



Country Program Evaluation

Honduras

2015-2018

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Table of Contents

Preface	vi
Acknowledgements	viii
Siglas y abreviaturas	ix
Executive Summary	x
Country Context and Development Challenges	xvi
A. Education.....	03
B. Health.....	04
C. Infrastructure.....	05
D. Institutions and business climate.....	06
The Bank’s Strategy and Program for 2015-2017	08
A. Country strategy with Honduras.....	09
B. The program implemented in the period 2015- 2018	12
C. Loan execution	15
D. Bank’s role and coordination with other donors.....	17
Effectiveness of the Bank’s Program	18
A. Fiscal consolidation.....	19
B. Sustainability and competitiveness of the energy sector	21
C. Road infrastructure for regional integration	24
D. Social inclusion	26
E. Sustainable development of the Central District.....	31
F. Access to finance	33
G. Other sectors	34
H. Sustainability	36
Conclusions and Recommendations	38

Electronic Annexes

ANNEX I	Additional figures and tables.
ANNEX II	Sector note: Energy.
ANNEX III	Sector note: Transport.
ANNEX IV	Sector note: Social Sectors.
ANNEX V	Sector note: Access to finance.

Preface

As part of its 2017-2018 annual work program, the Office of Evaluation and Oversight (OVE) has evaluated the Country Program with Honduras 2015-2018. This is OVE's fifth independent country program evaluation (CPE) of the IDB's program with Honduras and the first to cover the work of both the IDB and IDB Invest in that country. It covers the IDB Group's program during the 2015-2018 period, which was guided by the IDB Country Strategy with Honduras 2015-2018 (document GN-2796-1). The preceding evaluations covered the periods 1990-2000 (document RE-263), 2001-2006 (document RE-328), 2007-2010 (document RE-390), and 2011-2014 (document RE-469).

Under the Protocol for Country Program Evaluation (document RE-348-3), the main goal of a CPE is to "provide information on Bank performance at the country level that is credible and useful, and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance."

This CPE seeks to undertake an independent analysis of the relationship of both the IDB and IDB Invest with the country and, in particular, of the program's relevance and effectiveness, including the financial and nonfinancial products offered by the IDB and IDB Invest during the reporting period. This evaluation should serve as input for the new country strategy that the IDB and IDB Invest are currently preparing.

In 2009, IDB Management developed a new model for country strategy documents with the goal of providing the Bank with an effective tool for sharpening the country focus and ensuring the flexibility expected during the realignment. New guidelines were issued to "reformulate country strategies, emphasizing the need for programming to be based on results and potential risks, adopting a programmatic and flexible approach that better responds to the country's priorities." In addition to these general principles, the most significant practical effects were: (i) a decoupling of the country strategy (prepared every four years) from the programming exercise (performed annually); (ii) a new emphasis on sector notes; and (iii) a strengthened results matrix, to include more specific indicators.

This evaluation follows the methodological guidelines stipulated in the Protocol for Country Program Evaluations (document RE-348-3). It uses diverse sources of information, including interviews with key informants such as current and former government officials, project executing agencies, IDB and IDB Invest sector specialists, international cooperation agencies, and members of academia and civil society who are familiar with the country's development challenges and the different sectors in which the Bank and IDB Invest operate. In addition, the Bank's programming and supervision documents, i.e. progress monitoring reports were used for sovereign-guaranteed loans and project supervision reports for nonsovereign-guaranteed loans. Its evaluation documents were also used, i.e. the project completion reports for sovereign-guaranteed loans and the expanded project supervision reports for nonsovereign-guaranteed loans. OVE has supplemented the documentary study with analyses of internal and external databases.

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Siglas y abreviaturas

CABEI	Central American Bank for Economic Integration
CID	Country Department Central America, Mexico, Panama, and the Dominican Republic
CPE	Country Program Evaluation
CREE	<i>Comisión Reguladora de Energía Eléctrica</i> [Electricity Sector Regulatory Commission]
ENDESA	<i>Encuesta Nacional de Demografía y Salud</i> [National Demographic and Health Survey]
ENEE	<i>Empresa Nacional de Energía Eléctrica</i> [National Electricity Company]
HDI	Human Development Index
IHSS	<i>Instituto Hondureño de Seguridad Social</i> [Honduran Social Security Institute]
IMF	International Monetary Fund
INE	<i>Instituto Nacional de Estadística</i> [National Statistics Bureau]
LAC	Latin America and the Caribbean region
MER	<i>Mercado Energético Regional</i> [Regional Energy Market]
OVE	Office of Evaluation and Oversight
PBL	Policy-Based Loan
PBP	Programmatic policy-based loan
SAR	<i>Servicio de Administración de Rentas</i> [Revenue Administration Service]
SCF	Structured and Corporate Finance Department
SME	Small and Medium-sized Enterprise
TERCE	Third Regional Comparative and Explanatory Study
TFFP	Trade Finance Facilitation Program
UNICEF	United Nations Children's Fund
WEF	World Economic Forum
WGI	Worldwide Governance Indicators

Executive Summary

Context

Following the 2009 financial crisis, Honduras has experienced moderate economic growth, supported by a fiscal stabilization process. Average economic growth between 2010 and 2017 was 3.74%. Since 2014, the country's average growth rate (3.9%) has been higher than that of both Latin America (1.7%) and Central America (3.7%). The central government's fiscal deficit fell from 7.9% and 4.5% of GDP in 2013 and 2014, respectively, to an average of 3% between 2015 and 2017,¹ which, coupled with the level of growth, has stabilized the debt-GDP-ratio at about 40%.

This growth has contributed to moderate advances in poverty reduction as of June 2016. However, Honduras remains among the countries of Latin America and the Caribbean with the highest levels of poverty and inequality, and still faces major development challenges. According to official sources, the incidence of poverty nationwide fell by nearly six percentage points between 2012 and June 2016, from 66.5% to 60.9%, while extreme poverty fell by 7.6 percentage points, from 46% to 38.4% during the same period.² There has been little change in income distribution and the country's Gini coefficient has remained at 0.52 since 2014. Honduras's main development challenges lie in education, health, infrastructure, and institutional strengthening. According to the development analysis methodologies used by the IDB in the 2018 Latin American and Caribbean Macroeconomic Report, education (human capital accumulation) is the greatest of these challenges.

The Bank's strategy and program

This CPE evaluation was guided by the IDB's country strategy with Honduras 2015-2018, which focused on supporting the government's efforts to counter stagnant productivity and low growth and narrow the country's human-capital generation and accumulation gaps. To that end, the strategy defined the following priority areas: (i) fiscal consolidation; (ii) sustainability and competitiveness in the energy sector; (iii) road infrastructure for regional integration; (iv)

1 Source: International Monetary Fund and the Honduran Department of Finance.

2 National Statistics Bureau (INE), 2017. *Fifty-fourth Permanent Multipurpose Household Survey*, data as of June 2016.

social inclusion; and (v) sustainable development in the Central District. Gender focus and development with identity, and climate change and disaster risk management were defined as crosscutting areas. Dialogue areas were also added, including social security reform, consolidation of the regulatory framework for public-private partnerships and the strengthening of finance for these arrangements, and regional integration. The priority areas of the country strategy and the program implemented were relevant, consistent with most of the Honduran government's priorities, and continued to include most of the medium-term areas identified for IDB and IDB Invest support to the country, with strong emphasis on the fiscal and energy areas. In OVE's view, however, the country strategy could have included support to counter crime and promote public safety, since this is a high-priority area for the government. In fact, the Bank had approved one such project as part of the 2011-2015 country strategy and most of its resources were executed during the evaluation period.

In recent years, the IDB has continued to be the country's main multilateral development partner, maintaining its financial relevance. Honduras's debt with the IDB was the equivalent of 9% of its GDP and accounted for 23% of the country's total external debt over the period. Between January 2015 and June 2018, the IDB approved US\$560 million in 13 new sovereign-guaranteed loan operations. Between January 2015 and December 2018, the IDB and IDB Invest plan to approve US\$972.6 million in sovereign-guaranteed operations, in line with the concessional-resource ceiling for Honduras during the period. As of December 2017 of the evaluation period, it had disbursed US\$580.32 million. With this pace of disbursements, between January 2015 and 30 June 2018, Honduras received a net flow of IDB Group financing (net of interest and fees) of US\$478 million. Non-reimbursable investment projects totaled US\$8.15 million and nonreimbursable technical-cooperation operations amounted to US\$17.14 million. IDB Invest approved four nonsovereign-guaranteed operations for a total of US\$35.4 million in the evaluation period: two for US\$24 million in the access to finance sector and two for US\$8.5 million in the energy sector. In addition to these loans, credit lines were approved under the Trade Finance Facilitation Program (TFFP) that supported individual foreign trade transactions amounting to US\$232 million. The private sector portfolio also included a US\$500,000 technical-assistance operation.

The program implemented by the IDB and IDB Invest included investment loans, technical-cooperation operations, policy-based loans (PBLs), as well as private sector loans and technical-assistance funding. During the evaluation period, sovereign-guaranteed investment loans and technical-cooperation operations were approved in all priority sectors. Investment loans accounted for

64% of sovereign-guaranteed loan approvals or US\$360 million. The remaining US\$200 million in approvals were channeled through PBLs to support fiscal, energy, and health reforms.

Efficiency

With regard to portfolio performance (efficiency), the cost of preparing loans during the evaluation period fell while the average costs associated with executing outstanding loans rose, as did preparation and execution costs per US\$ million approved and per US\$ million executed. An improvement in the pace of disbursements was also observed during the period. The behavior of costs per million approved and executed is partly attributable to Management's efforts to improve loan design and execution as well as to changes in the amounts approved and disbursed, which declined in Honduras more than in the IDB's Country Department Central America, Mexico, Panama, and the Dominican Republic (CID) and in the Bank overall. The pace of disbursements for the investment portfolio approved since 2011 has been faster than the averages for the CID and the Bank. Thanks to the management exercised by the Country Office and the government, as well as the weight of the lending portfolio financing current expenditure on social protection and health care, there has been a substantial improvement in the performance of loans approved since 2011, as well as a reduction in extensions of the loan disbursement period. Thanks to these advances, Honduras ranked second among the IDB's borrowing member countries with respect to the pace of executing investment loan disbursements in the 2015-2018 period. Management made major efforts during the evaluation period to improve the design of operations with the aim of enhancing their execution and effectiveness. For some sectors, however, OVE's analysis found that institutional weakness persists among executing agencies and local counterparts in the country. Consequently, additional efforts are needed to enhance the professional development of civil servants and reduce the high levels of staff turnover in the sectors.

As in the preceding evaluation period, relations and coordination between the Bank and other donors in the country were satisfactory. The Bank actively participates in the meetings of the main donors (G-16 group of countries). It also offers financial support and plays an active role in the work of some G-16 committees. The Bank has closely coordinated its work with other donors and international agencies in specific sectors, such as social investment (with the World Bank), and has provided financial and technical support to the Honduran government jointly with the International Monetary Fund (IMF) for the government's reform and fiscal strengthening program.

Effectiveness

The Bank's program has been effective, achieving satisfactory results in the strategy's priority sectors. In most sectors, the components were aligned with the country strategy's strategic objectives, and, where information on outcomes is available, it shows that they helped attain those objectives. Accordingly, the Bank's main achievements include support for fiscal reform and increased tax revenue intake, support for the reform to improve financial sustainability and competitiveness in the energy sector, support for the strengthening and expansion of the *Vida Mejor* conditional cash transfer program, support for decentralized management to increase access to health care services and the launch of reforms and strengthening of the Department of Health (SESAL), support for the rollout of the *Ciudad Mujer* program, and ongoing support for upgrading urban infrastructure in marginal neighborhoods of the Central District.

