

Honduras: Poverty Reduction Strategy Paper Progress Report

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HONDURAS POVERTY REDUCTION STRATEGY PROGRESS REPORT

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INTRODUCTION

1. This document reports the progress of the Honduran Poverty Reduction Strategy's (PRSP) programs, projects and policy measures and progress toward achieving the PRSP goal during its first year of implementation (2002), following approval by the Government of Honduras and the Directorates of the International Monetary Fund (IMF) and the World Bank (WB) in late 2001. It also proposes that some aspects of the Strategy be updated, based on experiences gained during implementation to date and taking account of current macroeconomic and social projections and of the results of an extensive consultative process organized during the first half of 2003. The document was approved by the PRSP Consultative Council and by the Social Cabinet of the Government of Honduras in December 2003.
2. This report does not modify the fundamental elements of the PRSP, which was based on a consultative process with Honduran civil society in 2000-2001. Its long-range vision through 2015 is maintained, as are its strategic orientation and poverty reduction goals. Based on this, the Report defines an implementation strategy based on clear commitments, which will produce concrete results during 2003-2005. Those commitments include developing a **sector-wide approach to** PRSP implementation, and focusing the programs on the most vulnerable sectors of society.
3. The Strategy's fundamental objective is to reduce the proportion of the population living below the poverty line from 66% in 2000 to 42% in 2015. This objective can only be achieved through more accelerated and equitable economic growth. To this end, the macro-economic framework will be strengthened and structural reforms will be implemented to increase competitiveness. Moreover, the quality of human capital will be improved, especially in relation to education and health, while social protection networks will be strengthened, gender equity will be reinforced, and sustainable development will be guaranteed.
4. The report was submitted to an extensive consultative process. The technical aspects of the consultation were led by Sector Commissions (*Mesas Sectoriales*) that provide a tripartite structure for dialogue between the Government, Civil Society and Donors. The policy aspects of the consultation were overseen by the PRSP Consultative Council, where the eleven sectors of civil society are represented. Chapter I provides details on the organization and results of the consultation process. The consultations led to important adjustments in the Report. These include the incorporation of a macro-economic framework with more realistic growth rate projections. The statistics and indicators of PRSP results and impact have been strengthened, and new goals have been incorporated, while some of the original PRSP goals have been re-calibrated. Moreover, the budgetary framework for the PRSP has been amplified so that national poverty reduction efforts, and not just external resources, may be transparently observed. In addition, greater emphasis has been placed on strengthening participatory and decentralized implementation of the Strategy, and on creating transparent (accountable) mechanisms to monitor the PRSP. The task of aligning PRSP interventions and goals with sector programs in education, health, water and sanitation, agro-forestry and citizen security has begun.
5. Chapter II analyzes the macroeconomic framework for the Poverty Reduction Strategy. It discusses the slowing of economic growth and the fiscal crisis that arose in 2001, and details the measures which have been taken undertaken to correct this situation. The failure to fulfill some of the goals of the previous Poverty Reduction and Growth Facility (PRGF) subscribed between Honduras and the IMF led to a systematic review of the macroeconomic management strategy and structural reforms, opening the way for important changes in economic policy. These changes have reaffirmed the centrality of poverty reduction to Honduras' economic development strategy. The negotiation of a new agreement with the IMF has led to delays in the delivery of HIPC funds and

budgetary support programs, which are conditioned upon a PRGF agreement being in place. This has caused some delays in PRSP implementation.

6. The macroeconomic framework has been updated to reflect these circumstances. The projection for real annual GDP growth has been adjusted to 4.6%, since the original goal of 5.1% was seen as unrealistic. Nonetheless, the poverty reduction goals remain unchanged, which implies making an intensified effort to increase the “elasticity” between economic growth and poverty reduction through policy reforms and social spending programs that favor the poorest Hondurans.
7. Chapter III presents an overview of the poverty situation, and the performance of the main poverty-related economic and social indicators in 2001 and 2002. In response to suggestions made during the consultative process, these indicators have been expanded and are more refined than those presented in the draft version of this Report. Changes in the definition of some indicators were proposed to enable more regular and reliable reporting. Appendix A provides more details about the progress of impact indicators and the results of the PRSP in 2001-2002.
8. A review of the results of the Strategy in 2001 and 2002 shows that poverty reduction has not yet accelerated decisively. The international recession and the fiscal crisis have reduced economic growth to much lower than expected levels. This slow growth has been coupled with delays in the implementation of PRSP programs, and the proportion of Hondurans living below the poverty line has still not dropped to the level anticipated in the ambitious PRSP goals. From 2001 to 2002, the proportion of households living below the poverty line dropped only very slightly from 64.5% to 63.9%, or a relative reduction of 1%, similar to the rate of decrease observed during the entire previous decade. At this rhythm, 56% of Honduran households will still be living below the poverty line in 2015. To achieve the 42% goal for 2015, a relative 3% annual reduction will be needed.
9. These results suggest that the implementation of programs and policies outlined in the Strategy should be accelerated to assure fulfillment of the 2003-2015 goals. Given this, the Report highlights the importance of increasing the economic growth rate, with measures to strengthen competitiveness, improve income redistribution, and increase investments in human capital, all within a framework of macroeconomic and fiscal stability. In addition, it proposes increasing the “elasticity” between growth and poverty, via political reforms and investment programs aimed at improving the poor population’s access to economic opportunities.
10. Chapter IV reports on the Strategy’s implementation in 2001-2002. Section IV.A provides an overall vision of the PRSP’s budgetary implementation, including the use of HIPC Interim Funds. Section IV.B contains an overview of the PRSP’s implementation, as well as progress in implementing legal and political reforms, in each of the Strategy’s six program areas. Finally, Section IV.C reports on the development of the operational-institutional framework for the PRSP.
11. The PRSP proposes policy reforms and social and economic investments in six programmatic areas: promotion of sustained and equitable growth of the economy; actions to attack rural poverty; actions to attack urban poverty; greater investment in human capital; actions to strengthen social protection for vulnerable groups; and measures to assure the Strategy’s sustainability.
12. Originally, investment programs were proposed for these areas totaling US\$2.665 billion between 2001 and 2015. Of this total, 40% was to be directed at investments in human capital, 21% for reducing rural poverty, 17% for urban poverty, 10% for social protection, 8% for the strategy’s social and environmental sustainability, and 1% for promoting economic growth. It is worth noting that this final pillar does not require much public investment, since its programs consist mainly of legislative and policy measures aimed at strengthening the climate for investment and employment generation.
13. It was projected that financing for the Poverty Reduction Strategy would come partly from credits and transfers from bilateral and multilateral agencies, partly from debt relief associated with

Honduras's inclusion in the HIPC initiative, and partly from the national counterpart funds for externally financed programs. External financing had already been identified for approximately 29% of the total PRSP program. Many of these "pre-identified" resources were part of international aid negotiated by Honduras in the context of the Master Plan for National Reconstruction and Transformation (PMRTN), developed in the aftermath of Hurricane Mitch (October 1998), since the plan placed major emphasis on interventions aimed at attending to the nation's poorest population groups.

14. It was projected that a further 35% of the PRSP's resources would come from Debt Relief, while the remaining 36% of the total required resources had no identified source of funding (financing gap) when the PRSP was approved. It was hoped that some 85% of the financing gap would be covered by fresh resources negotiated with foreign sources, and that the rest would come from national counterpart funds.
15. The PRSP's budgetary implementation in 2001 and 2001 was, without a doubt, very disappointing. Only 58.9% of the amount originally programmed for 2001 was implemented, dropping to only 43.5% in 2002. These results are partly due to the fact that the programs and projects contained in the PRSP lacked sufficiently detailed specifications. The budget assignments made in the original document were indicative rather than exact, and were not based on estimates for programs and projects ready for implementation.
16. In 2002, the Social Cabinet made progress in preparing project profiles for the Strategy's different areas. However, these profiles remained unfunded due to delays in the approval of HIPC, and were not funded by multilateral or bilateral agencies either. This was partly due to the fact that the Government and donor community have placed increasing emphasis on the need for a Sector Wide Approach, or SWAp. Donors are reluctant to finance projects that are not part of coherent sector programs.
17. In addition to investments in programs and projects, the Strategy proposes a series of policy measures aimed at promoting equitable economic growth and correcting institutional, legal, and administrative barriers that impede poverty reduction in Honduras. These measures are also aimed at strengthening the legal system and reducing corruption, improving the efficiency and effectiveness of social investments, and making sector and public administration processes more agile. Even though such measures do not require significant financing, their contribution to poverty reduction is arguably as important as the investments to be financed by the PRSP.
18. Progress in this area in 2001 was also relatively modest, since it was an electoral year. Nonetheless, important reforms have taken place during 2002-2003, in the areas of accountability and good governance, tax administration, the administration of justice, reform of the laws governing the political process, the abolition of immunities, increasing citizen security, and modernization of the water and telecommunications sectors. Appendix B details the current status of each of the policy measures proposed in the PRSP.
19. The PRSP's implementation includes actions to "instrumentalize" its operational and institutional framework. This will allow more efficient and accountable implementation of the Strategy's programs, projects and policy measures by the Social Cabinet and its support structures. Progress in this respect is presented in Chapter IV.C. The National Congress of the Republic passed the law creating the Poverty Reduction Fund (FRP) and the PRSP's Consultative Council. In addition, the Strategy's design emphasizes the importance of having transparent indicators for results and impact in place. The development of a System of Indicators for the PRSP (SIERP) took place in 2002. This system is still being constructed, and is expected to be operating in 2004.
20. Chapter V presents the updated PRSP Program for 2003-2007. During the consultative process, the lack of congruence between the programming of resources and the PRSP goals, and the non-

inclusion of national spending in key areas such as health and education in the Poverty Reduction Strategy's budget were criticized. National spending will play a key role in achieving goals such as increases in basic and secondary education coverage. The importance of using the PRSP's monitoring mechanisms to verify that the Government is fulfilling its obligation to increase national spending on poverty, rather than simply using increased external support and HIPC to reduce its corresponding commitments, was also stressed.

21. The lack of sufficient linkage between the design of programs and projects and the goals laid out in the original PRSP document was criticized by various participants during consultations on the draft PRSP Progress Report. This situation has begun to be corrected in 2002 and 2003, with preparation of initiatives such as EFA (Education for All) and the Global Fund to fight HIV-AIDS, tuberculosis and malaria, both of which utilize Sector-Wide Approaches (SWAs) in two key sub-sectors of the Poverty Reduction Strategy. In this context, the Government has begun a detailed budgetary programming effort to determine the resources needed for achieving the PRSP goals in education, health, water and sanitation, and agriculture. This process will calculate the capital and current resources needed to achieve sector goals, subject to acceptable efficiency parameters, and identify financing sources. In addition, coordination will be strengthened with international donors, to better synchronize their programmed assistance with the PRSP's priorities.
22. This final version of the Progress Report proposes the adjustment of some PRSP goals and a re- definition of the PRSP budget, to bring it into line with IMF and World Bank requirements that HIPC nations establish a system for tracking total poverty spending. A new programming of poverty spending is being undertaken, aimed at fulfilling the priorities laid out in the PRSP. To this end, studies are being carried out to quantify the costs of meeting each main goal. A summary of the PRSP's updated budgetary programming for 2003-2007 is presented. In this context, additional resources are being negotiated to guarantee that key goals in basic education, primary health care, water and sanitation, and infrastructure services are fulfilled.
23. With respect to the PRSP's operational and institutional framework, it is proposed to further decentralize the PRSP during the 2003-2005 period, improving targeting and better organizing public interventions to benefiting the poorest population groups. Modern monitoring and evaluation systems will be put in place to assure the transparency and accountability of the Strategy's implementation.
24. In this way, the PRSP has become a living program that develops and is strengthened on the basis of its implementation experience, taking account of changing circumstances. This process conserves the Strategy's underlying spirit and commitments, but simultaneously allows important changes to be made to its programmatic definition and financing structure.

I. CONSULTATION ON THE PRSP PROGRESS REPORT

25. A first draft of the PRSP Progress Report and Update was submitted to a consultative process with Civil Society organizations and International Donors between March and May 2003. The objective of this process was to obtain input from sectors represented on the PRSP Consultative Council and the Sector Commissions (*Mesas Sectoriales*).
26. The consultation used a “*methodology that facilitated description, reflection, analysis and documentation of the process.*” The results of work sessions were systematized in qualitative analytical matrixes, which were also used to produce a summary of observations and proposals made by civil society and/or sector representatives. An independent team of facilitators was hired, which produced a detailed report about the results of this process.
27. Moreover, written comments and suggestions about the draft Report were requested. The Report was extensively circulated to participants in work sessions and all interested sectors prior to the meeting.

A. PARTICIPATING SECTORS

28. The PRSP Consultative Council produced a guide for each of the two main sectors with which the consultation took place. The methodology proposed seven workshops with Sector Commissions (Macroeconomics and Competitiveness; Agro-Food Development and the Rural Environment; Human Development; Road Infrastructure; Good Governance and Human Rights; The Environment and Risk Management; and Social Protection Networks), lasting 3-4 hours each.
29. In addition, 9 workshops were organized with different civil society sectors, lasting 8-9 hours each. The sector participants are: Children and Youth; Women; NGOs; Local Governments; Peasants; Workers; COHEP and the Economy’s Social Sector; Indigenous Peoples (Nahoas, Pech, Tawankas, Tolupanes, Lencas, Garífunas, Chortís); and Community Members.
30. A total of 455 people took part in the workshops, 274 (60%) of whom were men and 181 (40%) women. Of these, 320 represented civil society organizations, 80 were government representatives, and 55 represented international donors.
31. The consultative process had a positive short-term impact, reactivating interest, raising awareness and creating greater civil society receptiveness to the PRSP, and it also generated medium term results, stimulating new expectations and interests in the Strategy’s implementation, monitoring and evaluation and leading to improved mechanisms for participation in the PRSP.
32. Discussions and contributions to the report commented on the Strategy’s general design and implementation, and also analyzed the PRSP’s six programmatic areas in greater depth. Appendix C presents a synthesis of the points that were covered throughout the consultative process, prepared by civil society participants. This appendix documents how the summarized comments and suggestions were incorporated into the Final Report. A complete report about the consultative process may be found on the web site of the Presecidential Secretariat (www.presidencia.gob.hn).

B. RESULTS OF THE CONSULTATIVE PROCESS

1. GENERAL ASPECTS OF THE PRSP

33. Many participants indicated their concern about delays in implementing the PRSP, and the consequent slowness of progress in reducing poverty. Most agreed that delays were mainly due to holdups in the HIPC Initiative’s Culmination Point, and urged completion of that process despite

the fact that many doubted such debt relief would be awarded. Others, however, demanded more decisive governmental actions to implement the PRSP, regardless of HIPC delays.

34. With respect to **PRSP programming and financing**, a frequently heard comment was the need to improve the manner in which programs to be financed under the Poverty Reduction Strategy are prioritized, and the need to strengthen links between actions to be undertaken and the Strategy's goals. Thus, the need to relate Government strategies with the Poverty Reduction Strategy through sector level inter-institutional coordination was stressed.

35. In relation to financing, there was a sense that the PRSP had focused on only one small part of the resources and actions needed for achieving its goals. Many proposed that the PRSP should not be limited to programs that would be financed by HIPC resources. Instead, it should signify a general reorientation of national and external resources, in order to fulfill the PRSP goals. In the areas of education and health, for example, the Government's main programs are aimed at fulfilling the PRSP goals, but were not incorporated into the PRSP since they are financed with national resources, mainly in the form of recurrent spending.

36. International donors demanded a more coherent **macroeconomic framework**, including implementation of the fiscal adjustments needed to implement the Strategy given the nation's internal and external financial constraints. Meanwhile, some civil society representatives believe that the macroeconomic framework negotiated with the IMF contradicts the rest of the PRSP policies, since it includes measures that, according to their thinking, will negatively affect the poor.

37. There were many comments made about the need to improve the **PRSP's indicators**, both in relation to implementation and results and impact. Some of the indicators reported in the draft were criticized, and the expansion of both quantitative and qualitative policy indicators was requested, to be able to measure real achievements against the goals outlined in the original document. More accountability through modern reporting systems for PRSP efforts and results at the regional and local levels was also called for.

38. In this context, the need for more information to be available about all programs and projects included in the PRSP was suggested, including: the implementing institution, geographic scope, the distribution of spending by funding source, and by economic object (for example, recurrent expenses versus capital outlays), the program's physical and budgetary goals and the degree of progress in this respect, and the number of beneficiaries proposed and actually benefited. Many stressed the importance of having disaggregated information at the municipal level. The same type

Box 1
Comments about the PRSP's general design during the consultative process

"The PRSP should not be seen as an aggregate of projects but rather as a development strategy based on the original Poverty Reduction Strategy proposal." (G15, comments about the document's coherency)

"Governmental strategies should be interrelated with the PRSP." (Macroeconomic Table)

"The criteria for prioritizing projects need to be clarified." (COHEP, Macroeconomic and Competitiveness Table)

"The PRSP should not only seek reduction of the external debt, but should make a greater internal effort." (NGO Workshop)

"Greater consistency among indicators in the document is needed, and information about progress should be broken down by region and area." (NGO Workshop)

"Adequate implementation of the Strategy does not take place solely by spending in particular areas... The Reports should relate Poverty Reduction Strategy spending to real problems and the real results obtained." (Comment heard frequently in the Workers, NGO, Local Government, Special Protection, Agriculture, Environment and Macroeconomic Tables).

of information should be available for the proposed programs and projects, so that it may be incorporated into the Strategy in the medium and short range.

39. Civil society participants energetically stressed that the PRSP should make use of a **participatory approach**, which they believe is currently missing. This would signify more civil society involvement in the Strategy's development and monitoring, through participatory mechanisms at all levels.
40. One dimension of this proposal is to systematically implant a "bottom-up" work methodology when identifying and implementing the PRSP's actions. This involves consultations with communities to identify priority needs, and to involve local actors in designing and implementing the Strategy's interventions. To instrumentalize this approach, the Local Development and Decentralization Program (PRODEL) will need to progress more rapidly, strengthening the role of municipalities, consortiums ("*mancomunidades*"), NGOs, community structures and other regional and local bodies in planning and implementing the PRSP.
41. In addition, civil society representatives who were consulted demanded greater participation at the national level in determining strategic aspects of the PRSP, such as defining macroeconomic policies and adjustment programs and the nation's strategy vis-à-vis CAFTA, and making national level decisions about priority programs and projects to be financed in the framework of the PRSP. Thus, a "tripartite" Government-Civil Society-Donor conception of determining the Strategy's main criteria was proposed that would lead to unified definitions to which political authorities would have to adhere during program implementation. As part of this effort, national level consultative processes should be more continuous, and should have real impact on orienting and implementing the Strategy.
42. Civil society representatives stressed the PRSP programs and policies that have, in their view, more generalized support and therefore merit priority. These include generating employment, increasing competitiveness and production, strengthening key sectors (tourism, forestry, agriculture, *maquila* industries), improving access to land and property registries, supporting micro- and small-scale enterprises and the social sector, increasing the coverage and improving the quality of health care, education, and water services, programs that attend to children, youth, and the elderly, equal opportunities for women, strengthening the rights of indigenous groups, transparency and anti-corruption, political reforms, decentralization of the PRSP, and improving environmental management with a participatory approach. In addition, the participants in the consultative process proposed some themes that they believe are absent from the PRSP and should be incorporated, including: human rights, gender, comprehensive agrarian reform, social security, the sexual exploitation of women and children, and rehabilitating gang members ("*maras*").

