▪ Private operator in Tegucigalpa ▪ Increase in water/sewer coverage in program areas ▪ Municipalities in Red Social ▪ Advances in community part. <u>Country Indicators</u> <ul style="list-style-type: none"> ▪ Increase in employment ▪ Increase quality jobs ▪ Reduce AIDS incidence ▪ Water coverage (national) ▪ Sewerage coverage (national) ▪ PRSP education targets ▪ PRSP health targets 	SIERP N/A N/A SIERP/WHO WB, IDB Interviews, IDB OVE (EPH) N/A N/A SIERP/EPH OVE (EPH) UNAIDS SIERP SIERP SIERP SIERP/WHO	Partial (primary no; second yes) Not tracked Not tracked Partial ⁽⁸⁾ Yes ⁽⁹⁾ No Water: decreased (90%- 86%) ⁽¹⁰⁾ Sewer: increased (71% - 77%) Not tracked N/A (Not an indicator) No No change Increase/unknown ⁽¹¹⁾ Yes (increase 81% to 85%) Yes (increase 69% to 78%) Partial Partial ⁽⁸⁾
⁽⁷⁾ PRSP spending targets have been met and sustained throughout period, at roughly 8.8% of GDP ⁽⁸⁾ The SIERP has not been able to track health outcomes. Secondary data show modest improvements in infant mortality and under 5 mortality. The Bank (CPR 2005) reports improvements in all three mortality values, but bases this assessment on data that does not correspond to the period under review (comparisons made with 1996, which is two prior programming periods). ⁽⁹⁾ The WB Poverty assessment shows that health utilization at <i>escuelas saludables</i> and immunization is pro-poor; hospitals are not. The IDB's evaluation of PRIESS showed that it also is pro-poor. ⁽¹⁰⁾ Coverage is for the entire Tegucigalpa area; program coverage within the city varied, therefore estimates may not be reliable. ⁽¹¹⁾ The rate of AIDS is imprecisely measured. Point estimates show an increase in the proportion of pop, but the lower and upper bounds are too wide to be able to establish a trend over the period. * Indicates 2004 values; # Indicates preliminary			

- 4.11 Table 4.2 shows that aggregate results on poverty fell short of PRSP targets. In education the data show an improvement in secondary coverage, although there was no further increase in primary coverage, which was already relatively high. Analysis of household surveys over the period also point to some progress in education efficiency metrics, and a reduction in student overage across cohorts. However, in terms of test scores, data from standardized test (data from UMCE), as well as data from the *Laboratorio* show that there was no improvement³⁹; although students may be attending school more often, their performance has not improved. In health, at the time of this report, preliminary findings from the national Health Survey (ENDESA) pointed to reductions in infant mortality.
- 4.12 The Bank's activities in education were focused on secondary education. The bank approved two programs, both programs that financed physical improvements in schools, curricula reform (which included financing of textbooks), and monitoring system. The Bank financed an assessment of the first stage of the project, and found that the reduced drop-out rates for CEB schools, as compared to non-CEB schools. There was no difference in student achievement. These results are broadly consistent with global results tracked by SIERP. In other words, the program results coincide with the aggregate indicators at the country level⁴⁰.
- 4.13 The quality of health data in Honduras is poor and the evidence of effectiveness of public policy in Health is scant. Given these limitations it has been difficult to assess the sector's evolution over the past four years. As can be seen from Table 4.2, the available data on Health is mostly missing. However, after a decade of slowly improving health indicators, secondary sources suggest a slowdown of this trend, even as there are encouraging preliminary data regarding infant mortality⁴¹.
- 4.14 The Bank's role in the sector has been through two health loans and through the continued support of PRAF. In the two health loans the Bank supported both a cost recovery system for provision of Health services, as well as a new contracting method for provision of basic services, through NGOs, in order to increase coverage. The first loan in the sector was approved in 1998, for 36 million, and a second was approved in 2005 for 16.6 million. The later has not advanced in execution so as to be able to produce results, and has already been discussed as part of programming. The 1998 loan had a two-pronged approach: financing changes in health policy (changes in responsibilities for delivery, cost recovery, development of sector strategy, support decentralization); increasing coverage to marginalized communities, by delivering basic health solutions on an itinerant basis (the PRIESS/PECSBS model)⁴². The project also introduced changes in hospital management, the implementation of which surpassed the project's original targets.
- 4.15 In 2005 the Bank financed an evaluation of the PECSBS modality of delivery⁴³. The hard data produced by the evaluation suggests that the program increased vaccination rates, as well as decreased perceptions of out-of-pocket expenditures. In addition, data from opinion surveys shows a high degree of satisfaction among beneficiaries. However, there are no studies looking at health outcomes from the PRIESS program⁴⁴. This leaves a number of unanswered policy questions such as (i) if improved vaccination is the only benefit produced, can this be achieved with a vaccination campaign, and at lower cost?

- (ii) if the model is based on only itinerant care, how are other health needs, such as chronic or acute health, addressed? Lastly, (iii) can a model of Health provision based on a heterogeneous group of NGO represent a sustainable, long-term solution to health needs or is this a temporary solution until a more complete delivery package can be devised? Without answering these questions it is not possible to verify if a model of contracting itinerant services, such as PECSBS, can be effective in providing basic health care.
- 4.16 The results from PRAF are also broadly consistent with the PRIESS experience. In the case of PRAF the Bank supported a conditional cash transfer program. Unlike other countries in which such programs were implemented, in the case of Honduras the program was targeted based on health needs, and indeed child health was the central objective of the program. PRAF produced clear results utilization; with respect to outcomes the evidence is at best mixed⁴⁵. This is true for education, but more importantly for health. While indicators of health care utilization improved, the results from the Bank's randomized study found no impact on incidences of stunting, diarrhea, or nutrition. In short, the PRAF interventions were effective at keeping kids in school and keeping mothers and children attending health clinics, but there is no hard data that would suggest real health status improvements⁴⁶.
- 4.17 The conclusion from the above is that the Bank-supported interventions in health have been successful at increasing measures of utilization of health services. In the case of PRIESS the available evidence only allows us to document an impact on vaccination, although recent improvements in health outcomes nationwide are suggestive that the country's overall health policy has produced results. In the case of PRAF the evidence is of vaccination, pre-natal visits, and checkups. However, thus far this behavioral impact has not translated into welfare impacts on health outcomes. OVE's assessment of PRAF in particular raises questions regarding the effectiveness of demand-side interventions when supply conditions are weak, and indeed this may be one explanation for the poor performance. The data on simulated supply interventions shows that enrollment would have increased by an additional 2-3 percent and child labor would have reduced by roughly 4 percent had the supply side response taken place⁴⁷. Supply questions are also important in the case of PRIESS, in which case it is not clear that this mode of delivery is superior to others. From a longer-view sector perspective, it is not clear that this type of delivery can substitute for health care of acute or chronic disease—and in these areas the Bank has had no response for the poor⁴⁸.
- 4.18 The last two programs reviewed by were the FHIS and the two decentralization operations. The Bank's strategy grouped them under the same pillar and sub-heading, and thus both share the same indicators. FHIS is a particular type of program, given that it does not constitute a sector per se, but rather a delivery mechanism. Its role in the reconstruction effort has been amply documented, not the least of which in the previous CPE of Honduras produced by this office. However, the most recent IDB loan to FHIS clearly singles the institution out, as not only a vehicle to channel funds to municipalities, but also as a player in furthering the municipal development agenda in Honduras. In this sense, the loan mirrors the changing environment in country, in which greater availability of incomes by municipal authorities have attenuated FHIS' role as a financier.