Despite this progress, Honduras must continue to step up investment in rural areas and in marginal urban areas to close development gaps and assist the most vulnerable population groups. Although the Bank has played a major role in supporting government efforts to narrow these gaps, there is still room for improvement. Challenges linked to coverage of the *Vida Mejor* program, compliance with the payments called for in the program's operating regulations, and verification of co-responsibilities in health persist, linked to shortcomings in information systems and in the sector's institutional framework persist. Moreover, strengthening investment in health and education in rural and marginal urban areas continues to be a priority. Closing the gaps in access to opportunities for the most vulnerable groups also requires investments in productive infrastructure, including roads and access to electricity, drinking water, and sanitation in areas in which the Bank has not been active (with the exception of marginal urban areas in the Central District) or has met with mixed results (rural water and sanitation). Lastly, ongoing efforts are needed to support the adaptation of productive activities to climate change, especially those related to farming and forestry. All of the foregoing are potential areas of Bank action and should therefore be considered in the context of the government's priorities, the work of the country's other development partners, the areas of long-term Bank support, and geographically-targeted approaches, where necessary, to determine the scope of interventions.

Sustainability

As the 2011-2014 CPE pointed out, there is a project sustainability risk owing to the weakness of certain key institutions of sectors where the Bank is active. This is coupled with the need for the government to

shoulder the costs of maintaining road infrastructure and delivering services, as well as taking over the current expenditures presently being financed by the Bank in the social sector.

Recommendations

To improve the effectiveness of the Bank's program in the country, OVE makes the following recommendations to Management:

- 1. Continue and step up efforts to support investment in rural areas and in lower-income population segments to improve their access to economic opportunities, taking into account government priorities, the work of Honduras's other development partners, and the areas of long-term Bank support.** Implementation of this recommendation will require continued support to the Honduran government for improving the coverage and effectiveness of the Vida Mejor program, increasing the supply of good-quality health care and education in rural and marginal urban areas; expanding access to electricity; strengthening of the institutional framework for the delivery of water and sanitation services; expanding and upgrading infrastructure in marginal areas and secondary roads in rural areas, and supporting the adaptation of rural productive activities to climate change; and leveraging and channeling nonreimbursable resources from bilateral and multilateral donors. Where necessary, the use of comprehensive, geographically-targeted approaches can be explored to determine the scope of the interventions, according priority to areas lagging farthest behind.
- 2. Step up efforts to identify niches for private sector support, offering financial and nonfinancial additionality and synergies among the windows of the IDB and IDB Invest.** IDB Invest discovered an important niche of opportunities in nonsovereign-guaranteed operations for the energy sector. Investment projects were identified in the sector requiring terms that were unavailable on the market, and supplementary financing and guarantees were mobilized to facilitate subsequent financing for investments of this kind. Emulating the experience in the energy sector and given the country's sufficient financial architecture, the work of the IDB and IDB Invest can help deepen financial inclusion, particularly through long-term loans to the productive sector and small and medium-sized enterprises (SMEs) in sectors that are strategic for the country.
- 3. Take steps to include in the priority areas of future country strategies any actions and objectives of the existing loan portfolios with the country** that align with the Bank's medium-

term lines of work in the sector, with the aims of facilitating their execution, monitoring and tracking of results, as well as maintaining the respective dialogue.



01

Country
Context and
Development
Challenges

- 1.1 Honduras is a small, lower middle-income country (as classified by the World Bank) that has posted moderate economic growth since the 2009 financial crisis. With a population of approximately 9.1 million and per capita GDP of US\$5,065, measured in purchasing power parity in 2011, Honduras is Central America's third poorest country, after Nicaragua and Belize.³ Between 2010 and 2017, the Honduran economy grew at an average rate of 3.7%. Since 2014, the country's average economic growth (3.9%) has been higher than the average for Latin America (1.7%) and Central America (3.7%). Per capita GDP has grown much more slowly (2.3% on average between 2010 and 2017),⁴ owing to rapid population growth (projected average annual rate of 1.5% over the same period).⁵ Inflation had been trending down, averaging 4.8% a year between 2010 and 2017, but has reversed in recent years. After posting 2.36% growth in 2015, it rose to 4.73% in 2017. The nominal exchange rate has been depreciating moderately since 2010, which contributed to the relative stability of the real exchange rate. The country has increased its international reserve-to-GDP ratio, from 17.6% in 2013 to 22.2% in 2017.
- 1.2 Owing to a series of fiscal and macroeconomic reforms approved under the country's 2014 agreement with the International Monetary Fund (IMF),⁶ fiscal performance has improved.⁷ The central government's fiscal deficit fell from 7.9% and 4.5% of GDP in 2013 and 2014, respectively, to an average of 3% between 2015 and 2017.⁸ The public debt grew from 24.5% of GDP in 2010 to 39.9% in 2014, but thanks to the reduction in the fiscal deficits, it has remained at about 40% of GDP between 2014 and 2017. The country's risk rating improved from B3 to B1 between 2015 and 2017, outperforming most of its Central American peers, but

3 Considering Central America to consist of Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Source: IMF.

4 According to World Bank reports, per capita GDP in terms of purchasing power parity in Honduras in 2016 was US\$4,392.27, while the corresponding figure for the Latin America and Caribbean region (LAC) was US\$14,314.95. Accordingly, the country ranks among the lowest in the world (160th out of 216) for this variable, and at just 30.68% of the average for the region.

5 Source: World Bank data.

6 In its most recent technical note (November 2016), the IMF acknowledged the progress made in tax and wage policies, transparency, the fight against corruption, and openness to public-private partnerships. Honduran public-private partnerships are regulated by the Public-Private Partnership Promotion Act (Decree Law 143-2010), which establishes a Public-Private Partnership Promotion Council (Coalianza) and the Public-Private Partnership Supervisory Office (SAPP).

7 The main features of the fiscal reform are described in Annex VI, Honduras Country Case Study, of OVE's publication "[Comparative Evaluation: Review of the IDB Support to Tax Policy and Administration 2007-2016.](#)"

8 Source: IMF and Honduran Department of Finance.

still below the ratings of Panama and Costa Rica. Spending on pensions has grown from 3.3% of GDP to 4.1% between 2013 and 2017, but spending on the wage bill fell from 12.8% of GDP to 10.6%.

- 1.3 While Honduras had achieved gains in poverty reduction as of June 2016, it remains among the countries of the Latin America and the Caribbean region (LAC) with the highest levels of poverty and inequality. According to official figures, between 2012 and June 2016, there was a reduction of close to six percentage points in household poverty at the national level, from 66.5% to 60.9%, while households in extreme poverty fell by 7.6 percentage points, from 46% to 38.4% in the same period.⁹ There has been very little change in income distribution and the Gini coefficient has measured 0.52 since 2014.¹⁰ Average per capita household income in the lowest quintile is 5% of the national per capita average of households in the highest quintile.¹¹ The country's Human Development Index (HDI) has improved, positioned at 130 out of 188 countries in 2015,¹² but is below El Salvador and Nicaragua, which rank 117th and 124th, respectively. Honduras's HDI in 2015 lost 29.2% when adjusted for inequality.¹³ Regarding the Gender Inequality Index (0.461), Honduras ranks 101 out of 160 countries.
- 1.4 Poverty has a disproportionate impact on rural, indigenous, and Afro-Honduran households, with 52.4% of rural families living in extreme poverty.¹⁴ According to a 2012 UNICEF study, 72% of indigenous and Afro-Honduran families were extremely poor.¹⁵ The average percentage of young males between 15 and 24 years of age who were neither studying nor working was 27.8% in 2016, compared with 44.2% for females in the same age group.¹⁶ Honduras continues to have high migration rates (with a net migration rate of 1.1%¹⁷), especially for unaccompanied

9 INE, 2017. Fifty-fourth Permanent Multipurpose Household Survey, data as of June 2016.

10 According to World Bank data. In 2016, the Gini coefficient was 0.505 for LAC and 0.509 for Central America.

11 Economic Commission for Latin America and the Caribbean, 2018. Social Panorama of Latin America and the Caribbean 2017.

12 [Briefing note, Human Development Report 2016.](#)

13 The loss in the HDI caused by inequality in Honduras is higher than in El Salvador and Nicaragua, which lose 22.2% and 25.8%, respectively.

14 INE, op. cit. Data as of June 2016.

15 UNICEF, Indigenous and Afro-Honduran Children in the Republic of Honduras, Tegucigalpa, December 2012.

16 World Bank 2017, World Development Indicators, taken from ILOSTATs.

17 Defined by the United States Central Intelligence Agency as the difference between the number of persons entering and leaving a country during the year per 1,000 persons: [The World Factbook, Country comparison: net migration rate.](#)

minors. Illiteracy affects 17.2% of the rural population and 20% of the population in the first income quintile, with no significant differences in terms of gender.

- 1.5 Honduras's main development challenges lie in education, health, infrastructure, and institutional strengthening. According to the development analysis methodologies used by the IDB in the 2018 Latin American and Caribbean Macroeconomic Report, education (human capital accumulation) is the main challenge.

A. Education

- 1.6 Honduras has made gains in access to education in recent years, but the gap continues to be wide in preschool, middle school, and high school. The enrolment rate in preschool (3-5 years) was 39.6% in 2016. The situation in elementary school (6-11 years) was better, with a rate of 96.2%. Average access measured by the gross enrollment rate was 64.6% in secondary school (12-16 years) in 2016 and 20.5% in tertiary education (17-21 years) in 2015.¹⁸ The results of the Fifty-fourth Continuous Multipurpose Household Survey indicate that 52.1% of adolescents between the ages of 12 to 14 attended middle school and that the coverage challenge is heightened in rural areas, where it drops to 39.9%. Moreover, 31.7% of adolescents between the ages of 15 and 17 attended high school. The corresponding figure was 20.2% in rural areas and 15.6% among rural males. The dropout rate is 8% in rural areas and 8.3% among households in the first income quintile. In parallel, there has been an improvement in the high-school graduation rate, from 21.8% in 2011 to 29.5% in 2016, with better results for teenage girls (31.5%) than boys (27.4%).
- 1.7 Educational quality is poor. Test performance is unsatisfactory. In the Third Regional Comparative and Explanatory Study (TERCE), Honduras ranked below the regional average in reading, mathematics, and natural science test results.¹⁹ The longitudinal learning analysis 2007 2016 of national academic performance tests showed improvements in reading but not in math. On average, 71% of students in grades 1 through 9 have unsatisfactory results in math and 48% in reading.²⁰ Furthermore, 99% of students in the final year of high school

18 <http://uis.unesco.org/country/HN>.

19 UNESCO (2015), TERCE Results Report. Third Regional Comparative and Explanatory Study. Learning Achievements, <http://unesdoc.unesco.org/images/0024/002435/243532S.pdf>.

20 Department of Education. National report on academic performance 2016.

did not perform satisfactorily in 2016.²¹ The government has announced that, starting in 2018, the Program for International Student Assessment (PISA) test will be administered.

B. Health

- 1.8 Honduras has made health service coverage gains in recent years, but gaps in access remain wide. The estimated per capita investment in health is US\$101—equivalent to 25% of the average for LAC—and there were 10.1 physicians per 10,000 population in 2015 (below the suggested target of 25 per 10,000 pop.). Health care professionals are unequally distributed, with fewer in rural areas, the western region, and the Dry Corridor. The 2012 National Demographic and Health Survey (ENDESA) estimated that public health services coverage was 67%. The Department of Health has sought to improve coverage through decentralized management agreements, which provided access to 1.5 million people in 94 municipios in 15 departments in 2016.²² The government has approved regulatory changes to increase service coverage and quality through the National Health Plan 2014-2018²³ and the Social protection Framework Law enacted in 2015.
- 1.9 While health outcomes have remained stable, up-to-date information on the sector is needed. The 2011-2012 ENDESA showed little change in average infant mortality (24 per 1,000 live births) and among children under 5 (29 per 1,000 live births) over the last decade, although it pointed to significant variations between departments, to the detriment of rural, indigenous, and Afro-Honduran areas, as well as the western region of the Dry Corridor. Improvements were seen in the indicators for chronic malnutrition (23%) and anemia (29%) among children under five, which was more prevalent among unschooled mothers and poor households. Noteworthy is that between 2014 and 2016, Honduras experienced the most intense drought in its history. As a result, 1.3 million people (including 169,000 children under five) suffered from moderate to severe food insecurity, particularly in the Dry Corridor.