2. COMMENTS ABOUT THE PRSP'S PROGRAMMATIC AREAS

43. With respect to **equitable and sustainable economic growth**, concerns were raised about the reasonableness of macroeconomic projections (that the proposed 5.1% growth rate was too high), and about the need to more explicitly specify the links between growth and poverty reduction through measures aimed at improving equity. There was consensus about the need for a stable macroeconomic framework and an efficient, equitable and well-administered tax scheme. This macroeconomic framework should be present in the report. However, as expected, there was a range of opinions expressed about how to configure the macro-fiscal framework in concrete terms.
44. For some of those from civil society, the macroeconomic framework that has been applied to date has actually worsened poverty, impacting the weakest sectors in a differentiated manner. Private sector representatives criticized fiscal measures that increase pressure on the formal sector. For others, the most important issue is using the income and savings generated by the fight against corruption as a source of financing for the Poverty Reduction Strategy. Many of those consulted

criticized the excessive size of the Government, and think that public spending on salaries should be defined according to the nation's real macroeconomic possibilities. Others emphasized the need to abolish tax exemptions to make current public spending levels more viable.

45. Various consultative sessions expressed their concern that the PRSP has placed its emphasis on social sectors, ignoring private investment and production. Discussions centered on the need to strengthen the National Competitiveness Program and to develop micro- and small-scale enterprises, and the importance of considering interrelationships with poverty when negotiating trade openings. Some of those consulted did not agree with trade liberalization in the framework of the CAFTA, fearing a negative impact on some sectors such as agriculture, while for others the key factor is strengthening Honduras's competitiveness.
46. In relation to reducing **rural poverty**, the general positions referred to the need to define a clear national rural development policy, and to consolidate rural development programs and rationalize services provided through DINADERS and PRONADERS, including the design of a policy for small-scale farmers and comprehensive rather than palliative rural development strategies. The need to improve financing schemes for developing small-scale peasant economies was stressed, along with the role that forestry and agro-industrial micro-enterprises can play in offering solutions to this sector of the population. Many of those consulted expressed their disagreement with measures taken to reprogram and relieve the agricultural debt, feeling that such actions have favored large-scale producers rather than the poorest.
47. All agree on the need to design an effective land access policy, and an efficient land organization scheme that promotes rational land use. There was a demand on the part of peasant organizations to redistribute land in the framework of an extensive agrarian reform, and to assign the corresponding budgetary resources for this purpose. Others emphasized the importance of improving irrigation systems and access to basic infrastructure services such as water and sanitation, electricity, telecommunications, and roads in rural areas, to facilitate the recovery of productive activities.
48. In discussions about **urban poverty**, participants urged the development of social and economic infrastructure in the marginal neighborhoods of development areas. Many of those consulted referred to the importance of improving existing informal housing in marginal or socially excluded neighborhoods. Greater disaggregation of indicators for access to basic services was requested, as well as more participation by community members and associations (*Patronatos*) in policy decisions related to the PRSP. Some questioned whether the "Housing for People" program could really attend to the poor. There was skepticism expressed about reported levels of urban water coverage, since many who are connected to systems receive poor quality service. It was generally felt that more importance should be given to this theme.
49. The comments of those consulted about **education and health** were focused on the need to develop a better monitoring system for goals, the need for a stronger relationship between public policies and local actors, the need for more accountable use of resources, and the need to consider the quality of services. Concern about the failure to meet various goals in this area was expressed, including net primary and secondary education coverage.
50. With respect to attending to **specific groups**, those consulted demanded a more comprehensive approach to reducing poverty among such groups in an ongoing manner, rather than through social compensation projects providing only temporary alleviation to poverty (which were characterized as "assistentialist" or paternalistic projects). More emphasis on the themes of gender, children, the elderly, ethnic groups and disabilities was requested, and on the way these themes crosscut the PRSP. Many proposed an approach that considers the right of these groups to receive equitable treatment. With respect to gender, the implementation of a National Policy on Women and its linkage to other State policies was demanded.

51. In relation to the **Strategy's sustainability**, requests were made to fortify citizen security actions, democratic participation, and governmental accountability, and to improve the way that PRSP implementation deals with environmental themes. Concern was expressed about the apparent reduction in importance of environmental protection and risk management themes in recent years, and the need for a clear State environmental and risk management policy was proposed. In addition, improvements to the PRSP monitoring systems were requested, along with more citizen participation in these.

3. INCORPORATING THE RESULTS OF THE CONSULTATIVE PROCESS INTO THE PROGRESS REPORT

52. This revised version of the PRSP Progress Report and Update incorporates many of the comments and suggestions that were made. The changes were approved by the PRSP Consultative Council on October 28th, 2003, and by the Social Cabinet on October 29th. The final version was distributed to members of both structures at the joint planning session on PRSP implementation, on December 4th, 2003.¹
53. Some of the most important changes that were made to the PRSP Progress Report and Update as a result of this process include: the inclusion of a revised macroeconomic framework; strengthened sections on statistics and PRSP result and impact indicators; the incorporation of new goals and the re-calibration of some of the PRSP's original goals; and the proposal of a new, more global budgetary conception that includes national efforts as well as donor-financed programs, so that we can more clearly observe national poverty reduction efforts and not only those carried out with external resources. In addition, greater emphasis has been placed on the PRSP work program to strengthen participatory and decentralized implementation of the Strategy, and the creation of more transparent mechanisms for monitoring the PRSP. Moreover, the work of aligning PRSP interventions and goals with sector programs in education, health, water and sanitation, agro-forestry and citizen security is underway.
54. Furthermore, the Government has begun an intensive effort to link the design of sector programs with the PRSP goals, to improve the transparency of information related to the PRSP, to decentralize the PRSP's implementation, and to strengthen civil society participation in its development and implementation. These are all important aspects of the PRSP Implementation Plan for 2003-2005. It has also been proposed that specific areas of the PRSP be strengthened to respond to the concerns raised during the consultative process. A matrix of such actions is contained in Chapter IV of this report.

¹ The functions of the PRSP Consultative Council are described in greater detail in Section IV.C.

II. MACROECONOMIC FRAMEWORK

55. Accelerated, equitable and sustained economic growth is essential to reducing poverty. In the previous decade, real per capita GDP was at a standstill in Honduras, which is a situation that needs to be changed to achieve the poverty reduction goals detailed in the PRSP. This will require maintaining a stable fiscal, monetary and exchange framework as well as strengthening the economy's competitiveness in order to attract more investments and improve the productivity of the same.

Table II.1 - HONDURAS: Macroeconomic Framework							
	2000 Real	2001 Real	2002 Real	2003 Proj.	2004 Proj.	2005 Proj.	2006 Proj.
National Revenues and Prices							
GDP at market prices (real growth, %)	5.0	2.6	2.7	3.0	3.5	4.0	4.5
GDP Deflator	9.7	8.0	6.3	6.4	7.7	7.3	6.0
Consumer prices (% increase at end of period)	10.1	8.8	8.1	7.2	6.7	6.0	5.0
Per capita GDP (US\$)	946	981	983	997	1026	1060	1104
Poverty rate (% of population)	n.a.	64.4	63.9	62.1	60.2	58.4	57.3
% of GDP							
Balance of payments							
Current account	-4.1	-4.9	-2.7	-5.2	-6.7	-4.2	-3.6
Trade balance	-20.5	-22.3	-21.9	-24.7	-26.3	-25.1	-24.7
Exports	23.8	21.5	20.7	20.3	21.1	21.7	22.0
Imports	-44.3	-43.8	-42.6	-45.0	-47.4	-46.7	-46.7
Non-factor services (net)	6.4	5.1	6.7	7.3	7.6	7.9	8.2
Factor services (net)	-2.4	-2.2	-2.4	-2.9	-2.8	-2.5	-2.4
Transfers (net)	12.4	14.5	15.0	15.1	14.9	15.4	15.2
Savings and Investments							
Gross fixed capital formation	26.1	23.6	22.1	23.5	26.0	25.0	25.4
Non-Financial Public Sector (NFPS)	5.9	6.8	5.2	5.5	6.2	6.5	6.0
Private Sector	20.3	16.9	16.9	18.0	19.8	18.5	19.4
National Savings	22.1	18.7	19.5	18.3	19.3	20.8	21.8
Public Sector	6.1	4.5	2.8	1.4	4.0	4.9	5.9
Private Sector	16.0	14.2	16.6	16.9	15.3	15.9	15.9
Public Sector							
Surplus of the Combined Non Financial Public Sector	-0.7	-3.5	-3.3	-4.9	-3.0	-2.5	-1.7
Surplus of Central Government	-5.6	-5.9	-5.3	-5.7	-3.5	-2.9	-2.5
Total Revenues Including Donations	18.7	19.9	19.4	19.8	20.6	21.0	21.7
Total Spending	24.4	26.0	24.8	25.5	24.1	23.9	24.2
PRSP Spending	n.a.	8.8	7.5	8.1	8.7	9.4	9.7
Memorandum Items							
Nominal GDP at market prices (Lempiras)	89,401	99,092	108,175	118,544	132,080	147,445	163,370
Nominal GDP at market prices (US\$)	6,024	6,403	6,584	6,834	7,200	7,617	8,123
Average Exchange Rate, Lempiras/US\$	14.8	15.5	16.4	17.34	18.34	19.36	20.11

56. In 2002, Honduras confronted a difficult macroeconomic situation due to the impact of the international recession, increases in fuel prices, and the drop in key export prices, above all coffee. The real GDP grew by only 2.7% that year, compared to the 4% goal outlined in the PRSP. This

growth rate is very close to the nation's population growth rate, signifying a standstill of the real per capita GDP. Against this backdrop, and according to data from the household survey, the proportion of the Honduran population living below the poverty line only dropped from 64.4% in 2001 to 63.9% in 2002.

57. Macroeconomic management also showed signs of deterioration, above all in fiscal matters, influenced by the political-electoral cycle of 2001. Fiscal revenues dropped by 0.5% of GDP, while salaries grew beyond the economy's capacity to absorb them due to the hiring of new staff and automatic salary adjustments, as specified in the statutes governing remunerations for teachers, doctors and other public functionaries. As a consequence of these trends, Honduras was unable to meet the goals it had agreed to with the IMF in the framework of the PRFG, leaving this agreement in suspense pending negotiations between the IMF and the new Government (which took office in January 2002).
58. In 2002, the Central Government's deficit reached 5.3% of the GDP, just barely below the level registered in 2001 (5.9%). The overall non-financial public sector deficit remained at 3.5% of the GDP in 2001 and 3.3% in 2002, considerably above available concessionary external financing (estimated at 1.8% of the GDP in 2002). To finance the gap, Honduras had to turn to internal indebtedness and the transfer of HONDUTEL resources.
59. During 2002, the Government took steps to improve tax administration, achieving important increases in tax revenues (around 0.8% of the GDP) through measures such as temporary closure of businesses for non-compliance with Sales Tax obligations. It also took steps to stop increases in public salaries, negotiating with teachers (the most important group of public employees) to accept a salary increase significantly lower than they had expected. This arrangement was sanctioned by the National Congress, and marked the first step in the necessary process of reforming the economic clauses of statutes governing the employment of professionals in the public sector.
60. In 2003, the Government has continued with additional actions to control the fiscal situation and stimulate economic growth and create jobs. To increase current Government savings and thereby finance greater investments in poverty reduction, measures have been implemented to expand the tax base, which is expected to increase tax revenues by more than 1.5% of GDP in 2004. It should be noted that the design of the package of fiscal measures took special care not to affect the incomes of poor households, focusing on the elimination of non-justifiable exemptions and tax evasion. Steps have also been taken to control recurrent expenses, including freezing Central Government salaries during 2003.
61. As a result of these measures, Central Government salaries fell from 10.7% of the GDP in 2002 to 10.6% in 2003. However, the fiscal deficit is expected to remain at 5.7% of the GDP for the Central Government, and 4.9% of the GDP for the non-financial public sector (including the BCH's quasi-fiscal deficit). These levels are still not consistent with Honduras's external financing capacity on concessional terms. In addition, delays in negotiating a new PRGF with the IMF will hold up the delivery of budgetary support loans valued at almost 1.3% of the GDP until 2004, provoking the need to significantly increase internal indebtedness in 2003.
62. As of 2004, the deficit will gradually be brought into line with the external concessionary financing capacity. On the spending side, Finance Secretariat control over the growth of recurrent spending will be established in the framework of the Budget Law. To maximize the benefits of spending on poor families, community hiring of teachers and medical personnel will be expanded. In addition, public sector savings will be strengthened by measures legislated in 2003, and by strengthening ENEE finances through the introduction of cheaper energy generation options. The Central Government's deficit will be 3.5% of the GDP in 2004, 2.9% in 2005, and 2.5% in 2006. For the non-financial public sector, the deficit will be 3.0% in 2004, 2.5% in 2005 and 1.7% in 2006.

63. As a result, the Government's capacity to finance poverty reduction investments will significantly increase. Non-financial public sector savings will rise from 2.8% of the GDP in 2002 and 1.4% in 2003 to 4.0% in 2004, 4.9% in 2005 and 5.9% in 2006.
64. In addition to preserving an adequate macro-fiscal balance, the Government will take additional steps in the framework of the National Competitiveness Program to stimulate private investment. The economic stimulation measures include: investments in irrigation to increase productivity and stimulate agricultural employment; an ambitious housing program for low-income families; and an important increase in public investments stimulated by measures such as liberalizing the telephone sector, a new cell phone concession, and purchasing 400 MW of energy from private generators.
65. The result will be an increase in the share of total investment (gross formation of fixed capital) in the GDP. In 2004, gross investments of 26% are projected, while projections for 2005 are 25% and for 2006 25.4% of the GDP, compared to 22.1% and 23.5% registered in 2002 and 2003, respectively. To provide a solid foundation for expanding private investments, the program to reform and strengthen the finance sector will continue, supported by the Financial Sector Adjustment Program with the World Bank and the IDB. This program will continue strengthening the legislative and regulatory framework of the financial sector.
66. With respect to the external balance, Honduras will increase its income through strengthening highly competitive sectors such as tourism and the *maquila* industries. Exports will grow from 20.3% of the GDP in 2003 to 22.0% in 2006. Meanwhile, income from family remittances is estimated at around 15% of the GDP. Thus, the deficit on current account will remain at a level consistent with available financing, dropping from 5.2% of the GDP in 2003 to 3.6% in 2006, while Net International Reserves will remain at a relatively high and stable level, approximately 4 months of imports.
67. Real GDP growth of 3.0% is projected for 2003, consistent with a real per capita GDP increase of 0.6%. Meanwhile, inflation should drop to 7.2% (IPC) and the rate of exchange will remain stable in real terms, adjusting based on the difference between the inflation of costs in Honduras versus that of its trade partners. It is expected that real GDP growth will increase from 3.5% in 2004 to 4% in 2005, and that from 2006 onward, it will remain around 4.5%. Inflation is expected to gradually fall to around 5%.
68. It is worth mentioning that the original version of the PRSP proposed the possibility of increasing

Box 2

Elasticity between Growth and Poverty

A central goal of the PRSP is eliminating the structural barriers that prevent the poor from benefiting from growth. This should improve the impact of growth on reducing poverty and should at the same time, according to recent international studies, stimulate growth itself. Some of the most obvious obstacles are: the weakness of human capital, due to the poor quality of education and health services and lack of access to these, the lack of access to markets, and biases against using the productive factors to which the poor can more easily gain access (for example, the workforce).

"Elasticity" measures the degree to which the proportion of the population living below the poverty line is reduced when the real per capita GDP increases by 1%. In the 1990s, Honduras had an elasticity of 0.65: each 1% of per capita GDP growth only reduced the percentage of poor by 0.65%. To lower the proportion of poor from 64.5% in 2001 to 42% in 2015, a sustained 3% (relative) reduction in the percentage of poor is needed per year. In absolute terms, this implies an approximate reduction of two points annually in the poverty rate. Thus, if per capita GDP growth is 2% (consistent with a 4.6% increase of the real GDP and a 2.6% population increase), the elasticity between growth and poverty will have to increase to 1.5, or double the rate that has been historically observed. The main challenge facing the PRSP is achieving this change.

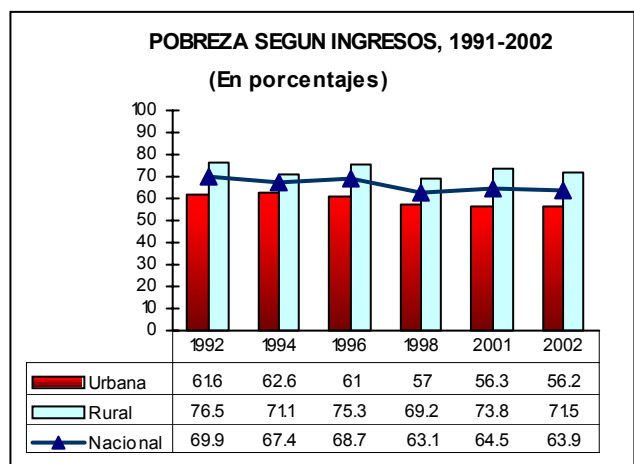
GDP growth to 5.1% in 2005, and then to 5.5% in 2010. During the consultative process, various experts expressed their reservations about these projections. As detailed in Table II.1, current

projections are more cautious, describing a sustained growth rate of close to 4.5% annually, consistent with a 2.1% increase in the per capita GDP. To achieve the goal of reducing the percentage of the population living below the poverty line to 42% in 2015, the elasticity between the GDP and poverty will need to be increased from its historical level of 0.65 to 1.5 (See Box 2). This is feasible, but only if the PRSP is quickly and completely implemented, both its investment programs and its policy reforms.

III. THE STATE OF POVERTY, AND PRSP INDICATORS AND GOALS

69. This Chapter presents an overview of the 2002 performance of the main poverty indicators identified in the PRSP, compared to the projected goals. The PRSP's design took into consideration the Millennium Development Goals for 2015 subscribed by the United Nations, the Organization of Economic Cooperation and Development (OECD), and the World Bank.

70. The PRSP's overall goals, as well as its intermediate indicators and results, were designed to be consistent with the poverty diagnostic which provided a basis for discussions with Civil Society during the consultative process. During that process, a Global Vision for the country in 2015 was also defined, along with the Strategic Guidelines for achieving that vision. The international parameters for 2015 defined by the United Nations, the Organization of Economic Cooperation and Development (OECD) and the World Bank were also taken into account when designing the Goals.



71. Table III.1 summarizes the PRSP's most important impact indicators, detailing the base year value (normally 2000, subject to the availability of data), the goals outlined for 2001 and 2002, and the real results for those years. The Table is based on a similar table presented on page 58 of the original PRSP, with some minor changes in the reported definitions that reflect data availability.

72. The results of PRSP indicators registered for 2002 were not very satisfactory. Of the indicators included in Table III.1 for which information in 2002 is available, only five fulfilled the projected goal: the participation of social spending in total spending, reduction of the extreme poverty rate, net enrollment in the primary and secondary basic education cycle, net enrollment in the third basic education cycle, and net enrollment in the diversified cycle. In addition, it is likely that the goals for infant malnutrition and maternal mortality were met, based on data from 2001. This would mean that a total of seven out of 20 indicators were met.