- 4.19 The data reviewed, as well as OVE's own assessment, show a number of results regarding FHIS⁴⁹. These include (i) the program is well targeted, both with respect to poverty and with respect to needs, (ii) the investments in water and sewerage have impacted basic health, whereas health unit rehabilitation had no impact, (iii) school construction impacts enrollment and (to some extent) overage, whereas school improvements impact only enrollment. If one looks at decentralization results, which are perhaps more in line with the new structure for the FHIS, we see that both administrative and planning decentralization have progressed, with municipalities having developed strategy plans, and with an increasing proportion of municipal budgets and projects being financed according to these plans. However, information regarding the municipal capabilities, organization, planning, procurement, and supervision is limited to cross sections, thus it is not possible to ascertain what advances the Bank has achieved in this area⁵⁰.
- 4.20 The last class of programs that the Bank supported in the human capital pillar were municipal strengthening programs. The two original decentralization operations were in support of San Pedro Sula and Tegucigalpa. They included a variety of interventions, ranging from infrastructure and neighborhood improvement, to privatization of service delivery (garbage, for example). However, the Bank did finance an evaluation of the program produced by Ecodit. The evaluation's findings were on the whole very negative. The overall finding with respect to each of the program's main strengthening components were that (i) contracting of public services was very partial, (ii) the restructuring of municipal finances was not achieved, and (iii) sustainability of program interventions was questionable, and (iv) the program's contribution to the development of local credit markets is embryonic. For the particular case of Tegucigalpa, the Evaluation's overall finding is equally critical: "*Según la Matriz de Objetivos y Resultados, el Programa no alcanza sus objetivos de sentar las bases para la prestación sustentable de servicios urbanos en el tiempo previsto. Es difícil que los alcance plenamente en el tiempo que resta y que logre sentar las bases para la prestación sustentable de servicios urbanos en la AMDC-Tegucigalpa.*" In terms of outcome indicators, neither the Ecodit evaluation, nor the Bank, nor the Municipalities maintained the data that would be required for an impact evaluation⁵¹. The data reviewed by OVE, based on secondary sources, suggest a slight improvement in coverage of services, but this finding is limited in scope to the baseline data from the household survey used (EPH)⁵².

C. Reform of the state

- 4.21 The Bank's involvement in public sector reform was much greater in prior programming periods than the one being assessed here. During the early nineties the Bank was involved in liberalizing trade, reducing restrictions to capital and interest rates, reforming the Banking sector, privatization, and transforming many of the state's direct interventions in markets into a regulatory role. During the current period the Bank invested in four main areas. The first was judiciary reform, with two operations. The second was through the reform of the financial system, already mentioned in the context of competitiveness and in the execution chapter. The third were three operations that touched the fiscal sector: two customs and revenue operations, and an operation to reform the procurement system.

The last area of intervention was through the support of Honduras' administrative decentralization process.

Table 4.3: Strategy Indicators and OVE findings on Governance Pillar

Objective	Indicators	Source	Progress toward objectives
Modernize and Strengthen public administration	<u>Bank Indicators</u> <ul style="list-style-type: none"> ▪ Gvt. Expenditures assigned according to clearly established priorities and targets ▪ PRGF fiscal targets ▪ 100 % govt. transactions duly reconciled by treasury 	<p>N/A</p> <p>SIERP/IMF N/A</p>	<p>N/A (Not and indicator)</p> <p>Partial Not tracked</p>
Judicial security	<u>Bank Indicators</u> <ul style="list-style-type: none"> ▪ <i>juzgados</i> built (50); programs implemented. ▪ At-risk Valle de Sula population treated (50%) ▪ Judges trained <u>Country Indicators</u> <ul style="list-style-type: none"> ▪ Judicial delay reduced to 2 years for criminal cases ▪ Judicial delay reduced to 2 years for civil cases ▪ Confidence in judicial increased ▪ Sula crime rate reduced <u>Alternate Indicators</u> <ul style="list-style-type: none"> ▪ Average number of cases with judicial delay ▪ Court and police efficiency metrics ▪ Rule of Law indicator 	<p>PPMR/PCR</p> <p>PPMR</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>SIERP</p> <p>SIERP</p> <p>WBI</p>	<p>Yes</p> <p>Not tracked</p> <p>Not tracked</p> <p>Not tracked</p> <p>Not tracked</p> <p>Not tracked</p> <p>Not tracked</p> <p>Reduced (148 to 113)</p> <p>Improved ⁽¹²⁾</p> <p>Improved (-0.89 to -0.61)</p>
Transparency and corruption	<u>Bank Indicators</u> <ul style="list-style-type: none"> ▪ Purchasing irregularities reduced ▪ CFAA rec. implemented <u>Country Indicators</u> <ul style="list-style-type: none"> ▪ Perception of corruption ▪ Corruption strategy advances 	<p>Interviews, PPMR</p> <p>Interviews, PPMR</p> <p>WBI N/A</p>	<p>No</p> <p>No</p> <p>No (worsened -0.64 to -0.71) N/A (not an indicator)</p>
Decentralization/local dev.	<u>Bank Indicators</u> <ul style="list-style-type: none"> ▪ Municipal management indicators ▪ % municipalities with participative budgets ▪ % municipalities with audited budgets ▪ Action plans prepared in each sector for decentralization <u>Country Indicators</u>	<p>N/A N/A</p> <p>PEU</p> <p>Interveiws, SIERP</p>	<p>N/A (indicator not specified) ⁽¹³⁾</p> <p>Not tracked</p> <p>Partial</p> <p>Partial (8 developed)</p>