21 Department of Education. *Learning efficiency of secondary school graduates 2015*. https://www.se.gob.hn/media/files/articles/Informe_Evaluacion_Educacion_Media.pdf.

22 Department of Health, *Institutional report 2016* <http://salud.gob.hn/web/edocman/memoria2016.pdf>.

23 http://salud.gob.hn/web/index.php?option=com_edocman&view=document&id=24.

C. Infrastructure

- 1.10 Infrastructure continues to be a development challenge for Honduras. Despite its economic growth, deficient infrastructure has proven to be a challenge for the country's productivity. The sectors with the greatest basic infrastructure needs are transport and energy, which reduces earnings from trade and stands in the way of growth.
- 1.11 The energy sector is facing a number of challenges that undermine the country's productivity, including low coverage and high service costs. Although 87.6% of the population has access to electricity service, Honduras is below the Latin American average (97.8%) and has the second-lowest coverage rate in Central America, trailed only by Nicaragua.²⁴ In rural communities, the coverage rate is 65%, compared to 83% in urban areas.²⁵ Honduras has one of the region's lowest rates of rural electrification. The high cost of energy increases production costs, jeopardizing the country's competitiveness. The industrial rate for electricity in Honduras is 25% higher²⁶ than the Latin American average. To avoid service cuts and high costs, the export processing industry generates its own electricity from biomass, at high fixed investment costs.²⁷ The institutional failings in the energy sector and sector reforms are described in the energy note attached to this evaluation (see Annex II).
- 1.12 Honduras is also grappling with deficient road infrastructure which, coupled with the lack of investment resources, hampers territorial connectivity and integration into international trade chains. The country's road density is 0.13 kilometers per square kilometer (compared to 0.30 per km² in Central America and 0.33 per km² in LAC),²⁸ and its logistical performance is ranked second-to-last in Latin America on the Global Competitiveness Index. According to *Doing Business 2014*, the average cost to export a typical container from Honduras was twice the average for Panama and

24 Data from *Sustainable Energy for All* (SE4ALL), Global Electrification database. No data for Belize.

25 Statistics on the electricity subsector for the countries in the Central American Integration System (SICA), 2016.

26 The high cost is partly explained by the large role played by obsolete, inefficient, and costly thermal generation and price tensions in a poorly-supplied market.

27 Hernández Ore, Marco Antonio; Sousa, Liliana D.; and López, J. Humberto. *Honduras: Unlocking Economic Potential for Greater Opportunities. Systematic Country Diagnosis*. Washington DC: World Bank; 2016.

28 Including only those countries with data on their road systems through 2013. Here, Central America includes Costa Rica, Guatemala, Honduras, Nicaragua, and Panama, while LAC includes Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, and Peru.

nearly 30% more than in Nicaragua. The government is very aware of the country's road infrastructure challenges and has included them in its National Plan 2014-2018. It has identified strategic corridors for national and regional integration that comprise most of the country's primary road network. The shortage of financial resources to make the necessary public investments in these corridors was identified by the IDB as one of the main causes of the road network's low quality.²⁹

D. Institutions and business climate

1.13 Although Honduras has made progress according to the recent report on Worldwide Governance Indicators (WGI), it still bears economic costs related to violence, and the 2017 election cycle was marked by uncertainty. The recent WGI ranking shows that Honduras has moved up in the categories of voice and accountability (up nine positions between 2006 and 2016), government efficiency (up eight), and respect for the rule law (up four). However, it moved down in the categories of political stability (eight positions) and control of production (seven positions). Furthermore, the country's high levels of violence have significant economic consequences, estimated to amount to 10% of GDP. The country ranks 134 out of 140 countries in terms of the impact of organized crime on their business climate (organized crime and extortion).³⁰ Honduras's homicide rate is among the world's highest at 43.6 per 100,000 population in 2017. Homicides are most prevalent in the northern region and the Central District.³¹

1.14 Honduras has improved some of its business climate indicators in recent years, but still presents marked shortcomings in global rankings. In the World Bank's 2018 *Doing Business Report*, Honduras ranked 115th out of 190 countries (compared to 127th in 2014), with a score of 58.46, which is 0.2 points below the average for LAC and 3.4 below the average for Central America. Honduras stands out in the category of ease of getting credit, where it ranks 12th out of 190 countries, with the average for Central America of 52.6 and 92.3 for LAC, explained above all by the strength of legal rights and credit registry coverage of adults of 20.9% compared to 14% in LAC. Domestic lending to

29 Loan proposal for IDB operation HO-L1121.

30 Data from the World Economic Forum's (WEF) Global Competitiveness Index: <http://reports.weforum.org/global-competitiveness-report-2015-2016/economies/#economy=HND>. This is the weakest aspect of the Honduran institutional framework according to the WEF.

31 Data from the Violence Observatory of the Instituto Universitario in Democracia, Paz y Seguridad (IUDPAS-UNAH) of Honduras.

the private sector in Honduras represented 56% of GDP in 2016, compared to 50% in LAC. In the property registration category, Honduras was in 91st place, but fell much further behind in the categories of starting a business (150th), enforcing contracts (152th), and paying taxes (164th).

- 1.15 Although access to finance in Honduras has improved over the last decade, barriers to access persist, including high interest rates and excessive collateral requirements. At the start of the period, the financial depth indexes for Honduras remained above the averages for the region. While the total deposits-to-GDP and total credit-to-GDP ratios were 55% and 50%, respectively, the averages for the region were 48.1% and 43.7%. Nonetheless, access to finance remains the main business-environment hurdle for Honduran companies. In fact, 44.6% of companies have bank loans or credit lines (three points below the regional average) and 37.4% use banks to finance their capital investments. Moreover, 72.8% of loans require collateral, and that requirement averages 223.2% of the loan amount (23.6 points above the regional average).³² In addition, access to long-term financing for investment is limited and real interest rates are higher than elsewhere in the region, except for Brazil.³³
- 1.16 In addition to the development gaps highlighted above, Honduras is the world's most vulnerable country to climate change (Freeman and Arita, 2005). The United Nations classifies the country among the 20 most vulnerable to flooding and the most vulnerable to hurricanes (*Reducing Risk*, 2004. United Nations Development Programme). Over the last century, Honduras has sustained heavy damage from disasters (droughts, earthquakes, epidemics, floods, landslides, hurricanes, and forest fires), which have affected roughly 4.7 million people. However, the 19 hurricanes during that period caused the most damage, with an average per event of nearly 1,300 deaths, some 155,000 victims, and damage on the order of US\$240 million. The most destructive hurricanes were Mitch in 1998 and Fifi in 1974, affecting 23% and 38% of the population, respectively. As a percentage of GDP, Hurricane Fifi caused damage equivalent to 52% and Mitch, 72%.

32 World Bank Business Survey, 2016.

33 IMF.



02

The Bank's
Strategy and
Program for
2015-2017

2.1 The IDB remains Honduras's main multilateral development partner, maintaining its financial relevance in the country, as in the preceding evaluation period. The balance of Honduras's debt (both sovereign-guaranteed and nonsovereign guaranteed) with the IDB and IDB Invest was US\$2.006 billion as of 31 December 2017, or 14.8% of the Central American countries' debt with the Bank, and 2.2% of all member country debt with the Bank.³⁴ Honduras's debt with the IDB was the equivalent of 9% of GDP and 23% of the country's total external debt as of the same date, compared to 8% of GDP and 22% of total external debt as of December 2014.³⁵ The IDB is Honduras's largest multilateral creditor, accounting for 26.8% of the country's multilateral debt as of December 2017, followed by the Industrial and Commercial Bank of China (19.3%) and the Central American Bank for Economic Integration (CABEI) (16.7%). However, this level is lower than in December 2015, when the IDB accounted for 35.49% of total loans and donations from multilateral and bilateral agencies, followed by CABEI (24.2%) and the Industrial and Commercial Bank of China (12.1%).

A. Country strategy with Honduras

2.2 The Country Program 2015-2018 was guided by the Bank's country strategy with Honduras 2015-2018. The country strategy was relevant to the country's main development challenges, with the exception of the emphasis placed on combatting crime. Consequently, citizen insecurity was included as a dialogue area, but not among the country strategy's priority areas. The country strategy was based on a diagnostic assessment of economic recovery in a context of low productivity and fiscal deterioration. According to the assessment, Honduras was in a period of extended economic growth after the 2009 economic crisis, but with more moderate advances in poverty and extreme poverty reduction. The country faced considerable challenges with respect to social and economic exclusion, exacerbated by deterioration in public safety, which led to high emigration. In this context, the IDB identified low human capital accumulation as one of the main factors behind low growth and scant productivity gains.

2.3 The objective of the Bank's country strategy with Honduras 2015-2018 was to support government efforts to counter stagnant productivity and low growth and reduce gaps in the generation and accumulation of human capital. The IDB also hoped to achieve real social inclusion through coordinated interventions in social

34 IDB Finance Dashboard.

35 SEFIN (Honduran Department of Finance).

protection, health, and education, and to improve the quality of life and standard of living in urban areas. To that end, the strategy defined the following priority objectives: (i) fiscal consolidation; (ii) energy sector sustainability and competitiveness; (iii) road infrastructure for regional integration; (iv) social inclusion; and (v) sustainable development in the Central District (Table 2.1). The focus on gender, development with identity, climate change, and disaster risk management are defined as crosscutting areas. Dialogue areas were also added, including social security reform, consolidation of the regulatory framework for public-private partnerships and the strengthening of finance for these arrangements, and regional integration.

- 2.4 The priority areas of the country strategy continued to include most of the medium-term support priorities of the IDB and IDB Invest for the country, with special emphasis on the fiscal area, but did not include support for citizen security. The Bank's strategic objectives during the evaluation period were consistent with Honduras's development needs and with the government's priorities established in its strategic documents (Government Strategic Plan 2014-2018, Country Vision 2010-2038, and National Plan 2010-2022). The country strategy did not, however, include citizen security as a priority, but rather added it as a dialogue area, despite constituting one of the most significant development challenges and a top government priority (see, for example, Government Strategic Plan 2014-2018, section 2.1, page 29) and even though the Bank had a citizen security project in execution.
- 2.5 The country strategy 2015-2018 highlighted three main potential risk areas for program implementation: macroeconomic, institutional, and environmental. With respect to macroeconomic risks, the Bank identified shocks to external sustainability and fiscal sustainability and, therefore, undertook to work in coordination with the Honduran government and the IMF on the design and implementation of measures to help restore the fiscal balance and reduce the extent of contingent liabilities. The main institutional risk was the execution capacity of the national counterparts, which could impact the pace of execution and portfolio performance. To mitigate that risk, the Bank decided to support institutional strengthening actions that would lead to the identification of new program design and execution arrangements, adapted to local capacity. Lastly, the country strategy identified environmental risks, since Honduras is one of the countries in the region with the highest exposure to natural disaster risks and, consequently, undertook to incorporate risk management into all the proposed actions.