73. In contrast, the following goals were not met in 2002: GDP growth, per capita GDP growth, pre-basic education coverage, water coverage, sanitation coverage, the two gender indices, and the three environment goals (forestry coverage, the proportion of protected areas being managed, and air contamination in urban centers). In addition, it is likely that the goals for infant and under 5 mortality were not met either in 2002, based on 2001 data. Overall, 13 of the PRSP's 20 impact indicators were not met in 2002. More details of these results are presented below.

Table III.1
STATUS OF PRSP INDICATORS AND GOALS

Goal	Indicator (base year)	Base Year Value	PRSP Goal		Results		Goal met in 2002?
			2001	2002	2001	2002	
Economic Growth	Real GDP Growth (2000) ¹	5.7	3.5	4	2.6	2.7	No
Per Capita GDP Growth	Per Capital GDP Growth (2000) ²	2.6	1.5	1.6	0.2	0.3	No
Social Spending	% of total spending (2000) ³	44	45	46	47	49	Yes
Reduce poverty by 24 percentage	Poverty rate (1999) ⁴	66	63	61.5	64.4	63.9	No

points	Extreme poverty rate (1999) ⁴	49	47	45	47.4	45.0	Yes
Double net pre-basic education coverage (through 5 years)	Pre-basic school coverage rate (1999) ⁴	32.9	33.5	36.0	31.9	32.5	No
95% net coverage in the two first cycles of basic education	Net enrollment 1st and 2nd cycle (2000) ⁴	89.8	87	88	91.7	88.9	Yes
70% net coverage in the third basic education cycle	Net enrollment (except over-age) in 3rd basic cycle (1999) ⁴	24.2	26.0	27.9	31.0	30.9	Yes
50% of emerging population completes secondary education	Net enrollment (except over-age) in Diversified Cycle (10th through 12th grade) ⁵ (1999) ⁴	12.4	13.6	14.9	12.0	17.5	Yes
Reduce infant mortality and under 5 mortality rates by half	Infant mortality rate /1,000 live births (1996) ⁵	36	32	31	34.0	n.a.	No (2001)
	Under 5 mortality rate (per 1,000 live births) (1996) ⁵	48	44	43	45.0	n.a.	No (2001)
Reduce malnutrition in children under 5 by half	Child malnutrition rate (1996) ⁵	37.8	38	36	32.9	n.a.	Yes (2001)
Reduce maternal mortality by half	Maternal mortality rate per 100,000 live births (1996) ⁶	147	143	138	108.0	n.a.	Yes (2001)
95% access to potable water and sanitation	% of population with access to potable water ³ (1999) ⁴	81	82	84	n.a.	81.3	No
	% of population with access to excreta elimination systems (1999) ⁴	70.2	71	72	69.4	67.6	No
Raise the human development index of women by 20%	HDI relative to gender (1999) ⁷	0.64	0.65	0.65	0.62	0.63	No
	Gender empowerment index (1999) ⁷	0.45	0.46	0.47	0.45	0.45	No
Implement sustainable development strategy	% of area with forest coverage (1996) ⁸	50.7	54	55	n.a.	53.0	No
	% prioritized protected areas with management plans (2000) ⁸	13	30	40	21	31	No
	Air pollution in urban centers (ug/m3 of PTS) (2000) ⁹	620.0	618.8	583.9	n.a.	653.7	No

Base year is 2000 or the closest year for which information is available.
Sources: 1. BCH. 2. Estimate based on information from INE and BCH. 3. UPEG / SEFIN. 4. EHPM / INE. 5. ENSF. 6. Health in Numbers 1997 – 2001. Secretariat of Health. 7. Human Development Report (UNDP). 8. COHDEFOR, based on the National System of Prioritized Protected Areas. 9. CESSCO.

Growth and Poverty

74. As mentioned in Chapter II, real GDP growth in 2001 and 2002 was lower than expected, achieving 2.6% and 2.7% growth respectively, compared to the goals of 3.5% and 4.0%. As a result, the per capita GDP growth goals were not met. In fact, the per capita GDP barely rose at all (0.2% and 0.3%, rather than the projected 1.5% and 1.6%).
75. It is not surprising, therefore, that the reduction of the percentage of the population living below the poverty line was also less than the PRSP goal. The percentage of households living below the poverty line dropped by 0.5 points in 2002 in comparison to the previous year, similar to the reduction that has occurred during the past ten year during which poverty reduced by a total of 6 points. In 2002, there was already a 2.4 percentage point delay in fulfilling this key PRSP goal (registered at 63.9%). However, the goal for reducing the percentage of the population in extreme poverty was met. The extreme poverty rate fell from 47.4% in 2001 to 45.0% in 2002, compared with 49% in 2000. The households classified as extremely poor are those whose income does not cover the cost of food included in the basic consumption basket. At the same time, rural poverty dropped by 2.3 points in 2002. Thus, we may infer that the fiscal adjustment measures undertaken in 2002 probably did not negatively affect the poorest households, which are concentrated mostly in the rural sector. A detailed analysis of the impact of these measures on poverty, using the PSIA methodology, is currently underway.
76. Income distribution in Honduras remained relatively stable during the 1990s. There was only a small improvement in the Gini Index (Table III.2). Even though this result is disappointing, it is worth mentioning that Honduras was the only nation in Latin America, according to the report on the UN's Millennium Goals, whose Gini coefficient improved during the 1990s.

77. Nonetheless, Honduras's Gini coefficient continues to reflect a relatively high level of inequality compared to other countries in the region. According to most recent World Bank information, the Gini (calculated for individuals, rather than for households) is 0.46 in Costa Rica, 0.51 in El Salvador, 0.55 in Guatemala and 0.60 in Nicaragua. As illustrated in Table III.3, the current distribution implies that 80% of Honduran households receive only 45.7% of the nation's total income, while the wealthiest 20% of households receive 54.3% of the national income. This confirms the need to pursue an economic development strategy that explicitly favors the poorest, thereby improving income distribution.

Fifths of the Population (from poorest to least poor)	Per Capita Income (Lempiras / month)	% of total income
1	134	3.2%
2	387	7.8%
3	765	13.2%
4	1,398	21.4%
5	4,466	54.3%

Source: INE, EHPM, based on fifths of households

Social Spending and Service Coverage

78. A greater increase in **social spending** in relation to total public spending was registered than the proposed goal, from 47% of total public spending in 2001 to 49% in 2002 (compared to 44% in 2000). Nonetheless, this increase was partly the result of salary adjustments, and did not necessarily reflect real increases in the amount of resources assigned to these sectors.
79. In **education**, the goals for the net enrollment rate in the first and second basic education cycles for 2002 were met, registering 88.9%, and surpassing the goal of 88.0%. The goals for increasing net coverage in the third and fourth cycles were also met, surpassing the goal by 3 and 2.6 points, respectively.² In contrast, pre-basic education coverage was below the proposed goal: 27.8% versus the goal of 36%.
80. The available **health** information is from 2001, since the main source (the National Epidemiology and Family Health Survey, ENESF) is not updated annually but rather every five years. The baseline data used is from the previous survey from 1996. Significant progress was made between 1996 and 2001 in reducing maternal mortality and infant malnutrition, both surpassing the defined goals. In 2001, maternal mortality was 104 per 100,000 live births (versus the goal of 138 for 2002). Meanwhile, chronic malnutrition among children younger than five years was 32.9% (versus the goal of 36 for 2002). The results registered in 2001 for infant mortality (34 per 1,000 live births) and under 5 mortality (45 per 1,000 live births) were less spectacular, both only slightly above the expected goal for that year. It is recommended that the ENESF be conducted more frequently (at least every other year) to be able to adequately monitor this very important group of PRSP indicators.
81. The percentage of the population with access to **potable water and sanitation** services increased considerably during the past decade. However, Honduras apparently did not meet the PRSP goals for water and sanitation in 2001-2002. The INE survey of September 2002 reported 81.3% water coverage (equal to the base year value for 1999) and 67.6% sanitation coverage (compared to 70.2% in 1999).³ The lack of progress in these areas underlines the need to organize a national

² The Household Survey does not register which students are repeating the current school year. The data presented are computed using an alternative definition of net enrollment, excluding all over-age students, in other words all students who have repeated any grade or who entered the system late. The annual goals reported here for 2001 and 2002 were re-calibrated using the same definition for net over-age enrollment, based on the trend that would be needed to meet the goal for 2015. A question to identify students who are repeating the current school year is being incorporated into the Household Survey, which will help report this information according to both definitions.

³ It is worth mentioning that due to apparent changes in definitions, there are inconsistencies in official potable water statistics. Previously INE reported 90.2% coverage for March, 2001.

campaign to assign the resources and responsibilities needed to meet these goals. This should be a key task of the National Council on Water and Sanitation (CONASA), to be created under the new Water and Sanitation Framework Law.

82. Neither of the two indicators related to *gender* met the PRSP goals in 2001 and 2002. The Human Development Index relative to Gender remained at 0.63 in 2002, compared to 0.64 in 1999 and the goal of 0.65 for 2002. The Gender Empowerment Index stayed at 0.45, versus the base value of 0.45 and the goal of 0.47.
83. The *environmental* indicators reported by COHDEFOR reveal an increase in forestry coverage, from 50.7% in 1990 to 53% in 2002. Nonetheless, the goal was 55%. It is worth asking whether the reported data are really reliable, and even if they were, it would be worth asking whether this goal was well calibrated. The number of the 39 prioritized protected areas (PAs) with management plans in place has increased, from five in 2000 (13% of the total) to 12 (31% of the total) in 2002. However, the goal defined for 2002 was 16 PAs (40% of the total). It should be mentioned that 15 management plans had been completed in 2003, covering 60% of the total surface area of the 39 prioritized PAs. In contrast, management plans had been designed for only 4% of the total surface area of the PAs in 2000. During this period, the management plans approved included one for the Plátano River Biosphere (which, with a surface area of 800,000 hectares, accounts for 28% of the total area covered by the 39 prioritized PAs—2,800,000 hectares—and is a World Heritage site). In this case, we may conclude that the indicator contained in the original PRSP was poorly defined, since it failed to note a sizeable increase in the surface area covered by management plans. Finally, rather than decreasing, the urban air contamination indicator has increased from 620 ug/m³ particles in 2000 to 653.7 ug/m³ in 2002. Again, it is worth asking whether the original PRSP's goal of lowering this indicator by 60% was realistic. It is recommended that the Strategy's environmental indicators be reconsidered and redefined.
84. To summarize, we may conclude that the performance of the PRSP's main indicators during the first year of implementation was disappointing. This should underscore, first and foremost, the importance of implementing a decisive plan for fulfilling the goals that are best suited to this type of methodology (for example, coverage in the areas of education, health, water and sanitation, and rural infrastructure). Secondly, the economic reforms that are needed to stimulate private investment and growth rates should be energetically pursued, through macroeconomic and competitiveness programs.
85. Chapter V presents a revised version of indicators and their corresponding goals for 2003-2015. Although increased efforts are clearly needed to fulfill the PRSP's goals for 2004-2006, it is also important to revise some of the specific indicators and goals, to more precisely align them with the PRSP's goals and with available data that allows their progress to be adequately monitored.

IV. PROGRESS IN PRSP IMPLEMENTATION IN 2002

86. Implementation of the Poverty Reduction Strategy began in 2002. Like other countries benefiting from the HIPC initiative, Honduras has undergone a learning process regarding this ambitious instrument. The country has had to experiment with a range of innovative modalities and procedures, learning through the experiences of other countries that have undergone similar processes.
87. On the positive side, important progress was made in the improvement of macroeconomic policies (mentioned in Chapter II), in the "instrumentalization" of the PRSP, and in mobilizing additional resources. On the other hand, the level of poverty investment fell short of expectations, due partly to the ambitiousness of the original programming and also to delays in reaching the HIPC culmination

point. It is hoped that spending for poverty reduction will take an important upturn in 2003-2006, and that the goals programmed for 2004-2006 will be met.

A. PROGRAM AND PROJECT IMPLEMENTATION, 2001-2002

88. This section details implementation of the PRSP's programs and projects during the 2001-2002 period. In the first place, it presents an analysis of the implementation of the six main programs and their sub-programs. Then it details the use of interim debt relief funds that were granted to Honduras during 2000-2002.

SPENDING BY AREA AND TYPE OF FINANCING	2001	2002	2003	2004	2005	2006-15	Total 2001-15	
	US\$ millions							%
1. Accelerating Equitable and Sustainable Economic Growth	0.0	6.8	5.7	5.7	5.6	0.0	23.8	0.9
2. Reducing Poverty in Rural Zones	94.1	68.1	92.1	96.7	97.3	104.6	552.9	20.7
3. Reducing Urban Poverty	77.7	73.6	57.8	59.5	59.1	117.3	445.0	16.7
4. Investing in Human Capital	94.8	154.3	111.5	108.4	109.3	488.4	1,066.7	40.0
5. Strengthening Social Protection for Specific Groups	33.8	35.7	21.2	21.2	19.3	136.2	267.4	10.0
6. Guaranteeing the Strategy's Sustainability	42.7	41.1	32.2	23.7	19.9	59.8	219.4	8.2
Total Programs and Projects	343.1	379.6	320.5	315.2	310.5	906.3	2575.2	96.6
Operationalizing and Monitoring the PRSP (5%)	3.8	8.3	11.5	12.0	12.4	42.3	90.3	3.4
TOTAL SPENDING	346.9	387.9	332.0	327.2	322.9	948.6	2,665.5	100.0
Financing								
1. Loans and Donations already Negotiated through 2001	266.7	214.4	89.9	74.6	62.2	60.9	768.7	28.8
2. Debt Relief	46.3	91.0	203.9	194.5	157.3	241.4	934.4	35.1
HIPC	46.0	49.5	111.6	116.6	101.8	231.2	656.7	24.6
Traditional	0.3	41.5	92.3	77.9	55.5	10.2	277.7	10.4
3. Gap to be Financed	33.9	82.5	38.2	58.1	103.4	646.3	962.4	36.1
External	28.8	70.1	32.5	49.4	87.9	549.3	818.1	30.7
National	5.1	12.4	5.7	8.7	15.5	96.9	144.4	5.4
TOTAL FINANCING	346.9	387.9	332.0	327.2	322.9	948.6	2,665.5	100.0

1. ORIGINAL PROGRAMMING AND IMPLEMENTATION

89. Table IV.1 summarizes the PRSP's original programming, based on the original PRSP document (pages 106-108). An investment of US\$346.9 million was proposed for 2001, and US\$387.9 for 2002. An important proportion consisted of loans and donations that had already been negotiated in 2001 (US\$266.7 million, or 77% of the total in 2001, and US\$214.4 million or 55% of the total in 2002). Additional debt relief funds were expected (US\$46.3 million in 2001 and US\$91 million in 2002), plus new loans and donations (including the national counterpart) in the amount of US\$33.9 million in 2001 and US\$82.5 million in 2002.

Table IV.2 PRSP IMPLEMENTATION, 2001-2002 COMPARED TO THE ORIGINAL PROGRAMMING (US\$ Millions)						
PROGRAMMATIC AREA	Original PRSP		Implemented			
	2001	2002	US\$ millions		Percentages	
			2001	2002	2001	2002
1. Accelerating Equitable and Sustainable Economic Growth	0.0	6.8	0.1	0.8		11.8
• Strengthening investments and improving their efficiency	0.0	2.3	0.0	0.4		17.4
• Improving competitive access to international markets	0.0	0.6	0.1	0.0		0.0
• Supporting the development of sectors with high-productivity potential	0.0	3.9	0.0	0.4		10.3
2. Reducing Poverty in Rural Zones	94.1	68.1	73.0	75.0	77.6	110.1
• Improving equitable and secure access to land	7.8	14.5	9.4	10.1	120.5	69.7
• Sustainable development in priority zones	2.5	4.5	0.2	0.0	8.0	0.0
• Improving the competitiveness of small-scale rural economies	78.1	35.4	13.6	30.3	17.4	85.6
• Improving social conditions in rural areas	5.7	13.7	49.8	34.7	873.7	253.3
3. Reducing Urban Poverty	77.7	73.6	15.3	10.8	19.7	14.7
• Developing micro-, small and medium-scale enterprises	26.6	31.8	0.0	0.0	0.0	0.0
• Developing intermediate cities	1.1	3.8	0.1	0.7	9.1	18.4
• Supporting social housing	19.0	13.4	6.5	1.6	34.2	11.9
• Access to basic services in priority areas	31.0	24.6	8.7	8.5	28.1	34.6
4. Investing in Human Capital	94.8	154.3	72.5	52.1	76.5	33.8
• Greater educational coverage and better quality education	59.7	107.6	16.6	15.7	27.8	14.6
• Greater access to health services, and better quality health care	33.8	45.0	55.5	36.4	164.2	80.9
• Cultural wealth and national identity	1.3	1.7	0.3	0.0	23.1	0.0
5. Strengthening Social Protection for Specific Groups	33.8	35.7	22.9	10.6	67.8	29.7
• Social security networks	26.4	24.0	21.5	9.7	81.4	40.4
• Gender equity and equality	5.9	5.5	1.3	0.9	22.0	16.4
• Development of ethnic groups	1.5	6.2	0.0	0.0	0.0	0.0
6. Guaranteeing the Strategy's Sustainability	42.7	41.1	3.2	10.9	7.5	26.5
• Strengthening accountability and participatory democracy	14.9	14.9	0.1	2.8	0.7	18.8
• Strengthening justice and citizen security	1.0	1.5	0.0	0.0	0.0	0.0
• Modernizing public administration and decentralization	2.7	1.7	0.0	0.0	0.0	0.0
• Improving environmental protection and risk management	24.1	23.0	3.1	8.1	12.9	35.2
Total Programs and Projects¹	343.1	379.6	186.9	160.1	54.5	42.2

¹The total amount assigned to the original programming left out 5% for operationalizing and monitoring the PRSP. For this reason, there is a small difference between the total amounts in this table and the previous one. Source: SEFIN.

90. Table IV.2 details implementation of the Strategy's programs and projects during 2001-2002, compared to the original programming for those years. The table includes all programs, regardless of their source of financing. The provision of 5% for operationalization and monitoring are omitted. Overall, 54.5% of the spending programmed for 2001 and 42.2% programmed for 2002 were implemented. These should be considered poor levels of implementation.
91. Implementation at the program and sub-program level was acceptable with respect to rural poverty reduction programs (77.6% and 110.1%). However, implementation levels have been very low in the following areas: social protection (67.8% and 29.75%), sustainability (7.5% and 26.54%),

economic growth (there was no spending programmed for 2001, and 11.8% of the programmed spending for 2002 was implemented), urban poverty (19.7% and 14.7%), and human capital (76.5% and 33.8%). These low levels point to the need to review the specific programs and projects defined for these areas, to adjust the portfolio and thereby improve implementation. It is possible that some of the originally identified projects were not sufficiently developed, or that there are problems related to financing or implementing programs and projects in their originally conceived form.