Objective	Indicators	Source	Progress toward objectives
	<ul style="list-style-type: none"> ▪ Substantial advances in sector decentralization and deconcentration programs <p><u>Alternate Indicators</u></p> <ul style="list-style-type: none"> ▪ Municipal transfers (% budget) ▪ Local taxation (% expend) ▪ Current expenditure's share of municipal budgets ▪ Number of municipal plans in execution ▪ Measures of municipal capabilities 	<p>N/A</p> <p>SIERP</p> <p>SIERP</p> <p>SIERP</p> <p>SIERP</p> <p>SINIMUN</p>	<p>N/A (indicator not specified)</p> <p>Increase (16% to 65%)</p> <p>Little change (1.18% to 1.24%)</p> <p>Decrease (89% to 81%)</p> <p>Increase (from none to 69) ⁽¹⁴⁾</p> <p>N/A (only one cross section available).</p>
<p>⁽¹³⁾ See alternate indicators tracked by SIERP</p> <p>⁽¹⁴⁾ Also available are the number of strategic plans, the number of mancomunidad plans. Although not outcomes, these indicators track the implementation of decentralization.</p> <p>* Indicates 2004 values; # Indicates preliminary</p>			

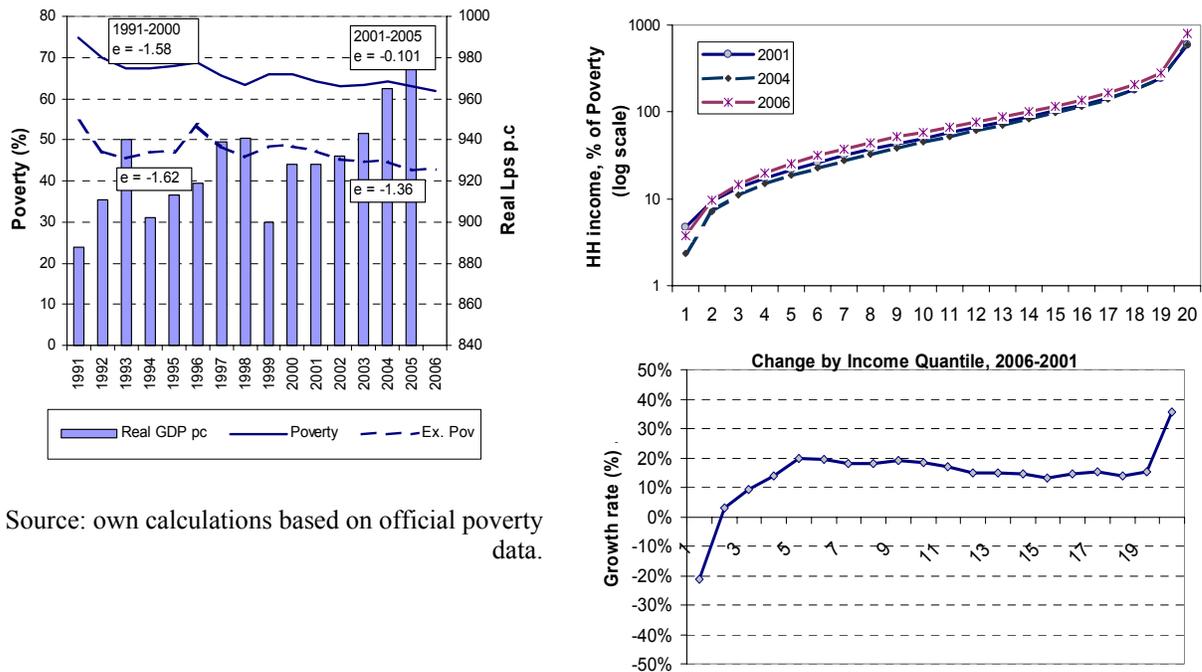
- 4.22 Table 4.3 shows a collection of indicators that measure different aspects of government, but it is not clear what the collection of these different indicators mean, or what, exactly, they purport to measure in terms of consolidation of governance. At a sector level we see that there has been little documented progress on transparency and corruption, as measured by opinion-based indicators such as Transparency International and World Bank governance indicators. In justice there has been improvement in the efficiency of the justice sector, coupled with an increased positive perception regarding the rule of law in Honduras. In terms of revenue collection, the data shows some improvement over the period. Particularly the latest data from 2006, in which tax revenues as a percentage of GDP increased a full percentage point with respect to the previous year.
- 4.23 In Justice the Bank had two operations in execution during the period. OVE's assessment of the Justice sector operations suggest that the Bank's efforts were not central to justice reform, even if they were complementary. This view was reinforced by in-country interviews with the President of the Supreme Court. The political reform of the Supreme Court, along with the reform of the penal code were the two major reforms that Honduras undertook. Meanwhile, the majority of the Bank's financing went into court and other infrastructure improvements⁵³. However, the data reviewed does show an improvement in court efficiency indicators. Likewise, aggregate measures of judicial security, as measured by the WBI indicators of rule of law, have also improved.
- 4.24 The Bank's second reform of state was with respect to both fiscal reform and systems of procurement. In both cases OVE's review documented progress on some indicators, but that in general, targets were not met⁵⁴. In the case of fiscal reform, the Bank has been a constant player in the sector, supporting reform in customs and internal revenue since the early nineties. However, the review of the project performance shows that the original reform objectives, which included the autonomy of the DEI, were not sustained. Despite the abandonment of the original reform model, data from BCH shows an increase,

particularly in 2006, in both tax receipts and current income receipts, on the order of one percentage point. With respect to the reform in procurement, the project sought to generate a transparent and efficient procurement system through organizational, legal and bureaucratic reforms. Up until then Honduras had relied on multilateral procurement mechanisms, and on the UNDP's system in particular. The data reviewed indicate that most of the product's activities were completed, that a procurement office was formed, and that an electronic information system for procurement was developed (Honducopras). In terms of results, the Bank's documentation points to an improvement in the efficiency of procurement metrics. However, data on the program's original development objective are not available as the original indicators, measures of transparency and measures related to the quality of spending, were dropped during execution, and replaced with metrics on procurement efficiency⁵⁵.