Table 2.1. Sector priorities in the country strategy 2015-2018

Government program	Priority areas	IDB strategic objectives
Stabilize macroeconomic conditions and public finances in the country in the medium term, in order to drive economic growth and investment in poverty reduction and alleviation programs.	Fiscal consolidation	<ul style="list-style-type: none"> Strengthen tax revenue intake. Make public expenditure more efficient.
Strengthen the performance of public administration.		<ul style="list-style-type: none"> Strengthen the mechanisms for transparency and prevention and control of corruption. Improve budget management and reduce fiscal contingencies.
Guarantee electricity supply marked by quality, excellence, and responsibility, in support of the productive sectors and the population and in harmony with the environment.	Sustainability and competitiveness in the energy sector	<ul style="list-style-type: none"> Improve the efficiency and quality of electricity service and diversify the power generation matrix. Increase access to electricity service.
Promote production infrastructure as an engine of economic activity.	Road infrastructure for regional integration	<ul style="list-style-type: none"> Improve national and regional integration and reduce operating and transportation costs.
Incorporate families living in extreme poverty into the <i>Vida Mejor</i> platform, which consists of conditional cash transfers and improved housing.	Social inclusion	<ul style="list-style-type: none"> Protect minimum levels of consumption among the population in poverty.
Expand the coverage and quality of education services.		<ul style="list-style-type: none"> Promote human capital accumulation of minors in households living in extreme poverty.
Improve equitable access for the population to the benefits of comprehensive health care, especially for groups traditionally excluded due to economic, cultural, geographical, or gender reasons.		<ul style="list-style-type: none"> Improve the health indicators of children under five.
Improve housing and health conditions in marginal areas; develop the central corridor of the Central District; and strengthen connectivity between residential zones and central districts.	Sustainable development in the Central District	<ul style="list-style-type: none"> Reduce marginalization and improve urban quality of life in the Central District.
CROSCUTTING AREAS	Gender focus and development with identity	
	Climate change and disaster risk management	

Source: IDB Country Strategy with Honduras 2015-2018

2.6 OVE's evaluation of the 2011-2014 country program stressed that during the period of the previous strategy, the Bank had maintained its financial presence in Honduras, made efforts to target its intervention, and managed to significantly improve portfolio execution thanks to the adoption of a project-specific risk management approach. The CPE also underlined that a more strategic and comprehensive response to the country's development problems remained a challenge. Moreover, implementation challenges persisted and even though many

of the projects analyzed achieved some of the desired results, their effectiveness and sustainability were often threatened by the country's institutional and fiscal weakness. The CPE made five recommendations centered on giving priority to fiscal consolidation in the new strategy, focusing on the key development challenges, strengthening the design of operations, bolstering the managerial capacity of the institutions responsible for projects in execution, and including in future country strategies the sectors corresponding to each country's existing portfolio. The Bank's Board of Executive Directors supported all of the recommendations Annex I. (Box I.1) presents the recommendations of CPE 2011-2014.

B. The program implemented in the period 2015-2018

2.7 Between January 2015 and June 2018, the IDB approved US\$560 million in 13 new sovereign-guaranteed loan operations (compared to the 14 such operations approved between 2011 and 2014 for US\$756.4 million) (see Figure 2.1). Between January 2015 and December 2018, US\$972.6 million in sovereign-guaranteed operations should be approved, in line with the ceiling on concessional resources for Honduras during the period.³⁶ During the evaluation period to December 2017, US\$580.32 million had been disbursed (US\$989 million between 2011 and 2014). With this pace of disbursements, between January 2015 and 30 June 2018, Honduras received a net flow of US\$478 million (net of interest and fees) in IDB financing.³⁷ Part of the high disbursements between 2011 and 2014 responded to Management's efforts to complete disbursement of a series of projects approved prior to the strategy that suffered from delays in execution.

2.8 Sixty-four percent of sovereign-guaranteed loan approvals were channeled through investment loans (US\$360 million) and the remainder through PBLs (US\$200 million).³⁸ Non-reimbursable investment projects totaled US\$8.15 million and non-reimbursable technical-cooperation operations

³⁶ Total sovereign-guaranteed financing from the IDB to Honduras is determined on the basis of the concessional financing allocated. This allocation is based on the country's debt-sustainability framework and on the Bank's Enhanced Performance-based Allocation system (document GN-2442-53) for countries receiving concessional resources. These criteria establish a biennial financing ceiling based on implementation, effectiveness, governance, and debt sustainability. In 2015, the IDB's concessional resources matrix for Honduras raised the country's share from 30% to 40% on account of the increase in debt risk, which reduced the cost of financing to the country.

³⁷ IDB Finance Department.

³⁸ These included two in the energy sector (US\$90 million): one in the health sector (US\$50 million), and one for reform and modernization of the State (US\$60 million).

US\$17.14 million. The approved program was consistent with the strategic and crosscutting areas of the country strategy dialogue. The strategic area with the largest loan approvals was social inclusion, followed by support for sustainability and competitiveness of the energy sector (see Table 2.2).

Figure 2.1
Annual loan approvals
by type of instrument,
2011-2017

Source: OVE with data from the Data Warehouse.

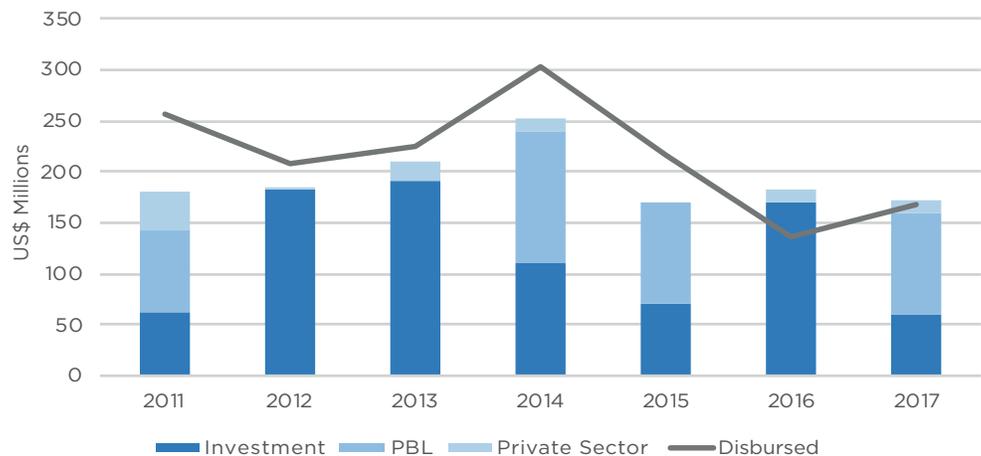


Table 2.2. Sovereign-guaranteed loans and non-reimbursable operations

Priority area	Sector	Loans			Non-reimbursable operations		
		Number	Amount		Number	Amount	
			US\$ millions	%		US\$ millions	%
Fiscal consolidation	Reform of the State	2	87	16	11	3.6	14
Sustainability and competitiveness of the energy sector	Energy	3	113	20	6	3	12
Road infrastructure for regional integration	Transport	2	95	17			0
Social inclusion	Education	1	60	11	4	1	3
	Health	1	50	9	3	1	4
	Social protection Social investments	2	70	13	11	10.7	41
Sustainable development in the Central District	Urban development	1	60	11	1	0	0
Other	Environment	1	25	4	4	1.3	5
	Other sectors				12	4.7	19
Total		13	560	100	52	25.3	100

Source: OVE with data from the Data Warehouse.

2.9 The legacy portfolio (operations approved before the evaluation period but active during that period) included 24 sovereign-guaranteed loans for a total of US\$1.130 billion, with US\$431 million yet to be disbursed at the start of the

evaluation period (US\$378 million of which had been disbursed as of June 2018). The largest percentage of funds pending disbursement was in the social sector (57% or US\$264 million), followed by infrastructure (39% or US\$181 million). At the start of the period, three non-reimbursable investment loans and 50 non-reimbursable technical-cooperation operations were active, totaling US\$65.9 million.

2.10 IDB Invest approved four nonsovereign-guaranteed operations for US\$35.4 million during the evaluation period: two in the access to finance sector (US\$24 million) and two in the energy sector (US\$11.35 million). In addition, credit lines were approved to support foreign trade transactions under the TFFP (US\$232 million). The private sector portfolio also included a technical-assistance operation (US\$500,000). The nonsovereign-guaranteed legacy portfolio included three loan operations totaling US\$26.5 million in the access to finance, energy, and environmental sectors.³⁹

1. Portfolio performance—efficiency

2.11 The average cost of preparing sovereign-guaranteed loans fell by 7%, but increased by 28% per US\$ million approved compared with the previous country strategy period. Preparation costs per US\$ million approved rose to US\$5,356.30 in 2015-2018. The average preparation costs per US\$ million approved in Honduras is higher than the average for the IDB's Country Department Central America, Mexico, Panama and the Dominican Republic (CID) and for the Bank as a whole, and grew faster than those averages between 2011-2014 and 2015-2018. The growth in costs per million is attributable to changes in the amounts approved, which declined in Honduras more than in the CID and the Bank in general (see Annex I, Table I.2). During the period, an increase was also observed in the time required to prepare the sovereign-guaranteed loans approved since 2015 (preparation time from the project profile approval date through Board approval has risen slightly, from 143.67 days between 2011-2014 to 187 days between 2015-2018).⁴⁰

39 The data on the nonsovereign-guaranteed portfolio were obtained from the following sources: for operations prior to 2015, IDEAS and Convergence, and for operations since 2015 from IDEAS. The amounts approved include funds under administration.

40 The estimated loan costs and preparation times correspond to the operations approved through 30 April 2018. Any loans approved subsequently or that are currently in the pipeline for approval by the end of the country strategy period (2015-2018) were not included in these estimates.

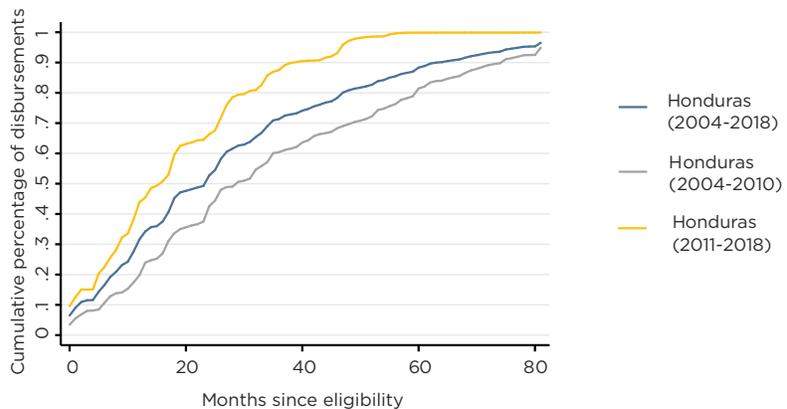
C. Loan execution

2.12 The pace of disbursements in the investment portfolio approved since 2011 has been higher than average for the CID and the Bank (Figure 2.2). Thanks to the efforts of the IDB Country Office in Honduras and the government, and to the weight of the loan portfolio that finances current expenditure for social protection and health care, there has been a substantial improvement in the disbursement rate of loans approved since 2011 (Figure 2.3) and a reduction in extensions of operation disbursement periods (see Table I.3 in Annex I). Thanks to these advances, Honduras ranked second among the IDB's borrowing member countries with respect to the pace of executing investment loan disbursements in the 2015-2018 period. The investment loan portfolio with Honduras disbursed, on average, 31.1% of the undisbursed balance at the beginning of each year—a pace much faster than the 20.2% observed for the Bank as a whole. According to annual assessments of project performance, 100% (on average) of projects in the portfolio with Honduras have performed satisfactorily—a rate much higher than the 71% observed for the Bank as a whole.