92. The low level of PRSP implementation during 2001-2002 was influenced by delays in implementing already existing programs that were incorporated into the PRSP (many of which are associated with the Master Plan for National Reconstruction and Transformation, PMRTN). There have also been some problems negotiating financing for new projects, due in large part to delays in reaching the HIPC culmination point, originally expected for 2002 and currently programmed for 2004.
93. It should be remembered that the original programming of the use of HIPC resources and the use of unidentified additional resources (the financing gap) was indicative, since it was impossible to specify the details of interventions in the time available for preparing the PRSP. Nor was there sufficient time fully to identify all of the spending components needed to meet the Strategy's goals. The fiscal problems that arose when the PRGF Agreement with the IMF was suspended caused significant delays in the Culmination Point of the HIPC, which was originally anticipated for 2002 and now for June 2004. This situation, combined with the normal precepts of responsible fiscal management, made it imperative to postpone the new programs financed with HIPC funds. All of these factors led to these changes in the amounts and composition of funds assigned to the PRSP in 2001-2002, in contrast to the initial programming.
94. We may conclude, therefore, that the original document was too optimistic with respect to the programming and implementation of new programs and projects. Projected execution rates for pre-existing projects were set at 100% of the budget, without applying any factor for under-implementation (even though financial programming normally projects no more than 80% implementation rate for capital programs). Furthermore, the original document was not approved until late 2001, when it was unlikely that new investments would be concretized for that year. Nonetheless, US\$34 million in new programs and projects (non-HIPC) were proposed for 2001. Moreover, 2002 was the first year of a new governmental administration and the corresponding process of installing and orienting new directors of the institutions responsible for program implementation made it a difficult time to initiate new programs.

Table IV.3
PRSP FINANCING, 2001-2002
(US\$ Millions)

Source	Original PRSP		Implemented		Implementation as % of programming	
	2001	2002	2001	2002	2001	2002
1. National Funds	5.1	12.4	28.9	24.4	378.4	196.7
2. Loans and Donations	295.5	284.5	131.3	112.1	44.4	39.4
3. HIPC Debt Relief	46.3	91.0	27.1	28.2	58.5	34.0
TOTAL¹	346.9	387.9	187.3	164.7	54.0	42.5

¹ The total programmed and implemented amount reported here is the amount indicated for Total Financing in Table IV.1, which includes 5% for operationalizing and monitoring the PRSP. Thus, it is higher than the total programmed amount indicated in Table IV.2.
Source: SEFIN.

2. INTERIM HIPC DEBT RELIEF AND ITS APPLICATION TO PRSP PROGRAMS

95. Between 2000 and 2003, Honduras received interim HIPC debt relief. To channel these funds to the PRSP, the Poverty Reduction Fund was created through Decree 70-2002, setting up special accounts in the Central Bank of Honduras (BCH). Table IV.4 details the debt relief funds received in 2000-2003, totaling US\$201.9 million.

US\$ millions	2000	2001	2002	2003	Total
a. Multilateral					
IMF	0.0	1.3	4.5	0.0	5.8
IBRD-BIRF	5.6	18.8	12.3	0.0	36.7
IDB-FOE	0.0	22.7	18.5	5.8	47.1
BCIE	1.9	13.6	14.8	16.8	47.1
b. Bilateral incl. Paris Club					
	0.0	0.1	16.3	48.9	65.3
Total	7.5	56.5	66.4	71.6	201.9
HIPC flows					
Total received	7.5	56.5	66.4	71.6	201.9
HIPC spending	9.5	27.1	28.2	31.0	95.8
Exchange rate	14.84	15.47	16.35	17.35	
Proj. balance in Lempiras	-29.4	425.0	1049.9	1752.9	
Proj. balance in US dollars	-2.0	27.5	64.2	101.0	

96. It should be clarified that this amount includes the value of BCIE relief, which was only technically defined in 2003. This is because the BCIE relief operation depends upon exchanging debt for a US Treasury Bonds, making it difficult to determine the annual value of the debt relief received. This technical delay explains why an important portion of the amount was not spent.

97. Table IV.5 details yearly spending of HIPC interim funds, which totaled US\$95.8 million and which were applied according to arrangements made by the IMF Directorate, in the framework of the HIPC Decision Point for Honduras.⁴ Of total HIPC spending (US\$95.8 million), some 51.6% was used for educational programs, mainly in poor rural areas, while 27.7% was used for health programs, mostly for the purchase of medicines. Another 6.8% was used for housing programs, and 12.5% was used for social protection via FHS and PRAF.

	Executed			Proj.	Total	%
	2000	2001	2002	2003		
Education	2.6	12.4	13.3	21.2	49.4	51.6%
1,000 teachers hired	1.8	3.8	4.5	5.4	15.5	16.2%
Teachers for Basic Education schools		2.3	2.7	3.2	8.2	8.6%
School breakfast			1.2	2.9	4.1	4.3%
PROHECO and AECO	0.8	5.3	4.9	8.4	19.4	20.3%
Expanding Horizons		1	0.1	1.2	2.2	2.3%
Health	3.5	7.1	8.1	7.9	26.5	27.7%
Medicine and med. equip.	3.5	7	8.1	7.9	26.4	27.6%
SANAA (water)		0.1	0.0	0.0	0.1	0.1%
Urban Development	0	6.5	0	0	6.5	6.8%
Housing program		6.5	0.0	0.0	6.5	6.8%
Rural Development	0	0.3	0	0	0.3	0.3%
Social Protection	3.4	0.2	6.3	2.0	11.9	12.5%
FHS	3.4		0.0	0.0	3.4	3.5%
PRAF		0.2	6.3	2.0	8.5	8.9%
Others	0.6	0.5	0.0	0.0	1.1	1.1%
TOTAL	9.5	27.1	28.2	31.0	95.8	100%

98. The projected balance of the Poverty Reduction Fund at the end of 2003 is L.1.753 billion, equal to US\$101.0 million (see the bottom section of Table IV.4). This balance will be used to finance PRSP programs during the 2004 fiscal year.

B. PROGRESS IN IMPLEMENTING POLICY MEASURES

99. In the previous section, a summary of program and project implementation was presented, organized according to the Strategy's six programmatic areas. This section will emphasize the fulfillment of policy measures and other relevant actions that contribute equally to fulfilling the Strategy's overall goals and intermediate results.

100. The PRSP proposed a very ambitious agenda of policy reforms, legislation, and administrative changes which were summarized in Appendices A and A.1 of the original document. These included measures to strengthen the judicial system, to fight corruption, to modernize the political system and improve the national investment climate. In 2002, the Government and the National

⁴ Although Interim Debt Relief began in 2001, the Government negotiated the admissibility of US\$9.5 million spent in 2000 with multilateral authorities. This amount was attributed to the interim HIPC received in 2001.

Congress aggressively pursued implementation of this agenda. This section contains a summary of such commitments in 2002, and the Government's plans for fulfilling its pending commitments during 2003-2005. Appendix A of this report contains a comprehensive summary of measures taken to date, and those planned for 2003-2005.

101. In the area of economic policy, Honduras's fulfillment of PRGF commitments with the IMF—in relation to fiscal and monetary matters, management of the financial system, the balance of payments and structural reforms—was proposed in the short-term. Although Honduras fulfilled the monetary and balance of payments goals, as described previously, the country encountered difficulties in fiscal management that led to suspension of the PRGF agreement in 2001. However, corrective measures have been taken that led to the signing of a Letter of Intent for a new PRGF program for 2004-2006. In this framework, Honduras will fulfill the PRSP goals of strengthening fiscal income, rationalizing public spending (giving priority to PRSP programs), obtaining external financing on concessionary terms, and maintaining low levels of inflation.
102. Other policy measures contained in the PRSP were already fulfilled. These include actions to strengthen the judicial system and combat corruption (see Box), approval of the Administrative Simplification Law, creation of the National Council on Competitiveness, and initiation of negotiations for a Central America Free Trade Agreement (CAFTA).
103. Some of the policy measures and legal or administrative changes proposed in the original PRSP document of 2001 have still not been implemented, due in part to the impossibility of passing all initiatives simultaneously and the need to review the content and design of some policies and laws. The Water and Sanitation Framework Law was approved, although the electricity framework law was withdrawn from Congress to be reformulated and a new version will be submitted in 2003. Other pending measures include: the Forestry Law, Reforms to the Labor Code, Reforms to the Commerce Code, the Jurisdictional Promotion and Protection Law, the Securities Law, the IHSS Law, the Housing Sector Modernization Law, the Education Framework Law, and the Water Law. The legal projects aimed at simplifying and modernizing Income Tax and the National Unified Property Registration Law have been submitted to the National Congress.

1. ACCELERATING EQUITABLE AND SUSTAINABLE ECONOMIC GROWTH

104. As mentioned above, to meet commitments related to the macroeconomic situation, the present administration has put various measures into practice in 2002 to recover medium and long-range fiscal sustainability, and has implemented actions in other important areas such as the financial sector and public administration.
105. In 2002, the Government also made substantial efforts to accelerate economic growth, achieve sustainability, and favor a more equitable distribution of benefits, leading to significant reductions in poverty levels. However, by the end of the period, economic growth rates were lower than the proposed goals due to an unfavorable international climate that caused an economic slow-down among the nation's main trade partners and the continuous deterioration of the terms of exchange, caused by the drop in prices of the main export products and the increase in the cost of key imports.
106. Diverse actions have been carried out to help promote productive investments and generate jobs. These have included approval of the Administrative Simplification Law through Decree No. 255-2002, and approval of the Farmer Solidarity Law which, in coordination with the Central Bank of Honduras, makes bonds available with market terms and conditions, totaling a maximum amount of around 1.8% of the GDP. In addition, the "Housing for People" program was created, with the dual objective of generating jobs in the construction sector and facilitating access to dignified housing for low-income families.

107. As part of the infrastructure to support productive sectors, progress was made in key sectors such as the road network, and the energy and telecommunications systems.
108. A total of L.4.896 billion was invested in the **Road Network** during 2002, corresponding to the construction of 485.3 kilometers of highways and 19 concrete bridges, and maintenance of some 4,630.51 kilometers of paved roadways. The investment has been essentially geared toward building, rehabilitating, paving and maintaining the paved and unpaved road network, building bridges and other works to protect against flooding. In addition, a series of studies and designs are being conducted, projects evaluated and financing negotiated for paving the CA-5 highway.
109. With respect to **Energy**, electricity coverage was 60.13% in 2002, increasing by 2.6 percentage points in comparison to 2001. During this year, 263 social electrification works were completed nationwide, with a total investment of approximately US\$6.2 million. This signifies 16,654 more households with access to electricity. In addition, 18 contracts for renewable energy generation have been approved (hydroelectric and biomass), and another six are being negotiated with the goal of guaranteeing the supply of electricity to the entire nation.
110. In the area of **Telecommunications**, some 15,000 lines were installed in Tegucigalpa, San Pedro Sula and Catacamas. Another 20,000 lines were acquired for different neighborhoods and settlements in the Central District and 8,000 lines for Tegucigalpa and San Pedro Sula through coupling multipliers. Some 504 rural lines in different communities nationwide were expanded, and the transit centers and 192, 191 and 110 operator services were also extended. The National Fiber-Optic Network (Puerto Cortés-San Pedro Sula-Tegucigalpa-Choluteca and the El Salvador border) was put into operation, the Domestic Satellite Network was modernized, 3,600 public telephones were installed nationwide, and value-added services (voice mail, virtual telephones and prepaid cards) were set up. A new Internet network was established to attend to 60,000 users, and the National Microwave Network was modernized throughout the country (70 new connections). The entire network was digitalized, changing 22 analogic stations that were still operating. In addition, innovative tariff plans were introduced to reduce the cost per minute of local, national and international calls, and a per-minute Internet service was also launched. A second mobile telephone concession was awarded through international public bidding, which is expected to significantly reduce the cost of this service.
111. With respect to the institutional framework for supporting productive sectors, the following structures were created: the Comprehensive Registry and Land Title System (SINCREC), which consolidates the Registries of Real Estate and Commercial Properties, the Copyright Division, the National Land Registry and the National Geographic Institute into one single institution to permit safer, quicker and more economical transactions; the National Commission on Competitiveness, to develop a National Competitiveness Program; and the Tourism Cabinet and Tourism Police. Additional efforts were also made to support development of the *maquila* industries, agro-industry, and the forestry and mining industries.
112. In addition, work was also undertaken to expand trade benefits with the United States, within the context of negotiating the Free Trade Agreement (CAFTA). The areas that will fall within the framework of these negotiations include: Phyto-Sanitary Measures (MFS); Investments; and Employment Generation. The goal is to completely harmonize (100%) the Central American tariff structure by December 2003, and concretize the Central American Customs Union in order to make the region more competitive with third parties.

2. REDUCING POVERTY IN RURAL ZONES

113. To guarantee secure access to land tenure by both organized and independent peasants and members of ethnic groups, and thereby improve rural family income and guarantee the availability of food, the Government has undertaken various actions. Some of the most noteworthy include those related to land titling, modernizing the registry of rural properties, and promoting different scenarios that provide access to land.

Box 3

ACTIONS RELATED TO GUARANTEEING SECURE ACCESS TO LAND TENURE

- Some 3,236 hectares of land were awarded to 54 peasant enterprises, benefiting 1,153 associates. Some 334 hectares of land were purchased to deliver to land reform groups.
- 10,237 property titles were awarded to land reform groups and independent and ethnic groups, corresponding to a total surface area of 52,680 hectares.
- A total of 115,323 hectares in the Francisco Morazán, Colón and Intibucá provinces received land titles.
- Some 30,587 hectares of rural lands were delimited in the Francisco Morazán, Olancho and Colón provinces.
- Through the PACTA project, eight peasant enterprises were set up to promote the creation of sustainable rural and productive enterprises, and to promote the land market. Some 145 families were benefited, with a total investment of L.13.7 million (US\$800,000), surpassing the goal for 2002 by 682%.
- 434 rural savings and credit funds were organized. Of these, 155 received loans from the Alternative Rural Financing Fund, administered as a trust by BANADESA.
- Through partnerships between insurance agencies and the Government, the area subject to coverage against losses was expanded, allowing an increase of 37,500 *manzanas* in 2002 for some 12 products.
- The Sustainable Rural Development Project was implemented in Ecologically Fragile Zones of the Trifinio Region (PRODERT), with an investment of L.212.6 million (US\$12.8 million), covering 11 municipalities of the Ocotepeque Province and 6 in Copán. With this project, productive, agricultural and forestry development will be promoted, benefiting some 5,100 farmers and their families.

114. Many actions to benefit small-scale rural producers took place through the Nationwide Sustainable Rural Development Program (PRONADERS), which coordinates and monitors 18 projects, and which benefited a total of 94,872 families in 2002 (a total of 569,232 people). The rural development projects focus their greatest efforts on strengthening natural resource management, strengthening the capacities of human resources, diversifying crops, and improving productivity, quality, and competitiveness through providing access to productive support services.
115. The Farm Sector Solidarity Law was promulgated to induce productive reactivation. The first results of this Law's application may be seen in improved levels of production, especially among basic grains. Maize production increased from 8.4 million quintals in 2001 to 10.3 million in 2002; beans increased from 0.9 to 1.0 million quintals, and rice also increased from 0.2 to 0.5 million quintals in this year.
116. Furthermore, credit to farm producers has increased by L.1.424 billion in 2002, or 67% more than the previous year, through the development bank (FONAPROVI and BANADESA). These resources were mostly targeted for debt recovery operations and reactivation of productive units.

117. In addition, access to irrigation was expanded through developing micro-projects for a surface area measuring approximately 9,000 hectares. In particular, actions were aimed at promoting the production of export crops such as melons, vegetables, cassava and others. The proposed goal is 10,000 hectares per year.
118. Finally, to help ensure participation in policy formulation, the mechanism known as the Agriculture Commission (*Mesa Agrícola*) was adopted. Though this, a space was created for dialogue where agreements can be concerted among the public and private sectors, including rural and peasant business organizations. The *Mesa* has worked on issues affecting the development of twenty key crops, with the goal of increasing employment and income among rural families.

3. REDUCING URBAN POVERTY

119. Important actions have been undertaken to support the growth of micro, small and medium scale urban enterprises, and increase their competitiveness. These actions include the provision of credit, training, and technical assistance. In addition, actions are being considered that will generate strategic partnerships between the MIPYMEs and key sectors such as Tourism, *Maquila* Industries and Infrastructure. For example, agreements with micro-enterprises to maintain the road network under contract from the Road Fund already exist. In addition, the organization of business setups that promote partnerships of MYPEs and make use of scale economies is being negotiated. Eco-tourism projects are being developed with MIPYMEs, and greater involvement by NGOs in financing and training actions for the sector are being encouraged, especially among those that can be subject to prudent regulation and supervision by area authorities. These experiences could be extended to other sectors.
120. Other actions aimed at benefiting the sector include: the creation of a micro-credit fund (US\$200,000) for supporting the metal-mechanics and wood transformation industries, shoemaking, agro-industry and textiles; the establishment of the Social-Economic Sector Development Fund (FODESSE), managed by FONAPROVI; and the creation of an Internet site where business management tools may be found (www.infomipyme.com).
121. The technical assistance being provided to institutions supporting this sector has been aimed at improving credit methodologies, simplifying credit approval procedures and processes, analyzing markets for expansion into new geographic areas, and developing information management systems, internal oversight and human resources. These efforts are contributing to the development of micro and small-scale enterprises, and to greater sustainability among micro-finance institutions.
122. The following programs and/or projects are being developed with the goal of promoting the economic development of intermediate cities and neighboring zones, and improving access to basic services in urban areas: Stage II of the SANAA-CARE-COMMUNITY program, Water for Peripheral Neighborhoods, La Ceiba, Atlántida, and the Underground Water Technical Assistance Project.

4. INVESTING IN HUMAN CAPITAL

123. In the area of education, the main purpose of programs, projects and poverty reduction measures is to **improve the quality and expand the coverage of education**. The following progress has been made in relation to the goals and policy measures delineated in the PRSP:

To improve quality:

- Official adoption of the national pre-basic education curriculum, implemented in 16 provinces of the country.

- Design of the National Curriculum for Basic Education, with a comprehensive approach that is pertinent to the nation's development needs, and that incorporates, among other things, the strengthening of values and national identity. This process also includes linking with teacher training programs, and implementing participatory strategies that involve Honduran society—especially parents and the community—in formulating and promoting profound reforms at different levels of the educational system (pre-basic, basic, middle and higher).
- Concerted definition and implementation of a 200 class-day school year, rather than 135 days as in previous years.
- Application of academic performance tests in Spanish, mathematics and natural sciences with students, so that corrective measures pertaining to teacher and student performance may be applied. The results of these tests will be published, so that Honduran society may know the situation of Honduran students.
- Initiation of the Plan to Transform Teacher Training Schools, which converts them into initial training centers for teachers, centers for training teachers already exercising the profession, academic high-school training centers, and/or technical training centers.
- Official adoption of the Curricular Program implemented beginning in 2003, as the instrument that will help teachers manage their time and the learning processes of students.
- Development of norms for implementing an educational management model in Basic Education Schools (7th-9th grade) and Primary Schools, that include the conceptual foundation, pedagogic model, management model, and educational project for the school.
- An important strategy for basic education is re-examining already systematized and validated projects that can make the process of concretizing curricula at the classroom and school level feasible, integrating the decentralization of curricula, administration and teacher training. In this regard, it is important to highlight the methodological processes of the “EDUCATODOS,” “PRALEBAH,” “DECUMH” and “FEBLI” projects. EDUCATODOS and PRALEBAH are initiatives that offer alternative educational services to young people and adults. DECUMH utilizes community participation methodologies in schools located in marginal urban areas, and the FEBLI Project is associated with improving the quality of education through using community participation methodologies in rural areas.
- Initiation of the development of efficient information and statistics systems, to assist decision-making and more accountable management of human and financial resources.

To improve coverage and quality:

- Operation of 1,025 PROHECO schools, 56 of which were created in 2001. Through this educational management model, parents are responsible for the financial and administrative management of preschools and primary schools.
- Creation of 1,384 jobs at different educational levels.
- Conversion of primary schools into basic education schools for the 7th-9th grades. This includes construction of 100 new schools.
- Expansion of the coverage of alternative service delivery systems, through which around 150,000 young people and adults excluded from the formal educational system have been served.
- Design and approval of the Honduras Education for All Plan, 2003-2015, with total resources of approximately US\$86.0 million. The objective is to achieve universal graduation from the sixth grade by school age children, by the year 2015.