D. Poverty and public sector Incidence

- 4.25 Poverty has decreased in Honduras in the past five years, but only modestly and certainly below PRSP targets. Figure 4.2 charts the evolution of common poverty metrics tracked by the country, along with growth in per capita income. As can be seen, during the last four years there have been small changes in poverty indicators. The incidence of poverty fell from 64.3% in 2001 to 63.0% in 2005, while the extreme poverty incidence decreased from 47.1 to 42.6⁵⁶. This is a slowdown in the larger decreases in poverty seen during the 1990s. If measured with respect to consumption and not income, the changes in poverty are roughly comparable with what is reported above, even if slightly higher for poverty and lower for extreme poverty: a reduction of poverty from 52.5 to 50.7 and a reduction in extreme poverty from 25.1 to 23.7. The slowdown in poverty reduction reflects in part a decreased elasticity of poverty with respect to real per capita income growth. As seen in Table 4.2, the elasticity of poverty from 1991-2000 is -1.58, while from 2001-2005 it is only -0.1; for extreme poverty the change is not as dramatic: -1.62 for the 1990s and -1.36 for 2001-2005.
- 4.26 With the available data it is not possible to identify specifically the causes of the change in poverty, in the sense of identifying why people have transitioned in and out of poverty over the period. We can derive patterns regarding poverty dynamics. The first is that poverty has fallen very slowly, given that: (i) per capita growth has been low, even if in absolute terms it has been higher, (ii) the growth elasticity of poverty is lower for the period under review than during the 1990s, and (iii) the change in distribution of income has not favored the poor. The assessment also found that had it not been for remittances, poverty would not have fallen over the period⁵⁷.

Figure 4.2: Poverty dynamics



Source: own calculations based on official poverty data.

4.27 The right of the panel in Figure 4.2 presents the growth rate in income per capita of each quintile of the income population. We see that the change from 2001 to 2006 reveals that overall there has been income growth, as measured by average household income per capita, but that the lowest deciles of income have lost ground. Conversely, the higher deciles have seen substantial improvement. The change is also monotonically increasing with income: the higher the income, the higher the growth rate of income. Summing up, low growth per capita, together with a worse growth performance by the poorest deciles implies that poverty has not improved appreciably.

4.28 OVE’s assessment of poverty dynamics also found the following stylized facts, that help to shed light on why poverty results have not been better:

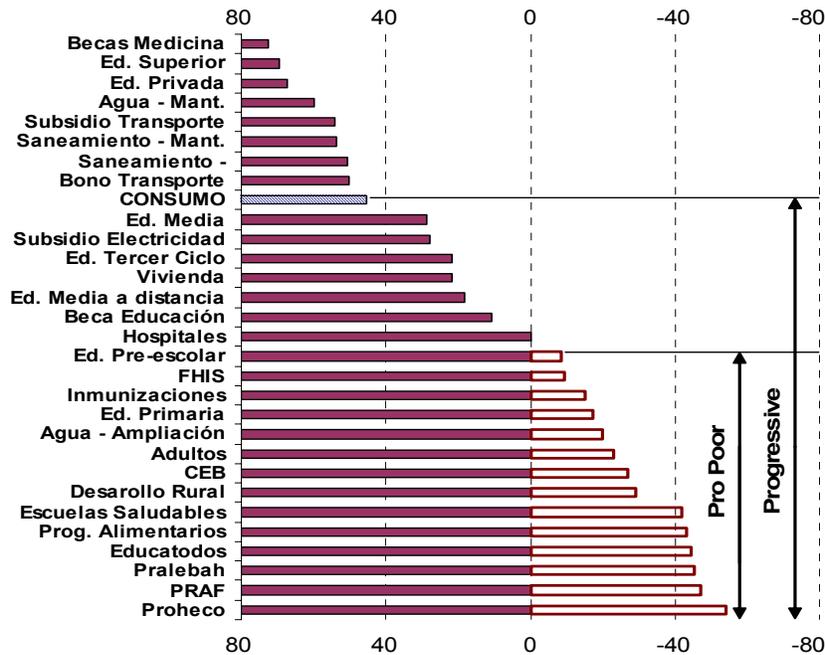
- Based on older data from 2000 and 2002, and on selected rural samples of the PRAF program, it is possible to identify that: (i) Initial assets seem to be key in poverty dynamics. More than income or consumption levels, assets are most important in explaining transitions from poor to non-poor. (ii) There is no convincing evidence of a “poverty trap” at low levels of assets.
- In determining asset accumulation for the very poor, the following stylized facts appear: (i) the role of credit in accumulating assets is important, although the distinction between formal and informal sources of credit seems to be of lesser importance, (ii) household’s strategy of diversifying into non-agricultural occupations has not lead to increased asset accumulation or higher transition probabilities for poverty—rather, what matters is employment and gainful

occupation among family members, (iii) household strategies of promoting migration and receiving remittances are important, but not for the very poor.

- From a nationally representative sample of employment and earnings survey it is clear that changes in income concentration—which increased during the period—are driven by variation in income within occupation and regional groups rather than between groups. For example, inequality has increased more within rural and urban communities than within communities. The same applies for inequality within agricultural occupations versus between ag- and non-ag occupations. With respect to schooling, both within and between components increased.
- The impact of remittances is key for poverty. Counterfactual simulations show that the impact of remittances on poverty over the past five years can be accounted for between 2 and 3 percentage points in poverty between 2001 and 2004, although other studies find smaller increases (see endnote 57). In any case, the continued expansion of remittances as a source of income will certainly increase their net impact on poverty in the future.
- Lastly, results from cross-sections tend to vastly overestimate—in differing degrees—the importance of individual attributes, labor, credit and assets on poverty. Obtaining inflated estimates on the determinants of welfare may lead to misallocation of resources and to inadequate formulation of public policy.

- 4.29 The Bank’s strategy places great emphasis on targeting of public programs and targeting of public spending. Two of its three specific objectives under the human capital pillar refer to making sure public spending reaches those who it was intended to reach. One objective is to “*Aumentar la focalización de la política económica en pobreza*”, while the second objective is to “*Fortalecer las capacidades de la **población con menores ingresos** y disminuir los factores de riesgo en los **grupos de mayor vulnerabilidad***” (emphasis added). In both cases this requires an assessment of the degree to which Bank-supported public policy is targeted, given that this information is critical to identifying where IDB-financed programs are going.
- 4.30 At the time of this review the Bank had not produced an incidence analysis of its programs. The Bank has also not produced an assessment of the results achieved for the majority of the operations approved, and thus had not produced estimates of the impact of its benefits by poor/non-poor category. In fact, OVE’s review uncovered only four examples of evaluations financed by the Bank that looked at the impact of Bank projects or that tracked outcomes for the beneficiary population (PRIESS, ReRural, PRAF and FHIS). The remaining Bank projects and programs have not been evaluated. From a reading of the *PCRs* for Bank projects, it is not possible to ascertain the development impact of most of the operations that closed during the period under review.
- 4.31 This is not to say that there has been no assessment of public spending and of results in Honduras. In terms of incidence analysis, in 2005 the *Secretaria de Estado del Despacho Presidencial* financed an assessment of public spending (see Gasparini, 2005). Table 4.3 shows the overall targeting findings from the Gasparini paper⁵⁸. Given that the Bank supports many of these programs, it is worth reviewing the results more closely.