Figure 2.2

Pace of disbursement of sovereign-guaranteed investment loans: Comparison of loans approved in the CID, the IDB, and Honduras 2011-2018

Source: OVE with data from the Data Warehouse.

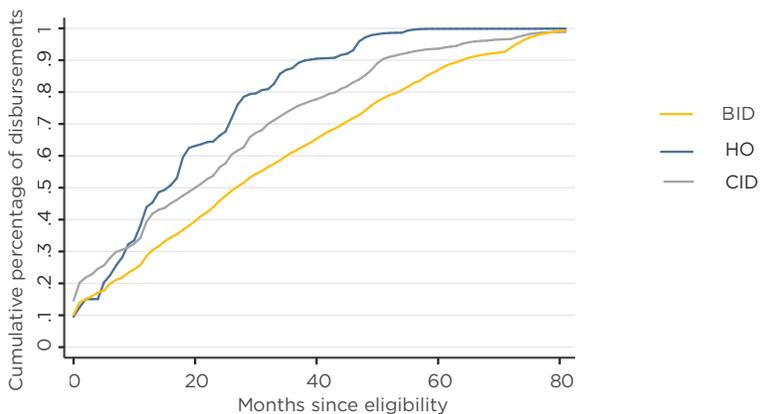


Note: Sample size for Honduras 2004-2018: 44, 2004-2010: 26, and 2011-2018: 18.

Figure 2.3

Pace of disbursement of sovereign-guaranteed loans: Comparison of loans approved between 2004-2010, 2011-2018, and 2004-2018

Source: OVE with data from the Data Warehouse.



Note: Sample size for 2011-2018 IDB: 466, CID: 132, and HO: 18.

2.13 During the evaluation period, Management made considerable efforts to improve the design of operations with the objective of facilitating their execution and effectiveness in the context of OVE's recommendations 3 and 4 in CPE 2011-2014 (see Annex I Box I.1). Recommendation 3 urged Management to "[s]trengthen the design of operations by: (i) conducting more rigorous institutional assessments; (ii) performing more realistic analyses of governance and financial sustainability; and (iii) engaging fiduciary staff more intensively in the design of project execution, disbursement, and procurement mechanisms and plans for investment projects." Management heeded OVE's recommendation, conducting more institutional analyses of the executing agencies for Bank operations. It performed risk analyses for 100% of loans approved during the strategy period, and validated 100% of the risk and institutional analyses through a technical body chaired by the chief of operations. Management also strengthened the use of country systems during the period, in accordance with the country strategy's objectives (see Annex I, Box I.2).

2.14 OVE's Recommendation 4 in the CPE 2011-2014 urged Management to: "[d]evote greater efforts to building management capacity (e.g., human resources, financial and budget management, procurement, etc.) in the institutions responsible for projects in execution [...]." This recommendation was partially implemented during the evaluation period. Management focused on holding launch workshops for 100% of executing units responsible for new loan operations approved during the strategy period and workshops on results-based management and project planning (including financial management and procurement) with executing agencies in charge of new loan operations during that period. These measures have helped to attain the recommendation's objective and improve loan execution, but were insufficient to overcome the institutional weakness of the country's executing units (see, for example, execution problems in the energy and health sectors, Annexes II and IV). Consequently, additional efforts are needed to enhance the professional development of civil servants and reduce the high levels of staff turnover in the sectors. With regard to transport (see Annex III), execution was improved through the use of an agency specialized in infrastructure execution established in the context of the Millennium Challenge Account (known today as Honduran Strategic Investments, INVEST-H).

2.15 Average execution costs rose by 11% and the costs per million disbursed by 72% for active operations, compared to the previous country strategy period. The increase in costs per

million disbursed was higher than in the CID and the Bank as a whole. As in the case of approval costs, the behavior of execution costs is partly attributable to changes in the amounts approved and the steps taken by Management to improve the execution of operations. Although the average amounts disbursed per operation decreased in Honduras, the CID, and all Bank borrowing member countries, the decrease was more pronounced in Honduras (see Annex I, Table I.2).

D. Bank's role and coordination with other donors

2.16 As in the preceding evaluation period, relations and coordination between the Bank and other donors to Honduras were satisfactory. The Bank actively participates in the meetings of the main donors (G-16),⁴¹ provides it with financial support, and actively participates in the work of some of the group's committees. The Bank has closely coordinated its work with other donors and international agencies in specific sectors, such as social investment with the World Bank (see Annex IV), and has provided financial and technical support to the Honduran government jointly with the International Monetary Fund (IMF) for its fiscal reform and strengthening program.

41 The G-16 is a venue for dialogue and coordination of the group of international donors in Honduras, whose main counterpart is the Secretariat for General Government Coordination. The group is composed of representatives of Canada, France, Germany, Italy, Spain, Sweden, and the United States, as well as agencies such as the European Union, the United Nations, the World Bank, the IDB, and CABEL.



03

Effectiveness of the Bank's Program

3.1 The Bank’s program was effective, achieving satisfactory results in the strategy’s priority sectors. In most sectors, the components were aligned with the country strategy’s strategic objectives and in cases where data on outcomes is available, indications are that they helped to attain those objectives. The main outcomes in each priority area and in the sectors of the legacy portfolio are described below.

A. Fiscal consolidation

3.2 The strategic objectives in the fiscal area of the country strategy centered on strengthening tax revenue intake, the efficiency of public expenditure, transparency mechanisms, and improving budget management. During the evaluation period improvements were reported in all results indicators linked to the strategic objectives (see Annex I, Table I.4).

Table 3.1. Strategic objectives and expected results in the area of fiscal consolidation

Strategic objectives	Expected results
Strengthen tax revenue intake.	<ul style="list-style-type: none"> • Increase in tax revenue as a percentage of GDP.
Make public expenditure more efficient.	<ul style="list-style-type: none"> • Containment of growth in the central government wage bill (as a percentage of GDP).
Strengthen the mechanisms for transparency and prevention and control of corruption.	<ul style="list-style-type: none"> • Increase in transparency and control of expenditure among local governments.
Improve budget management and reduce fiscal contingencies.	<ul style="list-style-type: none"> • Reduction in budget mismatch • Improvement in the present-value financial sustainability of the Honduran Social Security Institute (IHSS).

Source: IDB Country Strategy with Honduras 2015-2018

3.3 The Bank’s program focused on supporting the government’s fiscal reform efforts, implemented in the context of the 2014 agreement with the IMF. This support for fiscal reform and strengthening of tax administration contributed to the strategic objectives (Table 3.1), but not the objective of maintaining the sustainability of the IHSS. The Bank’s support was channeled through a series of programmatic policy-based loans (PBPs) for fiscal consolidation, an investment loan, and technical-cooperation operations. The Bank’s support did not attain its full potential because the PBP fiscal consolidation series was not completed—only the first loan of that series has been approved. The Bank organized its support around two basic thematic hubs: (1) support for the tax and customs administration—the Executive Revenue Directorate (DEI) and subsequently the Revenue Administration Service (SAR); and (2) general support for tax reforms in the form of stabilization and adjustment programs. The Bank’s support was consistent, seeking to

work simultaneously on strengthening tax administration and supporting the policy reforms. The Bank took the opportunity to introduce reforms at a time of great fiscal difficulty.

Table 3.2. Portfolio in the area of fiscal consolidation

	Operation number	Name	Year approved	Amount approved (US\$ mill.)	Disbursed	
					Amount (US\$ mill.)	%
PBL	HO-L1103	Fiscal Consolidation Support Program	2015	60	60	100
Investment	HO-L1108	Tax Administration Institutional and Operational Strengthening	2015	27	7.7	28.4
Technical-cooperation operations	Eleven technical-cooperation operations were approved during the evaluation period for US\$3.6 million: two to support operations; seven for client support; and two for knowledge exchange (TC-INTRA).					

Source: OVE with data from the Data Warehouse.

3.4 The loan for fiscal consolidation (HO-L1103) supported policy and tax administration reforms in the context of IMF-backed macroeconomic stabilization programs. The Bank supported policy reforms negotiated by the Honduran government as part of the stabilization programs after the country's new president, Juan Orlando Hernández Alvarado, took office in 2014. This loan provided support for macroeconomic stability, strengthening of the fiscal framework, modernization of tax and customs revenue management, enhancement of public expenditure management, and strengthening of liabilities management (see OVE's Comparative Evaluation: Review of Bank Support to Tax Policy and Administration, 2007-2016 (Annex VI, Honduras Country Case Study)).⁴² In addition to the program of fiscal consolidation support, the Bank approved the Tax Administration Institutional and Operational Strengthening (HO-L1108) program (an investment loan to support the establishment of the SAR). This IDB project involves a holistic reform of tax administration and is currently in execution.

3.5 The 2013-2014 reforms, supported by the loan to support fiscal consolidation, exceeded the original goals for the operation and the country. The government had proposed a 2% increase in revenue intake (as a percentage of GDP) for the period 2014-2017, which is lower than the yield verified in 2016 (3.2%). The success of the reforms is attributable to the low initial point of comparison, the measures implemented, and the favorable external context, particularly the higher level of exports to the United States.

⁴² The third tranche (US\$50 million) has not yet been disbursed.

- 3.6 After the SAR was created in December 2016, a tax code was approved that represented a decisive step backward from the legal reforms originally envisioned, despite the fact that they followed best international practices, were agreed upon by consensus with the IDB and the IMF, and included the conditions established in the second loan of the PBP series to support fiscal consolidation. In replacing the version of the tax code proposed by the SAR, the authorities decided to approve the version of the code prepared by the Consejo Honduran Private Enterprise Council (COHEP).⁴³ Against this backdrop, the second loan of the PBP series did not materialize.
- 3.7 The Bank also supported its strategic objectives in the sector with an ambitious program of seven technical-cooperation operations to provide client support, as well as two technical-cooperation operations to support the loans approved, and another two such operations for knowledge exchange (TC INTRA). The technical-cooperation operations for client support focused on multiyear budget planning and macrofiscal management (operation HO-T1232), public finance management (operation HO-T1258), and the medium-term investment strategy (operation HO-T1261). Other initiatives in the modernization of the State sector were also supported, including institutional strengthening to promote transparency and combat corruption (operations HO-T1233 and HO-T1235), support for implementation of the Alliance for Prosperity in the Northern Triangle (operation HO-T1064), support for the social prevention of violence and promotion of civic coexistence (operation HO-T1264), strengthening of the supervisory mechanisms of the National Commission of Banks and Insurance (CNBS), and increasing financial transparency (operation HO-T1284).

B. Sustainability and competitiveness of the energy sector

- 3.8 In the energy sector, the country strategy identified the sector's financial sustainability and competitiveness as one of its priority objectives (see Table 3.3). The country strategy provided for the continuity of the Bank's work in the sector, facilitating the inclusion of the legacy portfolio and reflecting the Bank's medium- and long-term relations with the sector. Its main action areas were financial sustainability and strengthening the operating capacity of the electricity subsector. The investment loans were conditioned on the progress made by the National

⁴³ Private sector participation in generating electricity on the national level is 82.4%, through buying and selling contracts with the ENEE.

Electricity Company (ENEE) to ensure its financial sustainability. It was also decided that the Bank’s private window would explore investment opportunities in the productive sector and the promotion of small-scale electricity generation and financing for renewable energy projects.

Table 3.3. Strategic objectives and expected outcomes in the area of energy sector sustainability and competitiveness

Strategic objectives	Expected outcomes
Improve the efficiency and quality of electricity service and diversify the power generation matrix.	<ul style="list-style-type: none"> • Reduction in technical and nontechnical losses in the transmission and distribution of electricity. • Increase in low-carbon power generation capacity. • Improved service quality by reducing interruptions in the electricity supply. • Improvement and expansion of the national transmission system. • Increase in the volume of transactions in the Regional Electricity Market (MER).
Increase access to electricity service.	<ul style="list-style-type: none"> • Increase in electricity coverage nationwide.