124. Despite these advances, the education sector's legal and institutional norms need to be updated and approved to bring about the radical changes that a real educational transformation requires. Thus, a draft law aimed at such changes is expected to be presented to the National Congress once it has been reviewed, adapted and concerted among different actors in this sector. In addition, the nation has benefited from the Education for All Plan for 2003-2015, whose objective is achieving universal sixth grade graduation by all school age children by 2015. The proposal includes five main programs: i) efficient basic education; ii) high quality and efficient teachers; iii) strengthening pre-basic education; iv) equity and access to intercultural bilingual basic education; and v) rural educational networks. The total cost of the programs during the 2003-2005 period is L.1.429 billion (US\$86.0 million), with average annual spending of L.475.0 million (US\$28.6 million).
125. The PRSP's priorities in health are strengthening primary care, attention to women, and greater efficiency and quality in health service delivery. In this sense, the following progress has been made:
- Through a political-technical process, the Health Secretariat has formulated a Strategic Plan for the Health Sector to 2021. The Plan's goal is engendering a new health "culture" among the most vulnerable population.
 - The new governmental administration defined eight priority programs: healthy municipalities, mother-child health, control of vector-transmitted diseases, comprehensive care for school children and adolescents, comprehensive care for older adults, tuberculosis control, fighting sexually transmitted diseases and HIV/AIDS, and health sector reform.
 - Implementation of the Institutional Reorganization Program and Extension of Basic Health Sector Services (PRIESS) was geared up, financed with resources from and IDB loan of US\$36.0 million. Its main achievements included:
 - Implementation of a pilot program in the El Rodeo community (Francisco Morazán province), with the goal of defining a working model for building healthy communities.
 - The delivery of a basic package of health services was begun, covering more than 181,000 people in 749 extremely poor rural communities, with an average investment of US\$15 per person per year. Coverage is expected to extend to 500,000 people in 2003.
 - Community Committees that promote and monitor local health conditions have been organized, and community funds have been set up to attend to health emergencies, as the first priority, and to finance environmental health projects as a second priority.
 - The Health Sector Reform Project was approved, and has received a World Bank loan of US\$27.0 million. Its objective is helping to improve the efficacy, quality and equity of the health care system, and to develop mechanisms that promote the IHSS's financial sustainability.
 - The Expanded Program of Immunizations (EPI) was strengthened, which has helped maintain high vaccination coverage rates among children, women of childbearing age and high-risk groups.
 - The Comprehensive Family Care Program serves mainly children between 0-5 years of age and women of childbearing age, through a range of interventions including immunizations, comprehensive community-based care for children (AIN-C), comprehensive care for childhood diseases (AIEPI), promoting breastfeeding practices, and the provision of iron, folic acid and Vitamin A supplements.

- An investment of 25 million in national funds allowed the treatment of patients with HIV/AIDS with anti-retroviral therapy to begin, benefiting 1,223 people (as of September 2003).
 - The Honduran proposal to the Global Fund for efforts related to fighting HIV/AIDS, Tuberculosis and Malaria was approved, which will allow these three priority programs to be implemented using a modality that involves extensive community participation. The program will receive US\$41.0 million, \$7.0 million of which will be used for tuberculosis, \$7.0 million for malaria, and the remainder for preventing and treating HIV/AIDS.
 - The approval of the Program on Equitable Access to Health Services and Decentralized Health Care Administration, to be implemented between 2003 and 2005, was awarded US\$7.5 million in non-reimbursable resources. This program focuses on decentralizing health services and local development efforts. The Healthy Municipalities strategy was initiated through signing agreements with the municipal consortiums (*mancomunidades*) of the Olancho, Valle de Sesecapa and Güalcince municipalities in northern Honduras.
126. To improve access to basic services by both rural and urban populations and improve the quality of these services, the “Housing for People” Program was initiated, targeting families with monthly incomes that include up to four minimum wage salaries. This program includes: i) an up-front family contribution; ii) a family housing subsidy or bonus; and iii) credit from private sources. Important actions aimed at decentralizing water and sanitation services have been undertaken, for which approval of the Water and Sanitation Law has been supported and promoted. This Law will help municipalities to assume service provision in an efficient and rational manner. In addition, actions aimed at improving the sewage and waterworks systems in different parts of the country have been carried out, along with the construction of rural roadways and the expansion of electricity and telecommunications coverage in rural areas.

5. STRENGTHENING SPECIAL PROTECTION FOR SPECIFIC GROUPS

127. In relation to Social Security Networks, the Social Cabinet has been mandated by the President to take actions that develop a conceptual and operational framework for the nation’s Social Policy, so that the PRSP’s implementation will be based on the criteria of decentralization, focalization, organization of the service supply and efficient program development, to favor the nation’s most vulnerable population. This document will be finalized and begin implementation in the near future. This is discussed in more detail in other sections of this report.
128. Simultaneously, actions to improve the living conditions of the poorest population, especially in rural zones, will continue. These actions will include small social infrastructure projects through the FHIS, and the assignment of income compensation bonds by the PRAF. These institutions will also work to improve community focalization and participation mechanisms.
129. Various programs are implemented through IHNFA: i) Family Welfare, with preventive activities to strengthen families, attend to children and promote rights; ii) Social Intervention, aimed at children and adolescents living in high risk situations; iii) Social Re-education and Reinsertion, aimed at educating adolescent lawbreakers.
130. With respect to the disabled, the Health Secretariat has coordinated and facilitated consensus between civil society actors and the public sector, in the form of a rehabilitation policy document that proposes the creation and organization of a technical structure to regulate and implement a national plan to prevent, treat, and comprehensively rehabilitate disabled people, and promote and protect their rights and obligations.
131. Also, a National Action Plan on Disabilities is being developed as the instrument for operationalizing policies. A module to measure disabilities has been inserted into the INE surveys,

and technical cooperation agreements have been subscribed to implement rehabilitation strategies in the La Mosquitia communities. In addition, special programs for the disabled have been created, coordinated by FHIS/ FIDAS.

132. In this same context, a budget line has been created to subsidize 47 institutions providing non-profit services to the disabled, and thereby develop more efficient services for this population group.
133. Important progress has also been made in the framework of the Program to Eradicate Child Labor. Significantly, the Inter-Institutional Commission was reactivated and the Regulations on Child Labor in Honduras were approved, through Executive Accord No. STSS0211-01. In addition, the Permanent Commission to Protect the Physical and Moral Integrity of Children was created, which will operate in an advisory capacity with the Executive on a permanent basis.
134. To protect and strengthen women's rights, the National Policy on Women and Equal Opportunities Plan were formulated and approved, through a consultative process nationwide that included government institutions, non-governmental organizations and female representatives from different regional organizations. In addition, the Special Program on Women's Rights of the National Human Rights Commissioner was created, which focuses specifically on discrimination, sexual and reproductive health, violence, and health rights. Work is underway to incorporate a gender approach into the formulation of public policies, action plans and institutional budgets, and significant progress has been made to date.
135. To improve the socio-economic situation of ethnic groups, the Government of Honduras ratified the International Convention to Eliminate All Forms of Racial Discrimination (Decree No. 61-2002). In addition, the National Indigenous Council and Technical Unit on Communities of African Descent were organized, and the Indigenous People's Council (COPIN) was legally incorporated. Property titling and land awards to ethnic groups have continued, providing additional support for productive investments. The implementation of the "Our Roots" Program through the FHIS has also continued, which funds projects to support cultural and economic activities in indigenous and Afro-Caribbean communities
136. The Secretariat of Governance is coordinating actions to guarantee compliance with the Law on Special Treatment for the Elderly, Retirees and Pensioners due to Disabilities, better known as the Elderly Law. Other efforts are taking place through the Health Secretariat, as part of the Comprehensive Care Program for Older Adults.

6. GUARANTEEING THE STRATEGY'S SUSTAINABILITY

137. To guarantee **transparency** (accountability) in public management, especially in program and project implementation, the auditing and inspection of programs and projects has begun as part of the Program on Efficiency and Transparency in State Purchases and Hiring. So far, 120 inspections have been made and 76 final reports have been written.
138. In the framework of modernizing State supervisory structures, the Supreme Accounts Tribunal was created through Legislative Decree No. 268-2002. This is a constitutional reform, approved on January 17, 2002, and ratified through Legislative Decree No. 2-2002.
139. In late 2001, the Manifesto of Political Parties was signed, with the goal of improving the quality of **democratic institutions**. Through this, reforms to the National Elections Tribunal and the National Registry of Persons were proposed, along with the constitutional incorporation of plebiscites and referendums, electoral campaigns, political alliances, political financing, election of deputies, and presidential designates. Reforms to the Electoral Law and Political Organizations Law were also proposed. In line with these proposals, constitutional amendments were passed in November that create the figure of the Vice-President, to replace presidential designates, and that separate the National Registry of Persons (RNP) from the National Elections Tribunal (TNE).

140. Moreover, a proposed Law on the Administration of **Public Functions** includes the creation of the Public Administration Superintendency (the Superintendent will have the rank of Vice-Minister) substituting the Civil Service General Directorate, and the creation of a body of professional and permanent public servants. Furthermore, the process of State re-engineering of 72 public entities has begun⁵.
141. To strengthen the independence of the **judicial system**, a Constitutional Reform to improve the administration of justice was ratified in January 2002. Through this reform, a Nominating Board was created that will elect a new Supreme Court, through a transparent process that involves broad-based participation of civil society sectors. In addition, the New Penal Procedures Code entered force in February 2002, which will guarantee more equity in the application of justice. The Constitutional Court was put into operation, and Sentencing Judges were named. In addition, the Inter-Institutional Commission on Penal Justice, the Public Ministry and the Public Defender's Office have been strengthened.
142. In the area of **public security**, a "War on Delinquency" has been declared to guarantee social order and the right to life and property. This program's actions have included the creation of various Specialized Units (Anti-Kidnapping, the Mobile Rural Unit, Tourism Police, the Northwestern Sub-Division, and the Gang Prevention Unit), and the initiation of a Safer Community Pilot Project. As a result, the number of crimes dropped in 2002, especially crimes against: property (737), state security (385), freedom and security (258) and public safety (236).
143. To more effectively decentralize and deconcentrate central government functions and transfer these to the municipalities, the National Decentralization and Local Development Program (PRODDEL) was approved in March, after different sectors had reached consensus about its content. In addition, training was provided to 141 mayors and 210 civil society representatives and government functionaries in 2002. In August, an agreement was signed initiating the decentralization of small scale capital works with FHIS funds, in 50 municipalities of Honduras. During the first half of 2003, decentralization is programmed to begin in the health and education sectors that have been prioritized by the Government.
144. The Territorial Organization Law, the Water Law and the Forestry Law are all awaiting approval by the National Congress, with the goal of improving and updating the legal framework for **environmental** issues. The three laws are being reviewed and adjusted by Commissions that were appointed by the Legislature for this purpose. It is possible that these laws will be subjected to new discussions with representatives from different sectors of civil society and municipal governments.
145. To set the norms for key aspects related to contamination, the Air Quality Regulations and Sonic Contamination Regulations have been developed and are being discussed. The National Congress approved the Regulations for controlling Sewage and Waste Water, and the Regulations for Gas Contaminants and Vehicle Emissions are being modified.

⁵ Deconcentrated and decentralized Line Ministries, Directorates, and Institutions.

146. To organize the use of the national territory, a National Territorial Organization Program (PRNOT) is being implemented. This program is made up of four components: 1) the pilot project in the Lejamaní, Ajuterique and Comayagua municipalities, whose final outcome will be a Regional Territorial Organization Program for the three municipalities and an Urban Territorial Organization Program for Comayagua; 2) validation of the Program through participatory processes; 3) the design of the guidelines for a nationwide Territorial Organization Program; and 4) policies and legislation, which will orient policies and review the Territorial Organization Law on the basis of the experiences that take place. The Secretariat of Governance will be responsible for developing the National Organization Strategy and the final review and adaptation of the Organization Law, as well as its application.
147. To provide a regulatory framework for water resources and the comprehensive management of watersheds, the Secretariat for Natural Resources and the Environment has general guidelines in place for developing a National Strategy on the Comprehensive Management of Watersheds, and an implementation plan is being developed.
148. To help reduce poverty and the environmental, economic and social vulnerability that affects critical territorial areas of 14 sub-basins in the Ulúa, Chamelecón and Nacaome River watersheds, the Multi-Phase Management Program for Priority Watersheds began implementation in 2002 in the framework of PRONADERS, which will receive US\$76.2 million in financing from the IDB.

Box 4

The Fight Against Corruption: A Strategic Component of the PRSP

Without a doubt, corruption is a great obstacle to eradicating poverty in Honduras. Tax evasion reduces the availability of funds for priority programs. The use of public funds for illicit personal enrichment has the same effect. The private sector's perception that property titles are not secure in Honduras, where the court system is corrupt, where contracts cannot be enforced, and where large quantities of money must be paid to public officials to be able to conduct business has undoubtedly limited investments in the country. The cost of such investments is increased even more by a "country risk" component that raises interest rates on loans for financing activities in Honduras.

For these reasons, the fight against corruption is a key part of the PRSP. Progress in this respect has been very positive. One example is the reinstallation of the *National Anti-Corruption Council* in February 2002, which has played a central role in this process. Some of the anti-corruption measures include:

Measures to strengthen the independence of the judicial system and improve property registries: A Constitutional Reform to improve the administration of justice was ratified. This will allow the installation of a new Supreme Court in January 2002, selected through a transparent process involving extensive civil society participation. In addition, the New Penal Procedures Code entered force in February 2002, which guarantees more equity in the application of justice. The Constitutional Court was put into operation, and Sentencing Judges were named.

Measures to reduce corruption in public spending: The new State Contracting Law was passed, and the State's supervisory structures have been modernized. The Supreme Accounts Tribunal (TSC) was created, and the Efficiency and Transparency Unit for state purchases was reactivated. External audits of Government programs have been conducted by international firms, producing 76 final audit reports. The use of international agencies such as the UNDP for public financed hiring processes has been expanded.

Measures to reduce tax evasion: The Financial Equilibrium and Social Protection Law was passed, authorizing the closure of businesses that do not pay Sales Taxes. As a result of this measure, tax collection increased by approximately 900 million Lempiras.

149. To improve the environmental impact assessment system, the National Congress approved modification of Article 78 of the General Environment Law, so that environmental licenses will fall into three different categories, depending upon the degree of impact they will have on the environment. The environmental license will only be maintained for projects with high environmental impact, while other categories will only need to obtain registration and authorization. With this simplification, the time for issuing environmental licenses will be reduced from 2-3 years to six months. In addition, agreements have been signed with the Tegucigalpa and San Pedro Sula municipalities to decentralize environmental licensing processes under their jurisdiction. And streamlining of measures for mitigating negative environmental effects of projects requiring environmental licenses has proceeded, through developing standardized contracts with gas stations, lumber mills, waste water treatment plants, infrastructure projects, chicken producing projects, *maquila* industries and sugar producers.
150. Implementation has begun of an environmental information system, including: i) an evaluation of information generated by each institution that makes up the SINIA; ii) the development of a design for SINIA; iii) partial implementation of the designed system through developing, prioritizing and concerting a series of indicators related to the environment and sustainable development, and iv) implementation of a data, indicator, map and statistics module, through the Natural Disaster Mitigation Project.
151. To promote citizen participation in environmental protection, the following activities have been carried out:
- Training for teachers about environmental themes has continued, didactic materials have been produced and clubs of student and teacher environmentalists have been organized in different parts of the country. In addition, different public institutions have conducted seminar-workshops nationwide about incorporating environmental variables and risk control into projects. Training and environmental awareness activities have also continued via NGOs.
 - Agreements have been made with around 15,000 families to develop community forestry in a 400,000-hectare area of forestland. The lands have been legally titled and people located in forest zones of the nation's poorest provinces have received training.
 - The National Strategy on Protection against Pests and Forest Fires, and the National Resin Extraction Strategy have been developed in 1,080,000 hectares of pine forest. These strategies include a strong citizen participation component. It is hoped that promoting resin extraction from pine trees will reduce rural unemployment, through involving some 20,000 people living in 50,000 hectares of forest zones.
152. In the area of Risk Management, the following are some of the key activities developed in the framework of a strategy to prevent, mitigate and respond to emergencies:
- Development of the first proposal for a Risk Reduction and Emergency Response Law, which is currently being discussed. This law will give life to the National Emergency and/or Disaster Prevention and Response System, and includes strengthening the COPECO to coordinate public and private planning, organizing, directing, implementing, and monitoring of emergency management and risk management efforts.
 - Initiation of a Program to strengthen COPECO's financial and human resource administration, and a plan to strengthen the system's member organizations.
 - Initiation of the process of decentralizing COPECO, through establishing 7 regional offices located in the nation's main cities, and opening two new regional operations centers in the Bay Islands and Mosquitia, and one new provincial office in Yuscarán (El Paraíso). In addition,

implementation of the MACOE Program has begun, which is aimed at developing an operational plan for regional emergency operation centers.

- Implementation of the Disaster Mitigation Program with World Bank funds (US\$12 million), aimed at strengthening the municipal capacity to reduce risks and vulnerability to natural disasters. The project is being implemented by SERNA-COPECO-AMHON, and includes the provision of search and rescue equipment, the development of information systems, raising awareness, training, support to the Building Code, and the establishment of a seismic network to improve response capacities to the threat of earthquakes.
 - Installation of a radio-communication network with 11 repeaters in a national network, covering 85% of the national territory including Mosquitia, and 12 repeaters in a regional system. Provision of speedboats for aquatic search and rescue efforts for the municipalities most vulnerable to flooding, and training throughout the country in using and maintaining all of this equipment. In addition, a diagnostic was conducted to determine the preventive and corrective operational and maintenance capabilities of all hydro-climatological stations, which allow the conditions of the main rivers to be read in real time over internet and thereby alert populations in a timely manner. Also, maintenance was provided to the network of telemetric stations in the Choluteca and Aguan River watersheds and their databases were updated, which is of utmost importance for developing contingency plans.
 - The National Disaster Training Plan was developed, along with a Manual on Organizing Municipal and Local Emergency Committees. A campaign to raise awareness was organized nationwide through the disaster mitigation project, and the subject of disaster prevention was also introduced in primary schools.
153. To avoid losses to production, employment and income in zones vulnerable to flooding, considerable efforts have been made to build flood control works in various municipalities in the Sula Valley, the Atlantic Zone, the Southern Zone, and the Central District. These have mostly been built with funds from the national budget, and the Sula Valley Executive Commission and the Secretariat for Public Works, Transportation and Housing have taken part in project implementation.
154. To reduce physical, social and economic losses to the agricultural sector caused by drought (which affects certain zones of the country on a regular basis), the Multi-Sector Committee on Drought (COMUS) was created in April 2002. Its members include national and international public and private institutions. It has implemented a Strategic Drought Prevention and Mitigation Plan, which integrates actions by the central government, municipalities, international donors, NGOs, and civil society. The Plan benefits around 600,000 inhabitants of rural zones of the provinces most affected by drought: Francisco Morazán, Yoro, Intibuca, La Paz, Olancho, El Paraíso, Valle and Choluteca. Its efforts are focused mainly on building institutional capacities, strengthening early warning systems, rescue actions or emerging measures, less vulnerable and more sustainable agricultural and livestock production, environmental education, credit for reducing risks, and international cooperation. The cultivation of alternative crops to maize has been promoted, such as cassava, cashews, and sesame seeds. Water catchment systems have been built in different communities, and small dikes have been built for multiple agricultural uses.
155. We may conclude that Honduras made important progress in implementing the policy, legislative and administrative and procedural reforms outlined in the PRSP. This process should continue in 2003-2005, with approval of pending measures.