Table 4.3: Targeting results, Programs



Source: Adapted from Gasparini (2005)

- 4.32 The table clearly shows that most Honduran programs are progressive: their incidence is higher among those of lower incomes. The only programs that are not progressive are associated with sewerage, transportation, private education and higher education. However, beyond being progressive, only a subset of programs is pro-poor—pro-poor being that the incidence of benefits is larger for the poor than for the non-poor. For example, secondary and tertiary education, as well as hospital care and housing are not pro-poor.
- 4.33 In terms of the Bank’s distribution among these programs, most of the human capital programs financed by the Bank are progressive, including PRAF, CEBs, and FHIS. In the health sector, although PRIESS was not assessed by the Gasparini report, its geographic targeting in rural areas without access to basic health likely imply a highly progressive program⁵⁹. The operations in support of transportation and water and sewerage in Tegucigalpa and San Pedro Sula, although not assessed by OVE, are not likely to be pro-poor and may not even be progressive, given that those who have access to those goods in the two cities are much less likely to be poor than a typical family in Honduras⁶⁰.
- 4.34 In addition to the work by Gasparini, with respect to targeting, data from ReRural and FHIS show that:
- In rural development the data on ReRural (milk producers) suggest a significant impact on income, as described in the sections above. However, Rerural beneficiaries are not predominantly poor. Based on the data available, OVE estimates that roughly 27% of beneficiaries are poor⁶¹. This compares

unfavorably with rural development programs in general, in which Gasparini found a high incidence of poor beneficiaries.

- Beyond poverty targeting in FHIS, the evaluation by ESA Consultores, as well as the data reviewed by OVE show that projects have, in general, also been well matched with necessities. (e.g. villages with higher school deficits were more likely to receive school projects.)

- 4.35 Although targeting tells something with respect to whom benefits are accruing, an analysis of how the poor escape poverty over time is also required in order to further sharpen public spending. Although the investments in social sector and human capital are broadly consistent with future gains in life for the generation receiving benefits, with few exceptions the evidence on the relationship between these investments and income or other tangible welfare gains is long term⁶². Given the lag between human capital and welfare gains, a poverty reduction strategy should either specify an alternate short term approach, or rather predicate all welfare gains on longer term investment.
- 4.36 In addition to properly targeting spending, a key part of the Bank's support for PRSP and HIPC was in order to increase the efficiency and effectiveness of public spending. In prior chapters we see that although Honduras managed to maintain high levels of social sector spending, this additional spending has fallen short of producing the desired results in education health and poverty. It is a real possibility that the additional spending on programs has been of low "quality" in the sense that it has produced less welfare improvement per resource spent. This hypothesis is consistent with the cross-country analysis of quality of spending in health and education done by OVE (see Annex).
- 4.37 The Bank supported spending both through HIPC resources and through the poverty PBLs of 2001, 2004, and in the form of the fiscal reform program of 2005. A review of the Bank's operations in the sector shows that (i) Honduras was late to reform its budgetary institutions and the financial controls of spending; (ii) the Bank's early support for HIPC did not address quality of spending, but rather focused on implementation of "best practices" such as budgeting by program, a single account, tracking physical outputs delivered from the budget, and having all government agencies inside the budget, etc.; (iii) starting with the second HIPC PBL the Bank's approach shifted from a "checklist" of best practices to include sector specific diagnostics that could be relevant for quality of spending. During the second PBL the Bank also supported the implementation of results-based budgeting. Lastly, the review found that the effectiveness of social spending—broadly defined as the relationship between social spending and social sector indicators—did not improve, but rather decreased, according to the available data⁶³.
- 4.38 OVE's review found that the Bank did support improvements in spending, including transparency. However, two findings are relevant. First, the Bank's technical support lagged behind the Bank's financial support. In other words, the tools for a better management of spending were not available to be applied in early years. Second, the technical changes to budgeting, transparency, and identification of results, when implemented, will provide neither a necessary nor a sufficient condition for better

spending of public resources in the social sectors. Although the reforms proposed by the Bank are in accordance with the “best practices” identified in diagnostics such as the CFAA, both the Bank and the country should be cautioned that reliance on purely technical reforms in budgeting and financial sector administration will not necessarily produce improvements in the quality of public policy.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

- 5.1 The Bank has had a long-standing and persistent relationship with Honduras. Over the years the Bank has programmed intensively and approved loans in all sectors. The Bank has also been the largest contributor to HIPC in Honduras. The period under review has seen a continuation of this pattern, particularly with its contribution to the MDRI debt reduction initiative. The Bank is today the largest multilateral in Honduras. Its contribution in terms of net flows is substantial, both in terms of external financing and in terms of public sector capital formation.
- 5.2 During the programming cycle under review the Bank has promoted policy continuity in Honduras. This continuity is demonstrated by the Bank's support for social protection, FHIS, education and health. In general, the Bank's support for social sector development has been contiguous across different programming periods. In some cases, such as conditional cash transfers, the Bank has supported the same sector strategy across different administrations. In other cases the Bank's approach has changed over time, to take into account changing political and institutional characteristics, such as increased administrative decentralization.
- 5.3 The Bank's program has been *broadly consistent* with the country program. The continued support in the social sectors notwithstanding, the last programming cycle also saw a shift in emphasis toward productivity and competitiveness. This shift is mirrored in the PRSP document. Also, the program benefited from coordination efforts by part of Honduras, which helped to identify responsibilities attributed to each development agent, including the Bank. In this respect the Bank stood out as an important agent in organizing the international cooperation in Honduras.
- 5.4 The Bank's effectiveness and efficiency have been attenuated by the difficulty of incorporating the execution of the Bank program into the country bureaucracy. The model of intervention based on project-executing units has contributed to this difficulty. Although improvement is seen from the prior programming period, Bank programs are still parallel constructions, with limited opportunity for lesson learning outside each project's respective the executing unit. Regarding harmonization in a broader sense (as defined in the Paris Declaration), including harmonization of results tracking, the Bank has made some efforts but these will need to be accelerated.
- 5.5 The review found that operations programmed continue to be overly complex and continue to be burdened by unrealistic coordination requirements. These operations depended critically on a wide range of actors working together. Lacking the appropriate political incentives, in each case this cooperation has either not taken place or has been slow to do so, impacting program implementation. These problems have negatively impacted implementation, leading to a finding that the Bank's program was only *partially efficient*.