Source: IDB Country Strategy with Honduras 2015-2018.

3.9 The sovereign-guaranteed and nonsovereign-guaranteed portfolios approved for the sector were aligned with the strategic objectives of the country strategy and the Government Strategic Plan 2014-2018. Given the sector’s structural weaknesses, the program had a stated preference for PBPs. In the preceding evaluation period, the first tranche of a series of three PBPs for programmatic support of structural reforms in the electric sector was approved for US\$130 million. The remaining two PBPs, totaling US\$90 million, were approved in the current evaluation period.⁴⁴ The approach taken by the series was to support the sector’s financial and operating sustainability by strengthening institutional capacity and the sector’s regulatory framework, institutional reform, and the electricity service rate schedule.

3.10 An energy sector reform was approved in 2014 to address the sector’s weaknesses and improve fiscal headroom, which the Bank supported with a series of PBPs. Since that time, the Electric Power Industry Act (LGIE) came into force, and the Electricity Sector Regulatory Commission (CREE) and Energy Secretariat were created to lead the sector. The reforms also included the establishment of the national electricity system operator, private sector participation in electricity distribution,⁴⁵ and a reorganization of the ENEE.⁴⁶ With regard to the distribution

44 The third tranche (US\$50 million) has not yet been disbursed.

45 Private sector participation in generating electricity on the national level is 82.4%, through buying and selling contracts with the ENEE.

46 Loan proposal for Programmatic Support for Structural Reforms in the Electricity Sector. Third Loan. IDB.

sector, a contract was awarded to Empresa Energía Honduras [Honduran Electric Energy Company], a Colombian-Honduran consortium, as a result of an international call for bids issued by the Committee for the Promotion of Public-Private Partnerships, to operate the distribution system and administer the ENEE's assets beginning in August 2016.

Table 3.4. Portfolio in the area of energy sector sustainability and competitiveness

	Operation number	Name	Year approved	Amount approved (US\$ mill.)	Disbursed	
					Amount approved (US\$ mill.)	%
PBL	HO-L1118 and HO-L1189	Programmatic Support for Structural Reforms in the Electricity Sector (second and third loans)	2015 and 2017	40 and 50	40 and 0	100 and 0
Investment	HO-L1102	Cañaveral-Río Lindo Hydropower Complex Rehabilitation and Upgrading Project	2015	23	6	26
	HO-L1039	Support for the Integration of Honduras in the Regional Electricity Market	2013	22.9	21.3	93
Private sector	During the evaluation period, two nonsovereign-guaranteed loans were approved for US\$8.4 million, in addition to guarantees for US\$1.6 million, and an outstanding loan approved during the previous strategy for US\$5 million.					
Technical-cooperation operations	Six technical-cooperation operations were approved during the evaluation period for US\$3 million: five to support operations and one for knowledge exchange (TC-INTRA).					

Source: OVE with data from the Data Warehouse.

- 3.11 The degree of progress made on Bank-supported reforms has had a positive impact on the sector's efficiency and sustainability. The reforms have helped strengthen the sector's financial sustainability by reducing the ENEE's share of the consolidated public sector deficit and attaining the target established in 2016. Progress has also been made to reduce the sector's losses, step up generation from renewable sources, and increase transactions on the MER. The results of the energy reforms are reflected in electricity prices and in cost recovery. While the average residential/commercial and industrial rates increased by 15% and 19%, respectively, between 2010-2013, they fell by 9% and 30%, respectively, between 2013-2016. A cost-recovery rate of 65% to 95% is projected for the residential sector, with an estimated 15% increase in rates under the reform.
- 3.12 Despite these advances, the remaining reforms have been slow and fraught with challenges. Consequently, some of the triggers for the second phase were transferred to the third. Specifically, this was the case for the triggers associated with rate regulation and adjustment, regulation of distribution and transmission

service and its rate regime, operation of the CREE, establishment of a national electricity system operator, and transmission and distribution contracts with private operators.

- 3.13 The emphasis of the investment loans was on the recovery and preservation of the country's energy generation and transmission capacity. With the legacy operation "Support for the Integration of Honduras in the Regional Energy Market" (operation HO-L1039), the Bank sought to consolidate the MER through the construction and completion of substations to link the Central American Electric Interconnection System (SIEPAC) to Honduras's transmission system. Through the "Cañaveral-Río Lindo Hydropower Complex Rehabilitation and Upgrading Project" (operation HO-L1102), the Bank supported the generation and transmission of electricity from renewable sources by rehabilitating the aforementioned complex. The Bank contributed 13.5% of the financing for this project and the Japanese International Cooperation Agency (JICA) contributed 81% (see Annex II for the implementation status of these projects).
- 3.14 In accordance with the country strategy, nonsovereign-guaranteed operations financed small renewable energy generation projects. Although only a limited number of small-scale operations were approved, they stand out for the financial additionality of their terms and guarantees. IDB Invest financed two small-scale energy generation projects (see Annex II). The nonsovereign-guaranteed projects attained their output targets, but their development results have not been tracked. The expected development results were reductions in both electricity demand and greenhouse gas emissions, and a demonstration effect on other companies in the installation of renewable energy, but these have not been confirmed. Installing 5.9 MW of solar panels would result in an average annual reduction of 8,614 tons of CO₂.
- 3.15 Technical-cooperation resources were channeled through two legacy operations and six new projects approved during the evaluation period. Most of the technical-cooperation funds approved (73.5%) were used for operational support (54.7% to support loan execution and 18.8% to support the preinvestment stage of operations). The remaining 26.5% was used to respond to ad hoc demands in the area of renewable energy (see Annex III for a breakdown of technical-cooperation operations).

C. Road infrastructure for regional integration

- 3.16 The country strategy and the Bank's program have been historically aligned with the government's priorities to develop the Central American logistics corridor, which consists of the

Central American Pacific Corridor, the Pan American Highway, and their branch roads. The 2015-2018 country strategy included the objective of improving national and regional integration and reducing operating and transport costs (see Table 3.5). Given the sector's financing requirements, the strategy also called for exploring the participation of the private sector windows in public-private partnerships for the construction, rehabilitation, and/or management of road corridors.

Table 3.5. Strategic objectives and expected outcomes of the country strategy with Honduras road infrastructure for regional integration

Strategic objectives	Expected outcomes
Improve national and regional integration and reduce operating and transport costs	<ul style="list-style-type: none"> • Improved physical condition of existing roads in the along the Pacific corridor. • Consolidated road integration in the northeastern part of the country. • Improvement in physical operating conditions at major border/customs posts.

Source: IDB Country Strategy with Honduras 2015-2018.

3.17 Although investment in the main corridors is one of the Honduran government's development priorities, these investments need to be complemented by actions to upgrade the secondary road system if better results are to be obtained in productivity and poverty reduction. This point was stressed by OVE in CPE 2011-2014. The Bank's interventions have focused on the primary system and this continued during 2015-2018. The secondary system is composed of 2,783 kilometers of roads that form the basic link between the primary system and local roads which, in Honduras, are the longest system, measuring 8,757 kilometers. The Bank is exploring the possibility of participating in the secondary system, but no project has materialized to date. Upgrading that system is a crucial step for the relevance and sustainability of the transportation sector in Honduras.

3.18 During the 2015-2018 country strategy period, the IDB focused on executing the portfolio that had been approved in previous periods, including the Infrastructure Program for the San Pedro Sula Logistics Corridor and the Tegucigalpa-Puerto Castilla Agricultural Corridor Road Program (see Annex III). The Puerto Cortés Expansion and Modernization Program was cancelled at the government's request and its funds were redirected to the Regional Road Integration Program (HO-L1104). The contribution of legacy-loan outcomes to the sector cannot be measured because the results indicators of the transport projects were incompatible with the country strategy indicators. Moreover,

no projects were approved to support border and customs posts and, consequently, the program did not contribute to the country strategy's third results indicator.

Table 3.6. Portfolio in the area of road infrastructure for regional integration

	Operation number	Name	Year approved	Amount approved (US\$ mill.)	Disbursed	
					Amount (US\$ mill.)	%
Investment	HO-L1121	Regional Road Integration Program II	2016	75	10.2	13.6
	HO-L1104	Regional road integration program and proposed reformulation of loan 2470/BL HO	2015	20	0.82	4.1
	HO-L1037	Puerto Cortés Expansion and Modernization Program	2010	135	Redirected	-
	HO-L1033	Tegucigalpa-Puerto Castilla Agricultural Corridor Road Program	2009	75	75	100
	HO-L1018	Infrastructure Program for the San Pedro Sula Logistics Corridor	2008	20	20	100
Technical-cooperation operations	One technical-cooperation project for client support was approved during the evaluation period for US\$132,520.					

Source: OVE with data from the Data Warehouse.

3.19 It should be underlined that despite the impetus for the construction and upgrading of road corridors and the achievements of the Bank's projects, the results have still not translated into a comparative improvement in Honduran productivity and competitiveness. According to the World Bank's Logistics Performance Index, the country dropped by nine positions between 2014 and 2016. The index classifies countries on the basis of various supply chain performance dimensions, such as freight shipping times and costs (Annex III).

D. Social inclusion

Table 3.7. Strategic objectives and expected outcomes of the country strategy with Honduras Social inclusion

Strategic objectives	Expected outcomes
Protect minimum levels of consumption among the population in poverty.	<ul style="list-style-type: none"> Increase in the coverage of the conditional cash transfer program in rural areas with high rates of extreme poverty.
Promote human capital accumulation of minors in households in extreme poverty.	<ul style="list-style-type: none"> Increase in the enrollment rate in the third cycle of basic education (grades 7, 8, and 9) in rural areas of western Honduras.
Improve the health indicators of children under five.	<ul style="list-style-type: none"> Reduction in the chronic malnutrition rate among children in rural areas of western Honduras. Reduction in the child mortality rate in rural areas of western Honduras.

Source: IDB Country Strategy with Honduras 2015-2018.

3.20 The Bank's actions in the area of social inclusion sought to help narrow the gaps in human capital generation and accumulation, particularly in rural areas, and attain effective social inclusion through a multisector territorial approach based on actions complementary to and consistent with the *Vida Mejor* social protection strategy (Table 3.7). The program implemented during the country strategy period was consistent with the strategy's objectives, although in comparison with the preceding period, there were fewer approvals for social protection and health (see Table 3.8). The reason is that the government is incrementally and gradually taking over financing for the conditional cash transfer program and the provision of decentralized health services. With regard to sector operations, the geographic focus on rural areas has shifted to the poorest rural population in the western part of the country and the Dry Corridor. The socioeconomic focus has shifted from the poor to the extremely poor.

Table 3.8. Portfolio in the area of social inclusion

	Operation number	Name	Year approved	Amount approved (US\$ mill.)	Disbursed	
					Amount (US\$ mill.)	%
Social Protection						
Investment	HO-L1071	Social Safety Net Support Program	2012	75	75	100
	HO-L1087	Social Safety Net Support Program II	2013	100	100	100
	HO-L1093	Social Protection System Support Program	2014	109.9	94	85.6
	HO-L1105	Program to Support the Social Inclusion Network in Western Honduras	2016	50	11	22
Technical-cooperation operations	During the evaluation period, four technical-cooperation operations for US\$1.5 million were approved: one for operational support of loans in execution and three for client support.					
Education						
Investment	HO-L1188	Improving Educational Quality to Develop Skills for Employment: Project Youth	2017	60	0	0
Technical-cooperation operations	During the evaluation period, five technical-cooperation operations for US\$1.13 million were approved: three for client support and two for knowledge exchange (TC-INTRA).					
Health						
PBL	HO-L1182	Program to Support Health Sector Reform	2017	50	50	100

Investment	HO-L1090	Program for Improved Accessibility and Quality of Health Services and Networks	2013	50	50	100
	HO-L1072	Mother and Child Hospital Network Strengthening Program	2012	30	30	100
Investment donations	A US\$5.25 million donation to the Salud Mesoamérica program was approved in 2014.					
Gender and Diversity						
Investment	HO-L1117	<i>Ciudad Mujer</i>	2016	20	3.3	16.4
Investment donations	Three investment donations were executed in natural resource management in indigenous communities for US\$2.2 million.					
Technical-cooperation operations	During the evaluation period, three technical-cooperation operations for US\$1.6 million were approved: two for operational support for loans in execution and one for client support.					