C. DEVELOPING THE PRSP'S INSTITUTIONAL FRAMEWORK

156. In 2002, the Government worked jointly with civil society to establish the operational framework for the PRSP. As a result, there is a well-defined institutional framework in place, and mechanisms for targeting the PRSP and interfacing it with the decentralization process have been established. Progress has been made in designing systems for monitoring and evaluating the PRSP's policy measures, projects and indicators, and these are expected to be operating soon.
157. The operational-institutional framework contains clearly defined and duly coordinated functions for implementing, monitoring and evaluating the PRSP. Some legal provisions and necessary institutional adjustments have been made with this goal in mind, and new mechanisms have been created to allow adequate linkages between processes, from the central levels to the municipal and local levels. The goal is to achieve poverty reduction goals in the most efficient manner possible, focusing principally on the most vulnerable groups. The most important aspects of this operational framework are the definition of Social Cabinet's functions, the establishment of the Consultative Council, the creation of the Inter-Institutional Technical Support Group, and the creation of the Poverty Reduction Fund.

1. SOCIAL CABINET

158. The highest decision making body in the PRSP's implementation is the Executive Power, via the Social Cabinet, which was created through Executive Decree No. PCM-011-99. The Cabinet is coordinated by the President of the Republic, and is made up of the Ministers of Education, Health, Labor and Social Security, Agriculture and Livestock, and Culture, Arts and Sports, as well as the Minister of the FHIS, the Executive Director of the National Agrarian Institute, and the Head of the Technical Secretariat and International Cooperation.
159. Depending upon the topics to be discussed, the heads of other institutions also take part in the Cabinet, particularly from the National Institute on Women (INAM), the Family Assignment Program (PRAF), the National Statistics Bureau (INE), the Finance Secretariat and the Central Bank of Honduras. These last two institutions have functions related to the Poverty Reduction Fund, and other aspects related to the PRSP's implementation and monitoring.
160. Fundamental actions for monitoring and implementing the PRSP have been discussed and approved by this structure, such as the prioritization of projects, the presentation and approval of the methodology for reformulating social policy, and the approval of social aspects contained in the 2002-2006 Government Plan, especially concerning the systematization of the PRSP's policies and programs for this period, aspects referring to decentralization and focalized implementation of the Strategy, and aspects related to defining the PRSP's Monitoring and Evaluation System.

2. PRSP CONSULTATIVE COUNCIL

161. In the framework of Legislative Decree No. 70-2002, dated April 2002, the PRSP's Consultative Council was created as a participatory and advisory body to the Social Cabinet, in aspects related to the Strategy. The Council was sworn in by the President of the Republic in August 2002. Its composition is as follows:
 - For the Government: The Coordinator of the Social Cabinet, and the Ministers of Finance, Education, Health, Natural Resources and the Environment, and Governance and Justice.
 - For Civil Society: one representative from each of the following sectors: worker and peasant unions, women's organizations, youth and children, private enterprise, micro and small scale enterprises and the social sector of the economy, federations of community associations, other community and ethnic organizations, and non-governmental organizations (NGOs).
 - A representative from the Association of Honduran Municipalities (AMHON).

- And two representatives from the international community (bilateral and multilateral), who participate as observers.
162. The Council began to meet in September 2002. During the first meetings, the Council focused on analyzing the PRSP's implementation, mainly with respect to establishing its operational framework and using interim external debt relief funds (as part of the HIPC initiative). It discussed the report prepared by a consulting firm about the PRSP's System of Indicators (SIERP), and comments from Council members have been included in the final version of the document. The Council's Regulations were discussed and approved after some modifications were made.

3. POVERTY REDUCTION FUND

163. The Poverty Reduction Fund (FRP) was created by Legislative Decree No. 70-2002, cited above, as a financial instrument to be administered by the Executive, via the Finance Secretary. The FRP will exist as long as the PRSP is being implemented—in this case at least 15 years—although it may be continued for longer depending upon the availability of funds.
164. Resources earmarked for PRSP actions are managed through the FRP, thereby achieving greater transparency and efficiency in the use and administration of allocated resources, based on guidelines established by the Social Cabinet in consultation with the Consultative Council.
165. The Law assigns specific functions to the following structures in relation to the FRP's operation: the Social Cabinet, the PRSP's Consultative Council, the Technical Support Unit (UNAT) of the Presidential Secretariat, the Finance Secretariat, and the Central Bank of Honduras. The Fund's annual resources are defined on the basis of annual debt relief, plus other resources destined for the same.
166. During the first year of the PRSP's implementation, the FRP has administered a series of programs and projects linked to the PRSP. These were financed by interim debt relief resources in the framework of the HIPC Initiative, and by national and external cooperation resources. These resources were channeled to the implementing institutions, through Budget Line 29 of the National Budget.

4. INTER-INSTITUTIONAL TECHNICAL GROUP (GTI)

167. The Inter-Institutional Technical Group is a technical structure that was created in the framework of the PRSP. Its main purpose is supporting the Social Cabinet's formulation, implementation, monitoring and evaluation of social policies, and other related tasks. The GTI maintains close coordination with the Technical Support Unit of the Presidential Secretariat.
168. The GTI is made up of the Vice-Ministers of: the Presidential Secretariat (who presides); Finance; Justice and Governance; Education; Health; Public Works, Transport and Housing; Agriculture and Livestock; Natural Resources and the Environment; Tourism; Industry and Commerce; Security; and Foreign Affairs. It also includes the heads of the Honduran Social Investment Fund (FHIS), the Secretariat for International Technical Cooperation (SETCO), the Family Assignment Program (PRAF), the National Statistics Bureau and the National Institute on Women (INAM). Other participants include the directors of the Planning and Evaluation Units (UPEGs) of the institutions mentioned.
169. The GTI has contributed to approving the criteria for prioritizing PRSP programs and projects, and to proposing programs and projects to be prioritized for inclusion in the General Budget for Revenue and Expenditures of the Republic for 2003, and the 2002-2006 Multi-Year Budget. In addition, the GTI has been assigned the role of coordinating Sector Tables, and helping define the priorities for International Cooperation.

5. PRIORITIZING PROGRAMS AND PROJECTS

170. The original PRSP document defined poverty reduction goals and general programmatic areas where national poverty reduction efforts would be focused. However, the document did not contain a specific spending program, given the insufficient time available for its development. The programming was indicative, without calculating specific costs for sub-programs. The work of determining the feasibility of programs and projects and preparing them for financing and implementation was left pending.
171. In 2002, the Government moved ahead with this task, in close coordination with the PRSP's Consultative Council. In the light of the wide scope of the interventions contained in the original PRSP, the decision was made to prioritize programs in order to guide implementation during 2002-2005. This exercise was led by the Presidential Secretariat, through the Technical Support Unit (UNAT) and in coordination with the Inter-Institutional Technical Group (GTI).
172. The prioritization considered projects outlined in the original PRSP document (Appendix B), assigning points for: the correspondence between the area of program intervention and poverty distribution, the correspondence between the intervention and specific goals proposed in the PRSP, the sustainability of the intervention (for example, the existence of resources or mechanisms for offsetting the recurrent expenses of investment projects), and synergy with other PRSP interventions. Appendix D of this report provides details about this process, and contains a list of the prioritized programs and projects.
173. The PRSP Council and the Social Cabinet officially endorsed the list of prioritized programs and projects, and pre-feasibility profiles were developed for each of them. Nonetheless, it was not possible to finance these projects in 2002 due to delays in the HIPC Culmination Point. Moreover, the community of donors showed little interest in projects that were not part of a coherent sector strategy (SWAp), derived from an analysis of goals to be achieved and the availability of resources from different sources.
174. In this context, the most important achievements in mobilizing additional resources for the Poverty Reduction Strategy in 2002 resulted from the SWAps in Education (Education for All) and Health (Global Fund for HIV-AIDS). In 2003, the programming of PRSP programs and projects has been taken up again, using sector analysis methodologies based on goals.

V. UPDATED PRSP PROGRAM FOR 2003-2007

175. This section presents the country's plans for continuing to implement the PRSP in 2003-2005. In the first place, it examines efforts underway to align Government and donors' activities in key program areas for PRSP goals. This effort was needed given the low level of goal fulfillment in 2001-2002, reported in Chapter III. This delay partly reflected delays in the HIPC Culmination Point, but was due, above all, to the lack of programming based on relevant goals. This exercise, initiated in 2003, consisted essentially in redefining and clarifying some of the PRSP's main goals, and assigning sufficient resources to sector programs to be able to meet these goals.
176. As part of this exercise, a change in the PRSP's budgetary approach was proposed, since the original version omitted national funds that actually represent more than 65% of total poverty spending in Honduras. The new programming also reflects successes in accessing additional external resources that will contribute to fulfillment of the PRSP's goals. The reformulated PRSP budget tables are presented, with comments about the trend of poverty spending, its components in 2001-2002, and projections for 2003 and 2007.
177. All of this has led to important adjustments in the PRSP, in comparison to the principal points outlined in the initial document. This has converted the PRSP into a living program that is developed and fortified on the basis of its implementation experiences, and taking account of changing circumstances in Honduras.

A. RE-CALIBRATING THE PRSP'S GOALS

178. As mentioned in Chapter III of this report, the consultative process revealed some weaknesses in the selection of indicators and in the calibration of PRSP goals for 2003-2015. Emphasis was placed on both the need for reliable information sources for monitoring goals, and the need to select goals that would be reasonably influenced by the Strategy's actions. In addition, it was found that the original approach focused overly on social indicators, suggesting the need to include additional goals related to the economic empowerment of the poor.
179. Chapter V.1 presents the revised framework of impact indicators for the PRSP, with annual goals defined for 2003-2006 and for 2010 and 2015. The changes made to indicators, in comparison to the original version, are detailed as follows. In education coverage indicators, net coverage is generally defined on the basis of students who are not over-age for their grade level. This is the information that is currently available in the INE Household Survey. Later, when data about students repeating grades during the current school year is available, this goal may be re-calibrated. In the fourth cycle of secondary education, the goal is redefined in terms of the *emergingt population*, rather than the *emerging work force*, which is a more difficult concept to handle statistically.

**Table V.1
REVISED PRSP GOALS AND INDICATORS**

GOAL	INDICATOR	Real	Revised PRSP Goals					
		2002	2003	2004	2005	2006	2010	2015
Real GDP growth	% of real GDP growth ¹	2.7	3.0	3.5	4.0	4.5	4.5	4.5
Per capita GDP growth	% of per capita GDP growth ²	0.3	0.6	1.1	1.6	2.2	2.3	2.4
Social Spending	Spending on Poverty as % of total Central Government spending ⁴	33.3	33.8	36.2	39.5	43.7	44.0	44.0
Reduce poverty by 24 percentage points	Poverty rate ⁵	63.9	62.1	60.2	58.4	57.3	50.0	42.0
	Extreme poverty rate ⁵	45.0	43.4	41.5	39.7	38.5	32.2	25.0
Double net coverage of pre-basic education through 5 years	Rate of pre-basic education coverage ⁵	32.5	34.9	35.7	36.5	38.6	42.0	60.0
95% net coverage in the two first cycles of basic education	Net coverage rate (excluding over-age) of 1st and 2nd cycles ⁵	88.9	90.7	91.2	91.7	92.5	93.2	95.0
70% net coverage in third cycle of basic education	Coverage rate (excluding over-age) in 3rd cycle of basic education ⁵	30.9	32.9	35.0	37.3	39.7	51.1	70.0
50% of emerging population completes secondary education	Net coverage (excluding over-age) of the Diversified cycle (10-12th grade) ⁵	17.5	19.0	20.6	22.3	24.2	33.4	50.0
Reduce the infant mortality and under 5 mortality rates by half	Infant mortality rate/ 1,000 live births ⁶	34 ¹¹	32	30	29	27	22	18
	Under 5 mortality rate (per 1,000 live births) ⁶	45 ¹¹	43	41	39	37	30	24
Reduce the rate of malnutrition among children under 5 by half	Infant malnutrition rate ⁶	32.9 ¹¹	30.9	29.9	28.9	27.0	22.0	18.0
Reduce maternal mortality by half	Maternal mortality rate per 100,000 live births ⁷	108 ¹¹	102	98	95	93	82	70
Achieve 80% coverage of electricity services	Rate of electricity coverage ³	64.2	66.0	67.2	69.0	70.1	75	80
Triple telephone coverage nationwide and establish access in all population centers with > 500 inhabitants	Fixed line density x each 100 inhabitants ¹⁰	4.4 ¹²	5.8	7.2	9.1	10.0	12.0	14.0
	Number of population centers with > 500 inhabitants without telephone service	3000	3000	2700	2400	2100	1000	0
95% access to potable water and sanitation	% of population with access to potable water ³	81.3	82.1	82.6	83.4	85.0	90.0	95.0
	% of population with access to excreta elimination systems ³	67.6	70.7	71.9	73.0	76.0	85.0	95.0
Raise women's human development index by 20%	HDI relative to gender ⁸	0.64 ¹¹	0.65	0.66	0.67	0.69	0.72	0.76
	Gender empowerment index ⁸	0.46 ¹¹	0.47	0.48	0.49	0.53	0.55	0.58
Reduce the nation's environmental vulnerability	Number of priority protected areas (PAs) with management plans ⁹	12 ¹¹	15	23	31	39	39	39
	% of total surface of priority PAs with management plans ⁹	n.a.	60	75	90	100	100	100
	National forest coverage	Pending re-calibration of indicator and goal						
	Air pollution in urban centers (ug/m3 of PTS)	Pending re-calibration of indicator and goal						

¹ BCH, ² UNAT, with numbers from BCH and INE, ³ CNPV / INE, ⁴ SEFIN, based on the new definition of poverty spending ⁵ Estimates based on EPHPM. ⁶ ENESF ⁷ Secretariat of Health, Research about maternal mortality and women of childbearing age in Honduras, 1997; ⁸ Human Development Report 2000; ⁹ COHDEFOR, based on the National System of Prioritized Protected Areas (40 protected areas).66.0 ¹⁰ Honduras. Report on infrastructure policy. ¹¹ 2001 data. ¹² 1999 data.

180. With respect to the economic empowerment of poor populations, goals for infrastructure service coverage have been added: electricity (where the proposed goal is increasing coverage to 80% by 2015, from 64% registered in 2002); and telecommunications (where the proposed goals are increasing the number of fixed lines from 4.4 per 100 people in 1999 to 14 in 2015, and reducing the number of population centers without access to telecommunications, from 3,000 today to 0 in 2015 (300 fewer each year). The incorporation of a goal related to the cost and time of setting up a business is currently being studied, since this is another important factor affecting the nation's economic development. Finally, the group of goals related to implementing a sustainable

development strategy has been redefined. The new goal is: Reducing the Nation's Environmental Vulnerability. The specific indicators are: the number of prioritized Protected Areas with management plans, and the percentage of the surface area of PAs covered by such plans (which should grow to 39 areas and 100% of the surface covered by 2006). It should be noted that due to problems with measuring and calibrating goals for forestry coverage and for air contamination in urban centers, these two indicators are being studied so they may be technically reformulated.

Box 5

ACHIEVING THE PRSP'S GOALS FOR SECONDARY EDUCATION

The PRSP proposes achieving 70% net coverage for the third cycle of basic education (grades 7-9). The baseline coverage in 2000 was 24%, using the definition that excludes over-age children, and 41% when excluding only the children repeating the current school year. To achieve 70% coverage, the supply of services to this sub-group will need to be increased significantly, along with increased demand for post-primary studies.

The cost of these programs will be considerable. To increase third cycle coverage to 56% in 2010, the total enrollment in the 7th, 8th and 9th grades will need to increase from 231,000 to 380,000. Expansion of the private provision of services will need to be stimulated to attend to non-poor populations, concentrating public budget efforts on attending to poor children. However, most of the increase will need to be publicly financed, because most of the children to be incorporated will be from low-income families. Thus, the number of students in public schools will need to increase from 110,000 to 220,000.

The public services currently available have an average cost of \$420 per student per year. If coverage were to be expanded to achieve the PRSP goal at the current cost, public spending for the third cycle of education would need to increase from 0.63% of the GDP in 2003 to 0.98% in 2010 and to 1.23% in 2015. This suggests the importance of pursuing strategies that minimize budgetary costs, as well as flexible service provision strategies that allow young people who need to work to continue with their studies.

Based on these considerations, an expansion strategy that involves improved efficiency, a relatively reduced role for traditional educational institutes, and greater participation in non-traditional modalities that cost less (such as the Basic Education Centers and EDUCATODOS) is being proposed. This strategy will limit increases in spending, reaching only 0.93% of the GDP in 2015. Even then, public spending will need to increase significantly to be able to achieve the PRSP goals in this area. Of this total, approximately 90% will be recurrent expenditures and 10% capital outlays.

Source: Analysis and Cost Projections of the PRSP Goals for the Third Cycle of Basic Education in Honduras. ESA Consultants / World Bank, July 2003.

B. PROGRAMMING TO ACHIEVE THE PRSP GOALS

181. To strengthen the analytical base for the Strategy's programming, studies have been undertaken to quantify the costs needed to fulfill the PRSP's main goals, when possible. This process has received support from the international community (USAID, the World Bank and the IDB). For example, a study about the specific cost of achieving the PRSP's goals for Third Cycle Basic Education coverage and Graduation from Secondary School has been conducted. This study evaluates the costs needed for different scenarios, depending upon the efficiency of spending and service provision modalities (See Box).
182. Similarly, the Government has begun studies to determine how to achieve the primary and preschool education coverage goals, the water and sanitation coverage goals, and the coverage goals for basic health programs. Based on these studies, the modalities through which services will be expanded and administered will be determined, along with the sources of financing for both the capital spending and recurrent costs of such services.

C. NEGOTIATING ADDITIONAL RESOURCES

183. The Government has been negotiating additional resources to complement the HIPC resources. In 2002-2003, important amounts for financing the PRSP were negotiated. Honduras's successful incorporation into the Education for All (EFA) initiative was particularly important. As part of this initiative, the nation will receive a total of US\$86 million between 2003 and 2005 for working to improve the efficiency and quality of basic education. Similarly, Honduras will receive US\$40

million for programs related to HIV-AIDS and similar diseases, under sponsorship of the Global Fund.

184. Other important opportunities for increasing PRSP financing include the Consultative Group that will soon be organized by the Honduran Government and the donor community, and the United States' Millennium Challenge Account (it is likely that Honduras will qualify for the program's first stage). In addition, the conclusion of a PRGF Agreement with the IMF will open the way to World Bank and IDB credit to support the PRSP. In addition to providing additional resources, these programs and initiatives contribute to refining and defining more precisely the PRSP.
185. Nonetheless, many of those consulted about the draft version of this report indicated that the PRSP should not only be seen as a mechanism for analyzing the external funds that are needed to confront the problems associated with poverty. It is important to also highlight the enormous efforts being financed by national resources to attend to problems related to agriculture and to promote social housing, and the ambitious program to strengthen citizen security, which is essential to the nation's socio-economic progress.