- 5.6 Regarding the focus of Bank's program in each sector, the review found that the Bank has not systematically tackled the sector's most pressing development challenges. In three cases reviewed the Bank's activities have been peripheral to existing reform needs, most notably in forestry and education. A notable exception to this pattern is the financial sector reform, in which the Bank took a central role in identifying challenges, devising a solution, and in financing and implementing the solution. The Bank's difficulty in identifying and helping Honduras address some of its most pressing development challenges has rendered the program only *partially relevant*.
- 5.7 Despite the strategy's stated goal of poverty reduction, poverty has changed little over the period under review. The strategy's approach to poverty reduction was predicated on the assumption that growth would reduce poverty. Slow per capita growth along with deterioration in income distribution has hindered reductions in poverty. Furthermore, the strategy did not articulate a mechanism by which competitiveness, human capital formation, and governance would lead to welfare improvements for the poor.
- 5.8 In terms of indicators for results, the Bank's strategy is more evaluable than its predecessor. The definition of indicators is improved, as is the identification of baseline information. The strategy still did not identify targets. The Bank has not, however, tracked its strategy. The review of the Bank's periodic strategy update and of its assessment of its portfolio in execution show that none of the strategy pillar indicators are tracked with the Bank's existing monitoring mechanisms. This contrasts sharply to the success that the country has had in implementing and tracking PRSP results through the SIERP system. The country was able to track 16 of the 20 global PRSP indicators, and 86 of the 102 sector indicators. In those instances where the Bank's indicators coincide with PRSP indicators the information has been available for review of the Bank's strategy also. In instances where these indicators differed outside information had to be brought in to assess the strategy's effectiveness.
- 5.9 The review of the available data produced evidence on progress toward each of the strategy's pillars that shed light on the strategy's effectiveness. The data available on macro stability and on competitiveness and business environment is positive. The evidence shows that progress has been substantial. Regarding governance the evidence reviewed shows gains in the justice sector, along with improvements in court efficiency, and significant strides in financial sector indicators. However, in other aspects, such as perception of corruption, there has not been improvement. In human capital formation there have been modest gains. Following a decade of significant improvement in education indicators, the improvement has slowed down. The data reviewed show that in education there are improvements in efficiency, but there is no evidence of increased learning. In health preliminary evidence suggests that there has been a reduction infant mortality. Finally, regarding poverty and income inequality, there has been a widening in inequality, and virtually no change in poverty. Given the central role of poverty and welfare in the PRSP and as a stated objective of the Bank, the lack of solid gains in this area, despite the sector result mentioned above, the Bank's program with Honduras has been only *partially effective*.

B. Recommendations

- 5.10 The Bank should work with the country and development partners to sharpen its strategy for poverty reduction. This effort should be based on:
- Identification of mechanisms that would promote pro-poor growth;
 - Assessment of the incidence of all Bank-supported programs, particularly in programs impacting real sectors;
 - Identification of mechanisms and policies that will encourage the poor to accumulate assets, and more broadly, escape poverty.
- 5.11 The bank should continue efforts to integrate its program with the country. In particular:
- Incorporate the tracking of Bank strategy indicators with the country's monitoring systems and review the progress toward the indicator targets periodically with GOH.
 - Move away from Project Executing Units as a delivery mechanisms, instead relying on line ministries or country entities to manage project execution, and accelerate the move toward SWAPs.
- 5.12 Results-based management requires the identification of the effectiveness of Bank programs and policies, which in turn requires rigorous evaluation designs and appropriate data on results. The Bank should intensify its efforts to produce estimates of project impact, focusing on measuring adequate baseline information and developing, ex ante, strategies to assess program effectiveness. This is particularly relevant for projects that focus on the real sectors, for which this practice is not well developed.

Endnotes

¹ Given that projects execute over a multi-year horizon, the programming horizon in any given country will not correspond to the execution horizon; projects approved during the period under review most cases only began to produce outputs in 2004 and 2005. For this reason the CPE has defined the results universe of analysis as projects, programs or other activities that the Bank supported, and which had incidence during the period under review. Programming is limited to projects approved during the period—and in any case focuses to a large degree on the Bank’s Country Strategy with Honduras drafted in 2002 and approved in 2003.

² Data is from World Bank Indicators. Data from the Central Bank of Honduras also shows the growth rate of real GDP at around this figure (3.5%).

³ This decline had been aggravated by Mitch, which according to CEPAL caused losses of between 20-60 percent of grains produced. Historical production data since suggests that these effects were limited to the first two planting cycles after the storm.

⁴ See OVE, “*Technical Note: Growth, Exports, and Fiscal Diagnostic*”, March 2006.

⁵ The shift away from traditional exports into commodities such as shrimp, lobster, melons, and palm oil occurred during the latter part of the 1990s. This result is seen in the decrease in the export and trading partner concentration indices (see annex on Export Dynamics).

⁶ Debt simulations reviewed from the IDB, the IMF, as well as own estimates show debt to be sustainable, contingent on continued aid flows. These simulations were done without the new debt reductions due to the MDRI.

⁷ See IMF, *Honduras: Enhanced Initiative for Heavily Indebted Poor Countries Completion Point Document*, October 2005. Also see UNAT, *Estrategia para la Reducción de la Pobreza: Informe de Avance 2005*, June 2006.

⁸ Official data was not available for review in Health; but OVE’s review of preliminary data show a reduction in infant mortality.

⁹ The data on AIDS are dated and, according to the World Bank, not of good quality. However, based on these data, the rate of infection has not decreased significantly between 2000 and 2003. See World Bank, “Reducing HIV/AIDS Vulnerability in Central America. Honduras: HIV/AIDS Situation and Response to the Epidemic”, 2006.

¹⁰ There were no updated poverty data for other countries in order to make comparisons. These results are also based on preliminary presentations of the latest employment survey.

¹¹ See OVE, “*Technical Note on Poverty Dynamics in Rural Honduras: Evidence from a Specialized Panel*”, June 2006.