Source: OVE with data from the Data Warehouse.

1. Social protection

3.21 One loan was approved during the evaluation period and three loans approved in the previous country strategy period were executed to support the government's main program to combat poverty, the conditional cash transfer program *Vida Mejor* (known as Bono 10,000 prior to 2014). The Bank's support has evolved over time to improve the coverage, efficiency, and impact of the *Vida Mejor* program. However, major challenges remain and the monitoring reports for the program do not contain up-to-date information in relative (results indicator) or absolute (output indicator) terms. However, information included in the loan documents and project completion reports for the two completed operations (HO L1071 and HO L1087) indicates that challenges exist in the areas covered by the *Vida Mejor* program,⁴⁷ compliance with the payments called for in the program's Operating Regulations, and verification of co-responsibilities in health (see Annex IV).

3.22 OVE's review suggests that there have been improvements in the operating efficiency of the *Vida Mejor* program due to Bank support. They include: (i) reduction in the age of information in the user rolls; (ii) increase in the use of bank accounts to make transfer payments, but no targets for use of the alternative payment mechanisms promoted by the Bank have been set on account of delays in contracting processes; (iii) strengthening of information systems and creation of a National Social Sector Information Center (CENISS) in the country's Development

⁴⁷ For example, the loan proposal for operation HO-L1105 (page 7) suggests that the *Vida Mejor* program coverage in extremely poor households in the western region is low (25%). In the results matrix, the baseline for program coverage in prioritized municipios was 32% in 2016.

and Social Inclusion Department (SEDIS) to centralize the focus and management of the consolidated beneficiaries roll; and (iv) improvement in the verification of co-responsibilities in education and development of an online register that contributes to it.

3.23 The projects that were fully executed during the evaluation period (operations HO-L1071 and HO-L1087) met their targets with only a few exceptions. With regard to results in the beneficiaries' access to education and health care, the target for increasing net enrollment in rural schools in grades 1 to 6 was exceeded. Although enrollment did increase, neither the targets for grades 7 to 9 nor the expected rate of attendance in primary school in rural areas were attained. Effectiveness, however, has improved in the most recent loan. In health, there has been very little progress in access to prenatal and postnatal checkups or in access to the full immunization schedule per age group for boys and girls. The impact evaluation attributes these results to the structure of existing incentives and recommends that they be established per individual instead of per family. It also recommends that the supply of health services in the areas supported by the program be strengthened. As for impact, the targets for narrowing the poverty gap were attained but not the target for access by pregnant beneficiaries to checkups established in the technical standard. The targets for the percentage of children who complete at least six years of schooling and for the prevalence of anemia among children under four were attained.

2. Health

3.24 The first health-related loan in a programmatic series was approved during the evaluation period, and two investment loans approved in the previous country strategy were executed. The PBP to support reform of the health sector (the design of which was crafted through technical-cooperation operation HO-T1259) is intended to strengthen the country's Department of Health. The investment loans have a strong component to support decentralized management of health services, which the IDB has promoted from the design stage. A nonreimbursable financing operation was also approved for the Mesoamerican Health Initiative 2015 (HO-G1003, SM2015). With Bank support for policy reforms in the sector via loan HO-L1090 and the first operation in the programmatic series to support health sector reform (operation HO-L1182), the updating, formulation, and/or approval of various standards, policies, and instruments, such as the National Health System Act, the national health

model, and the national strategy for quality in the delivery of health services was promoted, and the Department of Health's institutional and technical capacities were strengthened.

3.25 Through the investment loans, the Bank supported considerable growth in the number of decentralized management agreements concluded and in the number of people with access to health services. In the monitoring reports of active operations, implementation of decentralized management and results-based financing are associated with significant improvements in access to, *inter alia*, family planning services, prenatal and postpartum checkups, treatment of obstetrical emergencies, growth and development checks, and immunization, as well as significant reductions in nosocomial infection rates, mortality ratios, and causes of death in hospitals/municipios with decentralized management of the first and second levels of care.

3.26 During the reporting period, the impact indicators for all active loans in the health sector focused on improving maternal and infant health. To date, only the monitoring report for loan HO-L1072 offers data on impact and indicates that the reduction in maternal mortality between 2010 and 2017 exceeded the targets in the departments of Intibucá and Lempira (but not in the department of Valle), and that the reduction in infant mortality exceeded the targets in the three western departments covered by the loan.

3. Education

3.27 The program loan “Improving Educational Quality to Develop Skills for Employment: Project Youth” (HO-L1188) was approved in 2017 to improve access to and learning quality of grades 7 to 9, secondary school, and components to support the delivery of education services in social protection loans. Although loan HO-L1188 was the first approved in this area since 2011 (operation HO-L1062), three technical-cooperation operations were approved in this sector during the country strategy period (see Annex IV).

4. Gender and diversity

3.28 Durante the country strategy period, the Bank's support for gender issues focused on the approval and launch of the *Ciudad Mujer* project (operation HO-L1117) and the associated technical-cooperation operations (see Table 3.8 and Annex IV). In the area of diversity, four nonreimbursable financing projects were approved. OVE's evaluation of gender and

diversity⁴⁸ notes that in Honduras, the Bank has approached these areas as crosscutting themes and that the number of loans and technical-cooperation operations that take this approach is higher than the regional average. For example, it notes that diversity elements have been integrated into health and education operations.

3.29 According to the monitoring report on the *Ciudad Mujer* loan (operation HO-L1117), there has been mixed progress in output indicators for the number of services offered in the different modules at program centers. Demand is high and exceeds the targets among teenage girls for psychological and sexual and reproductive services, and among adult women for primary care in the module addressing violence against women and for family planning information and postnatal checkups in the health care module. Mammogram services have not exceeded the targets and there are no reports on pap smear or colonoscopy services. The indicator for breast ultrasound was eliminated owing to the lack of specialized personnel to that end. The targets for services in the economic autonomy module have been met or exceeded, particularly for women benefitting from placement services, financial education, loans approved, and remedial education.

E. Sustainable development of the Central District

3.30 The Bank's program in the strategic area of sustainable development of the Central District consisted of completing execution of an operation to upgrade urban infrastructure in poor neighborhoods of Tegucigalpa (operation HO-L1088), approving a new loan (April 2018) to continue the aforementioned support for those neighborhoods and improve civic coexistence, and executing an operation to improve urban mobility (operation HO-L1061). The components of these operations were aligned to contribute to the expected results of the strategy (see Table 3.9).

Table 3.9. Strategic objectives and expected results in the area of sustainable development of the Central District

Strategic objectives	Expected results
Reduce marginalization and improve urban quality of life in the Central District.	<ul style="list-style-type: none"> • Improved housing conditions in the city. • Expanded green areas, reduced violence, and improved urban mobility.

Source: IDB Country Strategy with Honduras 2015-2018.

48 OVE. 2018 Evaluation of the Bank's Support for Gender and Diversity, pages 16 and 25.

Table 3.10. Portfolio in the area of sustainable development of the Central District

	Operation number	Name	Year approved	Amount approved (US\$ mill.)	Disbursed	
					Amount (US\$ mill.)	%
Investment	HO-L1187	Civic Coexistence and Neighborhood Improvement Program	2018	60	0	0
	HO-L1088	Integration and Urban Coexistence Program	2012	17.2	17.2	100
	HO-L1061	Central District Public Transportation Project	2010	30	30	100
Technical-cooperation operations	During the evaluation period, one technical-cooperation project (US\$6,600) for knowledge exchange was approved (TC-INTRA).					

Source: OVE, with data from the Data Warehouse.

3.31 The Integration and Urban Coexistence Program (operation HO-L1088) supported the government’s Comprehensive Neighborhood Upgrading Plans (PIMBs) for low-income neighborhoods with high rates of violence, financing basic water and sanitation infrastructure, public lighting, roads, storm drains, plazas and parks, social service facilities, rehabilitation of public schools and health centers, training and technical assistance to strengthen community organizations, and workshops and course offerings to develop the skills of the most vulnerable groups. The program was successful in attaining its outputs and results (exceeding the targets for formal water supply and sanitary sewer coverage, storm drain coverage, road and pedestrian access coverage, and public lighting coverage).

3.32 Unfortunately, the program’s impact on housing values and violence reduction cannot be rigorously measured since the evaluation was cancelled and it was therefore not possible to implement the violence observatory in the neighborhoods as called for in the program. The program’s project completion report sets out the results based on the midterm evaluation. Its results suggest positive impacts on women’s perception of safety, a reduction in the number of victims reporting crimes, and higher housing values in the program’s target neighborhoods.⁴⁹ The program was ambitious in terms of its expected impacts on violence and crime, which require a comprehensive approach that exceeded the capacity of the executing agency.

⁴⁹ With regard to the safety perception indicator, the program’s original indicator covering all people in the neighborhoods was ultimately replaced with coverage of just the female population. The midterm evaluation reported a 14% reduction in the perception of insecurity by both sexes of (below the 30% target) and of roughly 30% for women (but the perception of insecurity among men increased).

3.33 The objective of the Central District Public Transportation Project (operation HO-L1061) was to improve the quality of life public in the project area with the construction of a mass public transport corridor. The project is being executed by the Municipality of Tegucigalpa, which now has a different administration than the one that originally promoted the project. The institution responsible for financing with the Bank is the National Department of Finance, and as a result there is a mismatch between incentives and levels of responsibility related to the project's financial results. When the last CPE was completed, the project had disbursed 84% of its funds. Project financing concluded in 2016 but the transport corridor is not in operation. The lack of political will at the local level of government has led to stagnation in the execution of cofinancing administered by the Bank and created a negative social opinion of the project and, hence, of the Bank's reputation. Even so, the Bank's ongoing support despite the differences with the executing agency is worth underlining.

F. Access to finance

3.34 Although not a priority area of the country strategy, IDB Invest approved two nonsovereign-guaranteed loans (US\$24 million) during the period to support private sector access to finance. Legacy operations from the preceding strategy provided US\$20 million in support to SMEs through financial intermediaries.⁵⁰ TFFP lines were also approved, which supported 174 individual foreign-trade transactions for US\$232 million. The lines mainly facilitated foreign trade in oil and gas (34%), manufactures (28%), and agricultural products (23%).

Table 3.11. Summary of the nonsovereign-guaranteed program

Loan type		Number of loans	Amount to be disbursed (US\$ millones)	Average term (years)
Intermediary financial institutions	Country strategy 2015-2018	3	24	6.83
	Legacy	1	20	6
Total		4	44	6.62

Source: IIC project documents and Maestro system.

3.35 Although the operations to support SMEs targeted the relevant market, they did not facilitate a significant improvement in the country's shortfall in financing. Onlending to SMEs through financial intermediaries amounted to US\$44 million during

⁵⁰ Operations were also approved in the energy sector for US\$7.3 million. They are analyzed in the respective sector notes.

the analysis period, with US\$24 million approved between 2015 and 2018. That amount represents roughly 1% of private financial system lending to SMEs in 2014. With the exception of an operation approved at year-end 2017, no tracking information was identified on the characteristics (size, terms) of the beneficiary financial intermediaries' SME portfolio that would facilitate an evaluation of the effectiveness and scope of the IDB Group's private sector onlending operations to SMEs through such intermediaries.