D. REFORMULATING THE PRSP'S BUDGETARY FRAMEWORK

186. One of the most important changes being currently proposed is expanding the PRSP's budgetary framework. The new approach includes efforts financed with national resources that are part of spending on poverty reduction.⁶ It also includes the necessary recurrent spending needed to provide services, rather than just considering capital outlays. These costs are relevant to achieving many of the goals, above all those related to human development (education and health).⁷ It should be stressed that the new approach is congruent with generally accepted principles for defining and monitoring poverty spending in the framework of HIPC programs (See Box 6).

Program	Implemented through December		PROJECTED				
	2001	2002	2003	2004	2005	2006	2007
1. Accelerating equitable and sustainable economic growth	70.3	117.8	34.6	104.2	164.7	352.3	375.1
2. Reducing poverty in rural zones	1,528.7	1,205.8	1,131.8	1,087.0	1,346.4	1,704.5	1,744.3
3. Reducing poverty in urban zones	484.3	431.2	632.3	843.9	885.2	751.2	562.8
4. Investing in human capital	4,293.7	4,754.5	5,297.4	6,520.4	6,860.4	7,639.3	8,718.5
5. Strengthening social protection for specific groups	515.5	397.0	398.3	476.6	450.4	431.3	393.7
6. Guaranteeing the Strategy's sustainability	1,859.8	1,249.3	1,396.0	1,674.9	2,156.0	2,458.9	2,759.7
7. To be designated	0.0	0.0	39.0	17.0	960.3	2,027.6	2,783.5

⁶ Previously, only national counterpart funds from externally financed programs were included.

⁷ To avoid distortions in measuring poverty reduction efforts associated with possible salary increases that may go beyond what is reasonable given the nation's income levels, the methodology used estimates admissible spending for salaries in education and health for the PRSP based on the per capita GDP. Concretely, the average admissible salary in education is 3.5 times the per capita GDP, and 5 times the per capita GDP for health salaries. These values were selected on the basis of values observed in neighboring countries (Nicaragua and El Salvador).

Total PRSP	8,752.2	8,155.6	8,929.4	10,724.0	12,823.3	15,365.2	17,337.5
Financing Source	2001	2002	2003	2004	2005	2006	2007
National Funds	5,138.0	5,598.6	5,789.1	6,514.6	7,642.4	8,508.6	9,556.0
Loans	2,526.7	1,682.4	2,126.9	2,193.8	2,560.8	3,129.5	3,289.0
Donations	776.3	406.6	508.2	1,476.8	1,021.9	1,028.7	1,268.7
HIPC	311.2	468.0	505.3	538.8	1,510.0	1,487.7	1,288.7
To be financed	0.0	0.0	0.0	0.0	88.2	1,210.7	1,935.1
Total PRSP	8,752.2	8,155.6	8,929.4	10,724.0	12,823.3	15,365.2	17,337.5
Economic Classification	2001	2002	2003	2004	2005	2006	2007
Salaries	3,258.0	3,680.7	3,979.9	4,489.2	5,061.0	5,584.2	6,093.3
Goods and Services	695.0	675.3	717.1	1,401.3	1,392.9	1,449.9	1,796.9
Recurrent Transfers	855.5	864.0	937.9	1,413.1	1,635.1	2,517.1	2,413.1
Capital Transfers	3,293.6	2,480.4	2,700.0	2,769.1	3,991.0	4,489.4	4,845.4
Investment	582.1	436.4	517.2	566.1	657.2	1,175.8	2,075.2
Concessionary Loans	68.2	18.9	77.4	85.2	86.1	148.8	113.7
Total PRSP	8,752.2	8,155.6	8,929.4	10,724.0	12,823.3	15,365.2	17,337.5

Source: Sefin- UPEG, financial programming

187. Table V.2 summarizes PRSP financing during 2001-2007 using the new approach, expressed in millions of Lempiras. Table V.3 presents the same data as percentages of the GDP, and Table V.4 presents their structural percentage. Each table contains a breakdown by PRSP program, by funding source (differentiated between loans, donations, debt relief funds and national funds), and between recurrent expenses and capital outlays. Appendix 3 presents the detailed definition used, and a list of all spending that has been included, grouped by PRSP program.

Table V.3							
PRSP Budget 2001-2007, Expanded Definition							
<i>% of GDP</i>							
Program	Implemented through December		PROJECTED				
	2001	2002	2003	2004	2005	2006	2007
1. Accelerating equitable and sustainable economic growth	0.1	0.1	0.0	0.1	0.1	0.2	0.2
2. Reducing poverty in rural zones	1.5	1.1	1.0	0.8	0.9	1.0	1.0
3. Reducing poverty in urban zones	0.5	0.4	0.5	0.6	0.6	0.5	0.3
4. Investing in human capital	4.3	4.4	4.5	4.9	4.7	4.7	4.9
5. Strengthening social protection for specific groups	0.5	0.4	0.3	0.4	0.3	0.3	0.2
6. Guaranteeing the Strategy's sustainability	1.9	1.2	1.2	1.3	1.5	1.5	1.5
7. To be designated	0.0	0.0	0.0	0.0	0.7	1.2	1.6
Total PRSP	8.8	7.5	7.5	8.1	8.7	9.4	9.7

Financing Source	2001	2002	2003	2004	2005	2006	2007
National Funds	5.2	5.2	4.9	4.9	5.2	5.2	5.3
Loans	2.6	1.6	1.8	1.7	1.7	1.9	1.8
Donations	0.8	0.4	0.4	1.1	0.7	0.6	0.7
HIPC	0.3	0.4	0.4	0.4	1.0	0.9	0.7
To be financed	0.0	0.0	0.0	0.0	0.1	0.7	1.1
Total PRSP	8.8	7.5	7.5	8.1	8.7	9.4	9.7
Economic Classification	2001	2002	2003	2004	2005	2006	2007
Salaries	3.3	3.4	3.4	3.4	3.4	3.4	3.4
Goods and Services	0.7	0.6	0.6	1.1	0.9	0.9	1.0
Recurrent Transfers	0.9	0.8	0.8	1.1	1.1	1.5	1.3
Capital Transfers	3.3	2.3	2.3	2.1	2.7	2.7	2.7
Investment	0.6	0.4	0.4	0.4	0.4	0.7	1.2
Concessionary Loans	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Total PRSP	8.8	7.5	7.5	8.1	8.7	9.4	9.7

Source: Sefin- UPEG, financial programming

Program	Implemented through December		PROJECTED				
	2001	2002	2003	2004	2005	2006	2007
1. Accelerating equitable and sustainable economic growth	0.80	1.44	0.39	0.97	1.28	2.29	2.16
2. Reducing poverty in rural zones	17.47	14.79	12.67	10.14	10.50	11.09	10.06
3. Reducing poverty in urban zones	5.53	5.29	7.08	7.87	6.90	4.89	3.25
4. Investing in human capital	49.06	58.30	59.33	60.80	53.50	49.72	50.29
5. Strengthening social protection for specific groups	5.89	4.87	4.46	4.44	3.51	2.81	2.27
6. Guaranteeing the Strategy's sustainability	21.25	15.32	15.63	15.62	16.81	16.00	15.92
7. To be designated	0.00	0.00	0.44	0.16	7.49	13.20	16.05
Total PRSP	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Financing Source	2001	2002	2003	2004	2005	2006	2007
National Funds	58.7	68.6	64.8	60.7	59.6	55.4	55.1
Loans	28.9	20.6	23.8	20.5	20.0	20.4	19.0
Donations	8.9	5.0	5.7	13.8	8.0	6.7	7.3
HIPC	3.6	5.7	5.7	5.0	11.8	9.7	7.4
To be financed	0.0	0.0	0.0	0.0	0.7	7.9	11.2

Total PRSP	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Economic Classification	2001	2002	2003	2004	2005	2006	2007
Salaries	37.2	45.1	44.6	41.9	39.5	36.3	35.1
Goods and Services	7.9	8.3	8.0	13.1	10.9	9.4	10.4
Recurrent Transfers	9.8	10.6	10.5	13.2	12.8	16.4	13.9
Capital Transfers	37.6	30.4	30.2	25.8	31.1	29.2	27.9
Investment	6.7	5.4	5.8	5.3	5.1	7.7	12.0
Concessionary Loans	0.8	0.2	0.9	0.8	0.7	1.0	0.7
Total PRSP	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Sefin- UPEG, financial programming

188. According to the new definition, total spending on poverty dropped from 8.8% of the GDP in 2001 to 7.5% in 2002. This reduction is due mainly to the termination of programs from the Master Plan for National Reconstruction and Transformation that were incorporated into the PRSP.⁸ It is hoped that the same total will be maintained in 2003, and then gradually increase in 2004 and onwards, to reach 9.7% of the GDP in 2007. This increase is needed to make progress toward the PRSP goals that were delayed in Honduras in 2001-2002.
189. In programmatic terms, the Human Capital Investment program absorbed 58% of total spending in 2002, which should reduce in 2005 onwards to reach a total of 50% in 2007. The Rural Poverty Reduction program absorbed 15% of the total budget in 2002, and the Strategy Sustainability program (including environmental aspects) another 15% of the total. It should be noted that the program to Accelerate Economic Growth did not utilize a significant proportion of PRSP resources, since it mainly concerns implementing policy and legal reforms that have negligible costs but that encourage greater and more inclusive growth for the poor.
190. Without doubt, national resources play a very important role in anti-poverty spending. In 2002, 69% of PRSP spending was national funds, 21% external loans, 5% donations and 5.7% HIPC funds. Recurrent expenses accounted for 64% of the total, and capital outlays 36%. This high proportion of nationally financed poverty reduction programs underlines the importance of improving efficiency and efficacy, in order to maximize the impact they have on the living conditions of the population. This will be one of the most important aspects of PRSP implementation during 2004-2007.
191. The new budgetary framework confirms that reduced anti-poverty spending in 2002 was not attributable to a reduction in national PRSP efforts, which remained stable at 5.2% of the GDP. Thus, Honduras has fulfilled its commitment to the international community, to not substitute anti-poverty spending previously financed with national funds with HIPC resources. The reduction in anti-poverty spending in 2002 is due, rather, to lower execution of external loans and donations, from 3.4% of the GDP in 2001 to 2.0% of the GDP in 2002, linked to the conclusion of the post-Mitch national reconstruction effort.
192. According to the projections presented here, this reduction is expected to revert since the increase in poverty spending from 2004 onwards should be mainly financed by external resources (loans, donations and HIPC). External financing for the PRSP is expected to increase from 2.4% of the GDP in 2002 to 4.3% in 2007. This increase will be necessary because of the severe fiscal pressure being exerted on Honduras, which limits spending with national resources. Coinciding with this

⁸ In 2001, PMRTN (National Reconstruction) spending incorporated into the PRSP totaled 1.9% of the GDP. Of this amount, 0.1% was national funds while 1.8% was external funds. In 2002, the total amount was 1.0% of the GDP, 0.2% of which was national funds and 0.8% external funds.

situation, a small increase in nationally funded PRSP spending is projected, from 4.9% of the GDP in 2003 to 5.3% in 2007. Detailed programming for 2003 and 2004 reveals that there is no gap to be financed in these years. In 2005, a gap amounting to 0.1% of the GDP will need to be financed, which will increase to 0.7% in 2006 and 1.1% of the GDP in 2007.

193. All decisions made about general spending priorities for the PRSP, including spending to be financed by HIPC once Honduras reaches the Culmination Point (now expected for 2005), will consider the results of the above-mentioned sector analyses of PRSP goals. From 2005 onwards, there are budgeted resources that still need to be designated at the programmatic level, and whose assignment must be approved by the PRSP's Consultative Council on the basis of findings from studies about spending required to meet PRSP goals. The PRSP Funding Law will soon be reformed, to clarify the admissibility of all programs incorporated into the PRSP's new expanded budgetary definition, and to clarify the rules for fund management. This will guarantee a high level of transparency and assure that Honduras complies with the highest international standards for monitoring poverty spending.

E. UPDATED COMMITMENTS TO POLICY MEASURES, 2003-2005

194. The current Honduran administration has prioritized the PRSP's goals and programs on the basis of the main focal points of the governmental agenda, and short and medium term requirements. Thus, policy commitments have been made and resources have been assigned to three main areas: i) economic reactivation and the creation of jobs; ii) development of human capital; and iii) justice and citizen security.
195. These priorities are interconnected with three crosscutting themes: environmental preservation and risk prevention; gender equity; and decentralization. Each of these commitments is consistent with the policy measures and program areas contained in the original PRSP document, which have been enriched and complemented by proposals generated by Sector Commissions (*Mesas Sectorales*) and other participatory exercises with Civil Society and International Cooperation.
196. With respect to Economic Reactivation and Job Creation, efforts will be mainly developed in the context of the National Competitiveness Plan, which has been developed and will be implemented by a high-level commission comprised of representatives from the government and productive sectors. Some of the medium term activities that have been programmed include improving the investment climate, developing logistical infrastructure, strengthening the private sector's innovation capacity, improving quality systems, improving the labor market, promoting PyMES, creating a Competitiveness Fund, and strengthening the management of foreign trade. It will also apply policy measures outlined in the original PRSP document, included in the medium term macroeconomic framework to be approved in coordination with the International Monetary Fund (IMF) program.
197. In relation to Developing Human Capital, efforts will focus on expanding coverage and improving the quality of education, guaranteeing access to health services (especially primary care), nutritional surveillance and access to water and basic sanitation by the nation's most vulnerable population. Moreover, access to dignified housing under favorable conditions will be guaranteed to the majority of Hondurans, through continued implementation of the "Housing for People" program, and programs providing protection to specific groups will continue through different institutional actions.
198. With respect to Justice and Security, policy actions are aimed at guaranteeing human rights, legal security for investments, and a peaceful life in society. To achieve this, the government will work to conclude the judicial reform process already underway, and to modernize law enforcement institutions. Additional efforts will be made to guarantee the safety of citizens and their property, through increasing the number of police agents and intensifying the fight against organized crime.

199. Environmental protection and risk management is one of the PRSP's crosscutting themes whose actions are delineated in the **Sustainable Development Strategy** developed by the National Council on Sustainable Development (CONADES). Gender equity is the second crosscutting theme, which is legally, politically and institutionally defined in the **National Policy on Women**, and decentralization is the third, centered mainly on implementation of the **National Decentralization and Local Development Program** (PRONADDEL), under the responsibility of the Governance and Justice Secretariat. Another key focus is **Institutionally Restructuring and Re-Engineering Public Administration**, a necessary component of improving public sector efficiency and efficacy.

TABLE V.5. PRSP POLICY, LEGAL AND ADMINISTRATIVE MEASURES, 2003-2005

OBJECTIVES	COMMITMENTS
A. ECONOMIC REACTIVATION AND EMPLOYMENT GENERATION	
To have a macroeconomic framework in place that helps validate more sustained public investments in social programs and projects, and generates confidence and certainty for private investment.	<ul style="list-style-type: none"> • Sign the PRGF with the International Monetary Fund
To strengthen productive investments and a trade opening, as the basis for increasing employment opportunities and improving their quality.	<ul style="list-style-type: none"> • Apply the Administrative Simplification Law • Apply the National Competitiveness Strategy • Implement land registry programs that guarantee the security of property • Continue applying norms and laws that protect copyrights • Strengthen bilateral and multilateral negotiation mechanisms for resolving trade disputes. • Strengthen Honduras's participation in the Central American integration scheme. • Eliminate obstacles to free trade and cooperation with other countries and regions of the world. • Promote the development of clusters in the areas of agro-industry, tourism, light assembly, forestry and mining.
To successfully integrate, coordinate and sustain actions aimed at reducing poverty in rural zones, increasing employment and improving income distribution.	<ul style="list-style-type: none"> • Strengthen the land-titling program for the agrarian reform sector, ethnic groups and independent peasants. • Complete agrarian and forest land registry, and modernize the registration of rural properties. • Achieve real coordination of the PRONADERS projects, on the basis of concrete objectives. • Focus development actions on border towns. • Promote a policy of gender equity in Honduran agriculture.
To promote the development of intermediate cities, helping convert them into regional development areas.	<ul style="list-style-type: none"> • Develop a policy of differentiated support for micro, small and medium scale urban enterprises, based on the type of activity, the size of the business and its position in the market. • Regionalize support to economic development on the basis of different productive and human resources.
B. DEVELOPING HUMAN CAPITAL	
EDUCATION AND CULTURE	
Objective: Improve the educational levels of the Honduran people through providing better quality, more efficient and more equitable education at different levels, and promote moral and cultural values.	<ul style="list-style-type: none"> • Expand reforms to this sector in the areas of regulation, planning, administration and information. • Consolidate and strengthen the decentralization of the education sector, through revising the norms of provincial education departments and converting District Departments into Municipal Departments. • Improve the quality, relevance and coverage of education, at different levels. • Strengthen community participation in different aspects of the educational system. • Reform the legal framework of the culture sector, including the publishing and sports sub-sectors.
HEALTH	
Objective: Guarantee access to quality and equitable health services by the nation's poor.	<ul style="list-style-type: none"> • Extend health sector reforms in the areas of regulation, planning, administration and information. • Focus sector actions on protecting the human environment, and promoting and providing primary health care. • Approve the Water and Sanitation Framework Law. • Approve the Housing Sector Modernization Law.
Housing Objective: Generate conditions that guarantee most Hondurans access to dignified housing.	<ul style="list-style-type: none"> • Strengthen and harmonize sector regulations, with the different structures involved. • Harmonize the construction of human settlements with reducing ecological vulnerability.
SOCIAL PROTECTION NETWORKS	
Objective: Reduce risk factors to specific vulnerable groups, and improve the coverage of basic needs for the population living in rural and marginal urban zones.	<ul style="list-style-type: none"> • Expand the School Snack Program, linked to goals in nutrition, health and education. • Link support to extremely poor groups with family-centered programs. • Improve the coordination, efficiency and impact of programs and projects to relieve extreme poverty.