¹² Comparable and reliable violent crime data for LAC countries has not been compiled. Reported Homicide rates for Honduras vary by source, period, and geographic area, but tend to be in the range of 40-80 per 100,000. A recent IDB survey of major cities found the homicide rates in San Pedro Sula to be 86, Tegucigalpa 48. At least for these two cities the figures are higher than regional averages.

¹³ Diagnostics by the IDB, World Bank, and CEJA identify a system where access to justice is inadequate, the management of Justice is inefficient, and the degree of impunity is relatively high.

¹⁴ See OVE’s technical note on natural disasters “*Technical Note on the Bank’s Approach to Natural Disasters in Honduras*”, 2007.

¹⁵ See Jaramillo and Lederman, “*El CAFTA-RD: Desafíos y Oportunidades para América Central*”, 2005, for a discussion of the distributional consequences of CAFTA. It should be noted that although there are estimates of the distributional impact of CAFTA for Nicaragua, El Salvador and Guatemala, there are none for Honduras.

¹⁶ See GN-2238-1, approved February 4, 2003.

¹⁷ It is worth noting that the project with the highest evaluability rating was the performance driven loan for the health sector, in which the only missing information was regarding targets and milestones for mother and child mortality.

¹⁸ The MIF’s existing portfolio focused on (i) implementation of standards required for trade agreements and commerce (MIF/AT-504 in clothing and manufacturing and MIF/AT-504 for airports), (ii) helping small producers to export, through MIF/AT-464 (iii) and promoting incorporation of remittances into the credit system, through MIF/AT-500.

¹⁹ PRI currently is preparing a project for airport privatization.

²⁰ For example, the Financial sector PBL was first initiated through a FOMIN operation, MIF/AT-375; also, through MIF/AT-570 the Bank complemented the PBL by strengthening financial administrative characteristics of credit cooperatives.

²¹ During OVE's mission to Honduras in November of 2005 one of the chief complaints of the officials of the municipality of Tegucigalpa was that the Bank did not utilize TCs as a source of technical assistance during the execution of the Tegucigalpa and San Pedro Sula development project.

²² These constraints have been developed based on IDB and World Bank Loan Documents, evidence presented by FIDE (2005), Remblah-Cospe (2004), and Vallejo (2002), as well as interviews in country.

²³ According to the Bank's strategy, "*El principal problema que enfrenta el sistema educativo es de gestión, reflejado en el ausentismo de los maestros y en la reducción del tiempo efectivo en el aula, que es de 100 a 110 días al año y de 3 a 4 horas al día por parte de los docentes.*" (1.26) This finding is also reflected in other diagnostics, as well as among interviews in-country. However, the Bank's loans do not address the issue of absenteeism, or the number of school days directly. The loan that comes closest to address this is in HO-0202, in which a reallocation of teachers in order to maintain optimal class size without increase in teachers is one of the loan's four components.

²⁴ Over the period the Bank shows an average increase in satisfactory ratings of IP, DO and AS, as reported by specialists, of 4%, 5%, and 5%. The comparable improvement reported by specialists for Honduras is of 7%, 8%, and 8% for the same categories.

²⁵ The correlation coefficients are -.29 and -.08 for Net Capital and Net Cash Flows, respectively, being that the latter is not different than zero. The coefficients of dispersion for Capital Flow, Cash Flow, and Revenues are (0.49, 1.86, and 0.33). In other words, net of interest payments (Net Cash) flows are much more volatile than revenues.

²⁶ The actual membership of the group varied over time, so that it is known some years as G-15, G-16, or even G-17.

²⁷ The new Bank loan on Comprehensive Social Protection (1568/SH-HO), approved in 2004, recognizes this deficiency and contains an institutional strengthening component. If this intervention is able to rationalize the multitude of PRAF programs is an empirical issues that cannot be answered at this time.

²⁸ In a meeting with SEFIN the project was singled out as one of the poor performers, along with the Compras y Contrataciones project (HO0176)

²⁹ Interviews were conducted with Bank staff and with FIDE staff. The SIC was not available for consultation.

³⁰ The project document indicates that "The timely and efficient implementation of the proposed project is indispensable for the strategies of the GOH and the Bank to be carried out."

³¹ The project's first component financed many audits, which according to government officials were necessary at the time. Although they were effective in addressing a backlog of required audits, they did not strengthen in-country capacity to carry out audits, nor did they contribute to implementing a new procurement system. These objectives were addressed with the other three components of the project. The evidence reviewed shows that new legislation required for a reformed procurement system was passed and a new procurement office created. Training activities were also financed, and recommendations for a new procurement system were produced. Also, diagnostic and consultancies were provided to six pilot ministries on more efficient procurement mechanisms. A new information system of procurement was developed (Honducompras). However, pending is the implementation of a revised national procurement system, with modern procurement rules and procedures, under which all procurement is done for the Government (component 4). From the evidence reviewed it is also unclear if a new institutionalized training program was implemented; the only information available suggests that two cohorts of training took place, but it is not clear that this will continue into the future (component 3). Furthermore, although significant improvements are seen in the efficiency metrics in the treated line ministries, these were scheduled originally for full implementation by the end of the first year in execution; this was only partially achieved, and only by 2005, being that the project was approved in 2000.

³² Such an initiative was proposed early in the 1990s, but according to the prior CPE, as well as the evaluation by WB, the project did not meet its development objectives.

³³ Data from INE's survey of agriculture producers shows a decline in the area cultivated immediately after Mitch, followed by a recovery in the two years since Mitch.

³⁴ See OVE, "*Technical Note: Empirical Exploration of Economic Discoveries*", January 2006.

³⁵ Based on the office's review of the Bank's documentation and on interviews with the SAG two conclusions can be drawn. The first is that the difficulties in execution were generated by an overestimation of the private's sector capacity and willingness to provide extension under the parameters identified by the program, and likewise the lack of demand for the services that could be provided.

³⁶ According to execution data and based on interviews with policymakers, CNBS, BCH, and IDB staff, the execution of the financial sector reform has been one of the best examples of coordination between multilaterals and of high government interest and buy in.

³⁷ There is also no historical information on utilization of credit by producers in the EPH. It is available in the ENCOVI, but in this case the data is only for 2004.

³⁸ Between 2001 and 2006 Honduras' rank in the institutions index improved by 5 points, while the change in the technology and environment index remained unchanged. The change in the macro environment index rose by 13 points.

³⁹ The only international comparison results are from the 2003 PREAL report; the latest *Laboratorio* results are scheduled for early 2007.

⁴⁰ See OVE, "Nota Técnica: Evolución del Sector Educativo", March 2006.