G. Other sectors

3.36 During the evaluation period, the portfolio in sectors that were not identified as priorities in the country strategy included a new loan in the agricultural sector (operation HO-L1197, "Sustainable Forest Management"); the execution of an operation approved in 2008 for natural disaster management; a loan and nonreimbursable investment operation for citizen security; two nonreimbursable investment operation in water; and a loan to support the 2012 census (see Table 3.12).

Table 3.12. Portfolio in other sectors

	Operation number	Name	Year approved	Amount approved (US\$ mill.)	Disbursed	
					Amount (US\$ mill.)	%
Investment	HO-L1179	Sustainable Forest Management	2016	25	0.75	3
	HO-L1031	Disaster Risk Prevention and Mitigation Project	2008	19	19	100
	HO-L1063	Civic Coexistence and Neighborhood Improvement Program	2012	59.8	59.7	100
	HO-G1244	Support for the Implementation of the Comprehensive Policy on Citizen Security	2017	5.4	1.78	32,9
	HO-X1017	Rural Water and Sanitation Program	2011	25	25	1
	HO-G1005	Intervention Models in Water and Sanitation for Dispersed Rural Areas	2015	0.525	0.378	0,719
	HO-L1044	Program to Support the 2012 Population and Housing Census and the Integrated System of Household Surveys	2011	25	24.9	100
Technical-cooperation operations	During the evaluation period, 14 technical-cooperation operations were approved for approximately US\$19 million.					

Source: OVE, with data from the Data Warehouse.

- 3.37 The loan to support Sustainable Forest Management (operation HO-L1197) was approved during the country strategy period. Its general objective is to rebuild and maintain forest ecosystem services in priority watersheds infested by the white pine weevil. Although the country strategy has no strategic objectives for agriculture or the environment, the project is relevant in the context of the pine weevil plague and also supports the government's efforts to access climate change funding.
- 3.38 The Disaster Risk Prevention and Mitigation Project (operation HO-L1031) attained mixed results in terms of its objectives to improve the national risk management index and the municipal indexes in the project area.⁵¹ The national index was improved to 40.3, exceeding the target of 40, but the municipal index only rose to 29, falling short of the target of 34.
- 3.39 The Rural Water and Sanitation Program (operation HO-X1017) supported improved access to services but did not attain the results set out in the design of that operation. Given the implementation problems caused by the institutional weakness of the Bank's counterpart,⁵² particularly in the predesign of the projects, the targets set at the start of the operation were not met. For example, of the 143 new and upgraded water systems slated to be built, 76 were completed.⁵³ Just 4,948 of the planned 15,900 latrines were built.⁵⁴ However, among the unplanned outputs, rehabilitation of a water purification plant and construction of six sewage treatment plants stand out. These outputs provided access to adequate water services for 13,782 households and individual sanitation solutions for nearly 5,000. In addition, just over 2,000 households were connected to sanitary sewers and nearly 2,200 new families had treated water.
- 3.40 The public safety support program approved during the preceding strategy was completed during the evaluation period, but no information is available as yet on its results. The program was intended to build the government's capacity to

51 The risk management index was developed by the IDB and contains a series of indicators related to risk management performance. They reflect the organization, capacity, development, and actions taken by institutions to reduce vulnerability and losses, to prepare for crisis response, and to recover efficiently from disasters (INE-08-002).

52 The main challenges in implementing the investment grant arose from the weaknesses in the National Autonomous Water and Sanitation Service (SANAA) and in the capacity of local operators (municipal governments). The main implementation problems include delays in procurement processes, suspension of works contracts owing to problems with project design, absence of environmental permits, difficulties in acquiring land for the systems, and delays in the technical evaluation of projects by SANAA.

53 Owing to challenges associated with project's implementation, the water system target was revised down to 74.

54 According to the progress monitoring report, the latrine target was revised down, owing to a reduction of the project's scope in 10 communities of San Antonio, Cortés (Water for People), as well as Plan de la Brea, Municipio of Santa Rita, in which the

prevent and address crime through more effective institutional and operational management of the Security Department and the National Police Force, and to bolster criminal investigation capacity and territorial management of public coexistence and safety in the beneficiary municipios. The program attained a significant percentage of its outputs but did not make progress in the targets for training criminal investigation personnel or in supporting the professional training and graduation of 3,000 new police officers from the Police Technical Institute. Although support was provided for the establishment of a technical information unit, staff has still not been hired to operate it and no progress has been made in some of the activities to build municipal violence prevention capacity.

H. Sustainability

3.41 As already mentioned in the 2011-2014 CPE, there is a project sustainability risk owing to the weakness of certain key institutions in sectors where the Bank is active (see paragraph 2.14). This is coupled with the need for the Honduran government to shoulder the costs of maintaining road infrastructure and delivering services, as well as taking over the current expenditures presently being financed by the Bank in the social sector. The sector annexes present the different sustainability challenges in each of the sectors in which the Bank has projects.

type of sanitation system was changed.



04

Conclusions and Recommendations

- 4.1 In recent years, the IDB Group has continued to be Honduras's main multilateral development partner, maintaining its financial relevance. Honduras's debt with the IDB was equivalent to 9% of its GDP and accounted for 23% of the country's total external debt over the period to 31 December 2017. The CPE evaluation period was guided by the Bank's Country Strategy 2015-2018, which focused on supporting the Honduran government's efforts to counter stagnant productivity and low growth and narrow the gaps in human capital formation and accumulation. The priorities of the country strategy and the program implemented were relevant, consistent with most of the Honduran government's priorities, and continued to include the majority of the medium-term targets for IDB Group support for the country, with strong emphasis on the fiscal and energy areas. In OVE's view, however, the country strategy could have included support for citizen security as a priority area (but only added it as a dialogue area), which is a high priority of the government. The Bank did approve a citizen security project as part of the 2011-2015 country strategy and most of its resources were executed during the evaluation period.
- 4.2 The program implemented by the IDB and IDB Invest combined investment loans, technical-cooperation operations, PBLs, and private sector loans and guarantees. During the evaluation period, sovereign-guaranteed investment loans and technical-cooperation operations were approved in all the priority sectors. Investment loans accounted for 64% of sovereign-guaranteed approvals or US\$360 million. The remaining US\$200 million in approvals were channeled through PBLs to support fiscal, energy, and health reforms. IDB Invest approved four nonsovereign-guaranteed operations for US\$35.4 million in the evaluation period: two loans (US\$24 million) in the access to finance sector and two (US\$11.35 million) in the energy sector. In addition to these loans, TFFP lines were approved to support US\$232 million in international trade transactions. The private sector portfolio also included a technical-assistance operation for US\$500,000.
- 4.3 With regard to portfolio performance (efficiency), during the evaluation period the cost of preparing loans approved fell while the average execution costs of active loans rose (as did preparation and execution costs per million approved and per million executed). Consequently, the pace of disbursements improved markedly. The behavior of costs per million approved and executed is partly attributable to the changes in the amounts approved and the amounts disbursed (which decreased in Honduras more than in the IDB's CID and in the Bank as a whole) and the steps Management took to improve

the execution of operations. The pace of disbursements of the investment portfolio approved since 2011 has been faster than the average for both the CID and the Bank. Thanks to the Country Office's and the government's endeavors and to the weight of the loans that finance current expenditure on social protection and health care, there has been a substantial improvement in the performance of loans approved since 2011, and a reduction in extensions of loan disbursements. Owing to these advances, Honduras ranked second among the IDB's borrowing member countries with respect to the pace of executing investment loan disbursements in the 2015-2018 period. Management made major efforts during the evaluation period to improve the design of operations with the aim of increasing their execution and effectiveness. These efforts help to improve the operations and their execution. Nevertheless, OVE's analysis indicates that institutional weaknesses persist in executing agencies and in the country's counterparts in certain sectors. Consequently, additional efforts are needed to enhance the professional development of civil servants and reduce the high levels of staff turnover in the sectors.

- 4.4 The Bank's program was effective, achieving satisfactory results in the sectors prioritized in the strategy. In most sectors, the components were aligned with the country strategy's strategic objectives and in cases where information is available on results, indications are that they helped to attain the strategic objectives. The Bank's main achievements in its program with the country include the fiscal reform and the increase in tax revenue intake, support for the reform to improve financial sustainability and competitiveness in the energy sector, support for the strengthening and expansion of the *Vida Mejor* conditional cash transfer program, support for decentralized management to increase access to health services, the launch of reforms and strengthening of the country's Department of Health, support for the introduction of the *Ciudad Mujer* program, and ongoing support for the upgrading of infrastructure in marginal neighborhoods of the Central District.
- 4.5 Despite this progress, Honduras needs to continue stepping up investment in rural and marginal urban areas to close the development gaps and assist the most vulnerable groups. Although the Bank has played an important role in supporting the government's efforts to narrow these gaps, there is still room for improvement. Challenges linked to coverage of the *Vida Mejor* program, compliance with the payments called for in the program's operating regulations, and verification of co-responsibilities in health persist, linked to shortcomings in information systems and in the sector's institutional framework

persist. Moreover, strengthening investment in health and education in rural and marginal urban areas continues to be a priority. Closing the gaps in access to opportunities for the most vulnerable groups also requires investments in productive infrastructure, including roads and access to electricity, drinking water, and sanitation in areas in which the Bank has not been active (with the exception of marginal urban areas in the Central District) or has met with mixed results (rural water and sanitation). Lastly, ongoing efforts are needed to support the adaptation of productive activities to climate change, especially those related to farming and forestry. All of the foregoing are potential areas of Bank action and should therefore be considered in the context of the government's priorities, the work of the country's other development partners, the areas of long-term Bank support, and geographically-targeted approaches, where necessary, to determine the scope of interventions.

4.6 With the aim of enhancing the effectiveness of the Bank's program with the country, OVE makes the following recommends to Management:

1. **Continue and step up efforts to support investment in rural areas and in lower income groups to improve their access to economic opportunities, taking into account government priorities, the work of the country's other development partners, and the areas of long-term Bank support.** Implementation of this recommendation signifies continuing to offer the Honduran government support for improving the coverage and effectiveness of the Vida Mejor program and providing good-quality health care and education services in rural and marginal urban areas. It also signifies increased access to electricity, strengthening of the institutional framework for the delivery of water and sanitation services, expansion and upgrading of infrastructure in marginal urban areas and secondary roads in rural areas, and support for adapting rural productive activities to climate change, by leveraging and channeling nonreimbursable resources from bilateral and multilateral donors. Where necessary, the use of comprehensive, geographically-targeted approaches can be explored to determine the scope of the interventions, according priority to the areas lagging farthest behind.
2. **Step up efforts to identify niches for private sector support, offering financial and nonfinancial additionality and synergies among the windows of the IDB and IDB Invest.** IDB Invest discovered an important niche of

opportunities in nonsovereign-guaranteed operations for the energy sector. Investment projects were identified in the sector requiring terms that were unavailable on the market, and supplementary financing and guarantees were mobilized to facilitate subsequent financing for investments of this kind. Emulating the experience in the energy sector and given the country's sufficient financial architecture, the work of the IDB and IDB Invest can help deepen financial inclusion, particularly through long-term loans to the productive sector and SMEs in sectors that are strategic for the country.

- 3. Take steps to include in the priority areas of future country strategies any actions and objectives of the existing loan portfolios with the country** that align with the Bank's medium-term lines of work in the sector, with the aims of facilitating their execution, monitoring and tracking of results, as well as maintaining the respective dialogue.

Office of Evaluation and Oversight - OVE

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