⁴¹ According to PAHO (PAHO, "ANÁLISIS DE SITUACION – HONDURAS ", 2004). There have been modest improvements in mortality or AIDS since the 1990s. Mortality fell from 34 to 31, although measured by possibly non-comparable surveys, and the new cases of AIDS have not seen an appreciable reduction since the expansion of the disease in 1993, according to data from the Health Ministry.

⁴² It should be noted that Honduras has elected to tackle the AIDS problem, which is one of the most serious health problems, through partnerships with the Global Fund and UNDP and not with the IDB; therefore we do not review these sector results here.

⁴³ See Bitran et al (2005). It should be noted that there have been improvements in national indicators of health, including child mortality. Explaining the evolution of these indices in terms of policy interventions remains a pending question.

⁴⁴ The evaluation did not measure explicit health outcomes (e.g. measures of morbidity and mortality, low birth weight, child development indicators, etc.), but rather focused on vaccination, and measures of utilization of preventive health. The only proxy for outcomes looked at is the incidence of institutionalized births. Taken at face value, the study findings indicate that (i) health vaccination coverage increased, (ii) mixed evidence on utilization of health services and (iii) health outcomes proxies (institutionalized births) deteriorated. It is likely that these findings are not accurate, given that the evaluation faced insurmountable data/method issues. For example, the program results indicate that the program harmed health by reducing institutionalized births. This negative result is likely due to inappropriate comparisons being made between the treatment and comparison groups. Likewise, the utilization and even the magnitude of the vaccination results are also suspect. Given that no baseline information was available, the program was evaluated by comparing program areas with "comparable" non-program areas, and assuming that all differences were due to program. The assumption that the two communities were comparable pre-program certainly did not hold. The comparison group was almost certainly more exposed to orthodox health services, therefore one would expect higher institutionalized births, different utilization rates, and different vaccination rates.

⁴⁵ For example, comparisons over time of test scores show that scores increased for PRAF schools, and likewise show that this increase outpaced national averages. However, comparisons used the randomized design (see Annex) fail to show any difference in test scores when comparing PRAF schools to otherwise comparable non-PRAF schools.

⁴⁶ The results are only for the first phase of the program. The Bank discontinued support for the robust evaluation program associated with PRAF, making an assessment of any improvements since the first phase difficult. OVE attempted to extend the randomized design in the case of education test scores, by combining administrative data and program treatment information, but found no results.

⁴⁷ See Alvarado, F. and Alzua, M. "Supply Side Subsidies, Educational Outcomes and Child Labor Supply in Honduras", forthcoming in OVE Working Paper Series, 2006.

⁴⁸ OVE is currently looking at the PRIESS intervention model as part of its ex post exercise. Results were not available in time for this report.

⁴⁹ See ESA Consultores, “*Evaluación Ex-Post del Fondo Hondureño de Inversión Social*”, mimeo, 2006 and OVE, “*Nota Técnica: FHIS*”, 2006. See also data from the SINIMUN system.

⁵⁰ The FHIS collected data on municipal characteristics in 2003. OVE is currently updating this data in order to compare the evolution of municipal capabilities over time, as part of its evaluation of Social Investment Funds. However, this data had not been collected at the time of this review.

⁵¹ The municipalities have records of works that were implemented along with their corresponding neighbourhoods. However, there was no data found on household utilization of services or measures of household welfare in treated and comparison groups.

⁵² The only information available was on water and sewerage coverage in both cities. In one case data from EPH show an improvement in coverage (sewer) whereas in other cases there is a decrease (water). It is unclear what areas within the city the program was executed, precisely. This limits the confidence of the coverage estimates, and also makes the identification of comparison communities impossible.

⁵³ An assessment of the Bank’s intervention in Justice by Angel and Faundez (2005) find similar results.

⁵⁴ See OVE, “*Technical Note: Fiscal Reform in Honduras*”, March 2006.

⁵⁵ The project’s first component financed many audits, which according to government officials were necessary at the time. Although they were effective in addressing a backlog of required audits, they did not strengthen in-country capacity to carry out audits, nor did they contribute to implementing a new procurement system. These objectives were addressed with the other three components of the project. The evidence reviewed shows that new legislation required for a reformed procurement system was passed and a new procurement office created. Training activities were also financed, and recommendations for a new procurement system were produced. Also, diagnostic and consultancies were provided to six pilot ministries on more efficient procurement mechanisms. A new information system of procurement was developed (Honducopras). However, pending is the implementation of a revised national procurement system, with modern procurement rules and procedures, under which all procurement is done for the Government (component 4). From the evidence reviewed it is also unclear if a new institutionalized training program was implemented; the only information available suggests that two cohorts of training took place, but it is not clear that this will continue into the future (component 3). Furthermore, although significant improvements are seen in the efficiency metrics in the treated line ministries, these were scheduled originally for full implementation by the end of the first year in execution; this was only partially achieved, and only by 2005, being that the project was approved in 2000.

⁵⁶ Preliminary data from INE, based on a sample surveyed in the first months of 2006 suggest that poverty fell an additional percentage point, to 62%.

⁵⁷ This is not true of extreme poverty, in which the elasticity has remained unchanged. See OVE, “*Technical Note on Poverty Dynamics in Rural Honduras: Evidence from a Specialized Panel*”, June 2006.

⁵⁸ Although OVE did not replicate these results, we did look at the targeting of two Bank programs, ReRural and FHIS, to the extent that the administrative and survey data allowed us to do so.

⁵⁹ For the purposes of the CPE, OVE did not review the micro-data from Bitran (2005) in order to verify this.

⁶⁰ Regarding the operations in support of governance, it is not possible to assess incidence, since the benefits do not accrue to clearly identifiable groups. PBL’s, which by nature are generalized budgetary support, have an incidence equal to overall public spending, and therefore are not relevant in this context.

⁶¹ The Bank’s evaluation of Rerural also included other producer categories, but the only categories for which the distribution of income could be estimated based on the report produced was that of milk producers.

⁶² There is evidence that nutrition and health impact labor market productivity in the short run, and in some cases labor training can also have immediate (if very small) impacts on productivity and employment. See Barrera, 1990; Behrman, 1995; Behrman and Wolfe, 1987; Haughton and Haughton, 1997; Kassouf and Senauer, 1996; Senauer and Garcia, 1991; Thomas and Strauss, 1992 for the case of nutrition. Carneiro and Heckman, 2003 provide a literature review for the case of training.

⁶³ See OVE, “*Technical Note on Budgetary Reform and Poverty Reduction in Honduras*”, June 2006.