TABLE V.5. PRSP POLICY, LEGAL AND ADMINISTRATIVE MEASURES, 2003-2005

OBJECTIVES	COMMITMENTS
	<ul style="list-style-type: none"> • Focus project implementation on groups with higher levels of unsatisfied basic needs (poverty mapping). • Set up a computer system to monitor the living conditions of vulnerable groups. • Strengthen the formulation of policies favoring children and adolescents living in high-risk situations, older adults, and the disabled. • Create the conditions that allow effective provision of services at the local level.
C. JUSTICE AND CITIZEN SECURITY	
<p>Objective</p> <p>Generate the conditions needed for a surveillance system that truly guarantees and protects the rights of people, legal security for investments, and a peaceful life in society.</p>	<ul style="list-style-type: none"> • Approve and implement the Legal Service and Judicial Council Laws. • Implement the new Penal Procedures Code. • Formulate and obtain consensus about the Judicial Power Charter Law. • Approve the Notary Public Law. • Separate the Court Investigative System from the Supreme Court's administrative structure. • Reach consensus about reforms to the Penal Code. • Strengthen Local Citizen Security Councils and the National Security Council. • Increase police presence in communities with a higher risk of crime, and improve coordination among different police units. • Organize and strengthen the National Council on Drug Traffic • Develop and implement the Anti-Drug Strategy for the Gracias a Dios and Colón provinces. • Reform the Transit Law and the Law on Registering, Possessing and Carrying Firearms, and Control of Munitions, Explosives and Similar Devices. • Assure inter-institutional coordination between the Supreme Court, the Public Ministry and the National Security Ministry.
D. CROSSCUTTING THEMES	
THE ENVIRONMENT AND RISK MANAGEMENT	
<p>Objective</p> <p>Reduce the nation's ecological risks and vulnerability, through improving environmental management and risk management at the central and decentralized levels.</p>	<ul style="list-style-type: none"> • Reach consensus and develop a Territorial Organization Strategy. • Gain approval for the Territorial Organization Law, the Forestry Law, the Water Law, the Water and Sanitation Law, and the Law Creating a National Risk Management System. • Further decentralize environmental management and disaster prevention, mitigation and responses. • Improve comprehensive planning and management of water resources. • Strengthen institutional reforms of the forestry sector, and improve its management tools.
GENDER EQUITY	
<p>Objective</p> <p>Support the comprehensive development of poor women, through their full and effective participation in society.</p>	<ul style="list-style-type: none"> • Effective implementation of the National Policy for Women, and its Plan of Action for 2002 – 2007. • Reform the Domestic Violence Law and the Equal Opportunities Law. • Reach consensus on the proposal for mainstreaming a gender approach, and implement it.
<ul style="list-style-type: none"> • Decentralization 	<ul style="list-style-type: none"> • Efficient implementation of the Decentralization and Local Development Program. • Regulate and monitor implementation of the decentralization action plans of different sectors. • Strengthen municipal administration in the areas of planning, tax systems, and municipal civil service.
<p>Objective</p> <p>Achieve effective decentralization and municipal development, which in turn will help to reduce poverty in the framework of modern and efficient public administration.</p>	

TABLE V.6
PRSP IMPLEMENTATION: SHORT AND MEDIUM TERM ACTIONS

THEME	COMMITMENT
1. Macroeconomic Framework	<ul style="list-style-type: none"> • The Macroeconomic Framework will be defined by the Government and the IMF, based on guidelines established jointly with the Consultative Council and other participatory agreements, in a context of transparency and in the spirit of maintaining a healthy economy that invites investment and development. • Attain timely approval of the PRGF agreement, and make progress toward the Culmination Point to obtain the benefits of the HIPC Initiative. • Review tax policies in order to avoid restrictions on productive activities and negative impact on the poorest sectors.
2. Monitoring	<ul style="list-style-type: none"> • Fine-tune the PRSP's monitoring and impact indicators. • Improve the monitoring of indicators through SIERP, making the process more transparent and participatory. • Develop sector and regional indicators that can be monitored by organizations, tactical teams, Sector Tables and the Consultative Council. • Conclude the PRSP participatory monitoring proposal, and put it into operation in the framework of the SIERP.
3. Joint Prioritizing of Programs and Projects	<ul style="list-style-type: none"> • Put a citizen participation process into practice for prioritizing and implementing PRSP policies, programs and projects linked to municipal, associative, provincial, regional and national structures. For this, the following is proposed: <ol style="list-style-type: none"> a) Set up a commission within the Consultative Council and the National Congress's Budget Commission to review the PRSP proposal for 2004 and the multi-year budget, and to define proposals for prioritizing policies, programs and projects. b) Develop a methodology for identifying resources for financing regional projects that are defined in a participatory manner from the time they are designed and negotiated with cooperation agencies, in the framework of sector programming. c) Review and expand processes through which the PRSP's programs and projects correspond to demand. Consider existing proposals, including regional poverty reduction strategies. • Foster three-way involvement (Government, Civil Society and Donors) in determining the main criteria for implementing the Poverty Reduction Strategy.
4. Sector Programs	<ul style="list-style-type: none"> • Review the economic growth program area, to: <ol style="list-style-type: none"> a) Link its objectives with those of the National Competitiveness Program. b) More clearly highlight key productive actors, such as the private sector and poor farmers, as subjects of economic growth efforts. c) Establish a link with the National Competitiveness Program and with improving living conditions in rural areas, identifying potential for economic reactivation at the municipal and regional levels. d) Establish clear links between businesses from the reformed agricultural sector, rural micro-enterprises and indigenous groups and the National Competitiveness Program, to foster local level development. e) Develop a plan to help consolidate rural development programs that involves the themes of natural resources, water, irrigation and environmental services. The plan should better adjust the provision of rural development services. f) Operationalize the National Policy on Women through an equitable budget structure and the necessary budget allotments to implement the policy. g) Conduct an exhaustive review of the environmental and risk management components of the PRSP. h) Implement the National Anti-Corruption Strategy and its corresponding plan of action. Monitor cases of corruption that are denounced by the CNA to avoid impunity.
5. Outreach and Appropriation	<ul style="list-style-type: none"> • Publicize the PRSP's progress on a quarterly basis, both in terms of policy measures and projects, and the use of resources.

TABLE V.6
PRSP IMPLEMENTATION: SHORT AND MEDIUM TERM ACTIONS

THEME	COMMITMENT
6. Implementation mechanisms	<ul style="list-style-type: none"> • Operationalize the PRSP through Annual Operation Plans, with their respective budgets. Coordinate these with the General Budget of the Republic, and reach consensus within the Consultative Council. Dialogue with social sectors, regions, sector tables and international cooperation agencies. Begin this effort with the 2004 Operation Plan. • Distribute the final PRSP progress report and updates to all participants in the consultative process, along with the matrix that contains different contributions to the report. • Implement the Work Plan of the PRSP's Consultative Council. • Define a mechanism that facilitates dialogue about aspects that were not included in the current PRSP policies and programs.

F. PRSP IMPLEMENTATION BASED ON A SECTOR PROGRAMMING SCHEME

200. Efficient implementation of the PRSP—in a manner that guarantees that its programs and projects are consistent with its strategic thrust and with a budget that is aligned with its overall goals for 2015—requires a “sectorialized” vision that meets the coordination norms defined by donors. Thus, programmatic implementation with a sector-wide approach (SWAp) has begun, which is essentially a collaborative methodology between donors and the Government, aimed at coordinating support to public spending programs and improving the efficient and effective use of resources.
201. Five programs with a sector-wide approach have been defined in the areas of Health, Education, Citizen Security, Water and Sanitation and Agro-Forestry. These themes were selected due to their importance and affinity with the PRSP goals. The defining characteristics of these programs are:
- Complete provision of funds related to the sector, to support a sole spending policy.
 - The Government heads up the program.
 - All SWApS apply the same implementation and management conception to their sector.
 - Over time, the programs move toward utilizing governmental channels for disbursing and accounting for funds.
202. The greatest progress has been made in the health sector, where the Government (via the Social Cabinet) is leading the process of formulating a **National Nutrition Policy and Plan**, with a comprehensive, long-range vision that is consistent with the PRSP's goals, the Government Plan and the Millennium Goals. It is mainly focused on:
- Reducing malnutrition among children under 5 years of age
 - Reducing infant mortality and under 5 mortality rates
 - Reducing the maternal mortality rate
 - Generating greater access to potable water and sanitation services
203. Different institutions related to the theme of nutrition and food security are taking part in the process, along with civil society and donor representatives. The purpose is to obtain a concerted National Nutrition Policy and Plan that has a complementary and effective approach, that integrates the nutrition and food security actions being implemented by different institutions and cooperation projects in an isolated manner (Health, PRAF, Healthy Schools, SAG, etc.), and to identify innovative strategies that have real impact.
204. As a response to civil society concerns expressed during the consultative process about creating a mechanism to comprehensively examine the theme of Social Security Networks, a comprehensive and viable strategy is being formulated that includes the following considerations:

- The themes of gender and ethnicity will not only be viewed as affecting vulnerable or specific groups, but rather will be incorporated as crosscutting themes in the different policies, programs and projects of the PRSP's different components.
- Continued support will be given to the approach being used, understood conceptually as a group of interventions aimed at: a) assisting individuals, families and communities to better manage risks; and b) providing support to families living in extreme poverty.
- Under this approach, the institutional framework has been mainly represented by PRAF, FHIS, INAM and INFA, which attend to impoverished populations, ethnic groups, high-risk social groups, children and women. The new strategy will emphasize strengthening and coordinating regulatory institutions, comprehensive and sustainable interventions, and service delivery models that involve civil society participation.
- In addition, the new strategy of Social Protection Networks expands the approach being used, and incorporates a series of coordinated and viable actions that assure effective and comprehensive attention for extremely vulnerable or socially excluded people, in a framework of strong community participation. Among the groups that can be quantified and identified, are the following: homeless children, sexually exploited children, children orphaned due to HIV-AIDS, juvenile delinquents, women victims of violence, the elderly and the disabled living in extreme poverty.
- Equally, the new Social Protection Network's approach should provide attention to different social groups, for example small-scale coffee producers who will be affected by processes such as CAFTA or other economic changes that take place in the medium and long term.

G. DECENTRALIZED IMPLEMENTATION OF THE PRSP

205. Decentralized and participatory implementation of the PRSP will help achieve its goals through a process that includes participatory formulation of strategic local development plans using a sector-wide approach, and a plan of action that generates the participation of state institutions, civil society organizations and private enterprise, based on community and municipal initiatives.
206. Thus, local organizations and governments will play an important role in identifying, prioritizing, and implementing development actions and works, favoring community and municipal initiatives that build local capacities. With this, the appropriation of programs and projects will be sought, along with more transparent processes, and participation in linking demands with institutional supply.
207. To carry this process forward, the Governance and Justice Secretariat has coordinated the development of a Protocol for Centralized and Participatory Implementation of the PRSP, whose objectives are: a) providing a foundation and helping to guide the formulation of municipal development plans, so that these are compatible with Government plans and fulfill certain quality standards; and b) strengthening the role of local governmental and non-governmental organizations in the local planning process.
208. In this context, a **Content Guide** has been developed to help facilitate links between local priorities, assure their viability, and support national and municipal goals. The Guide's content is consistent with the PRSP, and it covers the themes of education, health and nutrition, productive capacities, housing, and social and productive infrastructure. In addition, a **Procedural Guide** has been developed to help orient the formulation of Municipal Development Plans in the framework of the PRSP, and to help make decentralized implementation more viable. Key themes covered in this Guide include: a) inter-institutional coordination; b) participation of different local sectors; and c) complementarity among international cooperation actions.

209. A plan of action for this process has been developed, which will begin implementation in 10 municipalities of the country in the second half of 2003, using FHIS resources and other resources. In addition, with the goal of making actions in this field more viable, the Provincial Development Commissions have been reactivated (through Executive Decree). The Commissions are made up of Governors, Municipal Mayors and civil society representatives who together coordinate municipal and provincial planning. To date, the Commissions in the provinces of Lempira, Copán, Intibucá and La Paz have been sworn in.
210. It should be emphasized that national fiscal funds assigned to the municipalities are of central importance to this approach, along with strengthening local fiscal capacities. Without a doubt, capital transfers from the Central Government to the municipalities and support from agencies such as FHIS are important financing components for local investment programs. Therefore, they are considered part of poverty spending.

H. TARGETING

211. In general, the decentralized implementation of PRSP and local development actions is based on targeting resources and actions on a specific population group, thereby helping increase impact and limit the dispersion of resources. Eighty rural municipalities with malnutrition rates higher than 52% have been identified, based on information obtained through the Measurement Census of first grade children. As a complementary action, seven urban municipalities with the highest absolute numbers of poor people have been identified. At least 60,000 poor people live in each of these municipalities (Appendix C2).
212. As part of this process, sector indicators have also been identified that help determine which municipalities have the greatest needs in the priority areas of education and health, and other basic needs. The sector indicators help guide programs and projects in function of specific sector goals, and on the basis of the concrete characteristics of the population. In this way, new priority municipalities are incorporated on the basis of their indicators for illiteracy, access to potable water and basic sanitation, housing, etc.
213. Thus, the nucleus of targeting is first and foremost the 80 rural municipalities identified on the basis of their malnutrition indices. In these municipalities, problems related to basic needs will be addressed in a comprehensive manner, without scaling down specific interventions related to the most pressing basic need deficiencies in the nation's remaining 298 municipalities.

I. ORGANIZING INTERVENTIONS FOR THE POOR

214. Efficient and transparent implementation of the Poverty Reduction Strategy also seeks organization of the poverty reduction interventions being implemented at the local level by different institutions and projects. Frequently, similar actions are carried out without adequate inter-institutional coordination, duplicating efforts and transcending the functions of institutions. Some projects—whether funded by donations or loans—have been implemented in a completely independent manner, in function of financial goals without any indication of their impact on beneficiaries.
215. To improve this situation, the process of organizing different institutional, program and project interventions has begun, coordinated by the Presidential Sub-Secretariat. Through this process, the types of interventions, their beneficiaries, and the amounts being invested at the community, municipal and provincial levels are being identified. This work has begun in the 80 targeted rural municipalities that were selected based on malnutrition rates, detailing investments made and the beneficiaries attended in each community by Proheco, Educadores, the school snack program, the basic health package, and bonds/stipends from PRAF, PRONADERS, and FHIS. This activity will be carried out nationwide with more than 30 interventions in 2003.

216. To support the work of the Commissions, all available information about the poverty situation and interventions at the municipal and community level being carried out by different governmental projects has been shared with provincial and municipal authorities. The purpose is to strengthen accountability and transparency.

J. MONITORING AND EVALUATION

217. Monitoring of PRSP programs and projects requires effective oversight of HIPC funds and public funds that will be used to reduce poverty. It also requires periodic reviews of global and intermediate goals, and the measurement of the impact of projects, programs and legal and administrative measures on the population's poverty.
218. To make different PRSP monitoring and evaluation processes operational, a Comprehensive System for the Poverty Reduction Strategy (SIERP) is being developed so that social programs share common objectives and technical instruments. This will guarantee transparent and high-quality actions, and evaluation of their impact on the living conditions of the population in terms of the Strategy's goals.
219. The PRSP's Comprehensive System includes two main components: a) the Poverty Indicators System (SIP), as a means of collecting and monitoring data and indicators related to the PRSP. Through these, up-to-date information will be available to evaluate the degree to which the Strategy's objectives and goals have been met; and b) the Management Evaluation System (SEG), as the main instrument for monitoring the PRSP's policies, programs and projects.
220. The Presidential Secretariat's Technical Support Unit (UNAT), in its role as Technical Secretary of the Social Cabinet, will be responsible for the PRSP's final monitoring and evaluation. However, the success of these processes will depend upon each of the following institutions fulfilling their roles and coordinating their efforts: a) the *National Statistics Bureau* (INE), which coordinates the National Statistics System and is responsible for providing information about progress toward overall goals and social indicators; b) the *Central Bank of Honduras* (BCH), which will provide information about macroeconomic indicators, complemented by fiscal behavior indicators from the Finance Secretariat; c) the *Secretariats of Finance and International Cooperation*, through the Public Investment System (SISPU), the Comprehensive Financial Administration System (SIAFI), and the National International Cooperation System (SINACOIN), will provide information about the physical and financial progress of PRSP programs and projects; and d) *line ministries and deconcentrated and decentralized institutions*, which will be the main sources of information about intermediate indicators and the progress of programs and projects, and the *National Municipal Monitoring System* (SINIMUN), for monitoring municipal indicators, programs and projects.
221. To date, implementation of the SIERP has achieved the following: the definition of impact indicator and intermediate indicator tables; the design of a Monitoring Plan for Indicators, the design of a mechanism for sharing and getting feedback to results (through a web page providing institutional and public access to information), and the development of an advanced computer application prototype that will integrate and harmonize different modules (both the SIP and SEG) needed for monitoring and evaluating the management of processes linked to poverty reduction.
222. In addition, baseline information and goals for priority areas related to poverty, education and health have been quantified and disaggregated at the provincial and municipal levels, where possible. This disaggregation at the municipal level, for example, allows PRSP actions to be focalized and coordinated. Through allowing actions to be monitored at the local level, it also fosters greater transparency and accountability.
223. A fundamental aspect of monitoring the impact of policy measures to be implemented in the framework of the PRSP is developing "Poverty and Social Impact Analysis" studies, or PSIAAs.

These analyses allow the effect of policy measures and programs to be measured before, during and after they are applied. Currently, such an analysis is underway, which will evaluate the impact that fiscal adjustment measures approved in 2002 have had on poverty.

K. ADAPTING COOPERATION TO THE PRSP'S PRIORITIES

224. In the framework of efforts aimed at reducing poverty and transforming the nation, the Government of the Republic assigns great importance to being able to rely upon a portfolio of long-term sector programs that are coherent with priority areas where its greatest efforts will be concentrated. Thus, adjustments are being considered that would substantially improve the processes through which programs and projects are formulated, negotiated, managed and implemented. This applies to programs financed with both reimbursable and non-reimbursable external funds. To achieve this, a high degree of intra-governmental coordination is needed, along with coordination between the Government and international donor nations and agencies.
225. The first step, therefore, is **defining the priorities** that require support from loans and donations, in the framework of the Honduran poverty reduction and national transformation process. This task corresponds to the President of the Republic, through the Secretary of State, with assistance from the GTI and UNAT. Defining priorities should be seen as aligning actions with the Poverty Reduction Strategy and guaranteeing their consistency with macroeconomic goals.
226. Concentrating national priorities on **long-term sector programs**, rather than small projects, should help to improve the impact of projects on the beneficiary population. For this, coherence with sector and national objectives needs to be guaranteed, while the high administrative costs associated with a proliferation of small implementing units need to be reduced. More agile and competent implementation needs to be achieved, and true participatory and social auditing processes need to be put into practice. The goal is to guarantee the maintenance, full utilization and sustainability of the actions that are implemented.
227. Program profiles that meet donor requirements will be prepared by sector institutions and will be submitted to the Finance Secretary (in the case of reimbursable cooperation) and the Technical Secretariat for International Cooperation (in the case of non-reimbursable cooperation). These will analyze the program profiles, both technically and financially, following the internal procedures of each structure.
228. These programs will then be submitted to a Special Committee of the Inter-Institutional Technical Group (GTI), acting in the name of the Government's highest level structures, for their analysis and approval. This Committee will coordinate and consult with the UNAT, and will then issue a note certifying that the programs fulfill their respective priority and eligibility criteria.
229. The promotion, management, negotiation and subscription of program agreements will be the responsibility of SEFIN (in the case of reimbursable cooperation) and SETCO (in the case of non-reimbursable cooperation). Sector structures may make initial contact with cooperation agencies working in their sector during the process of preparing the profiles, but may not under any circumstances make commitments prior to the prioritization of programs.
230. It is hoped that the international donors, whether bilateral, multilateral or other cooperation agencies, will consider each of the aspects outlined above, which define the Government's desire to organize and streamline the use of external resources. Thus, donor approval of cooperation should be based on certification of Governmental priority, and then proceed to the normal negotiation and subscription processes for cooperation agreements with SEFIN and SETCO.
231. To make these policy orientations a reality, close work with the Donor Monitoring Group (G-15) will continue. In addition, it is hoped that specific corresponding agreements will be signed in the framework of the next meeting of the Consultative Group for Honduras.

232. Both SEFIN and SETCO should submit reports about the state of negotiating and managing programs to the Presidency of the Republic, via the SDP. These reports should indicate progress made or obstacles encountered during these processes, and should include recommendations about any adjustments or decisions that need to be made to guarantee their success.

VI. APPENDICES

APPENDIX A: PRSP QUANTITATIVE INDICATORS				
OBJECTIVES	INDICATORS	YEARS		
		2000	2001	2002
1. Accelerating Equitable and Sustainable Economic Growth				
1.1 Macroeconomic Framework for Poverty Reduction and Growth				
Objective:				
To have a stable macroeconomic framework in place that helps validate more sustained public investments in poverty reduction programs and projects, and generates confidence and certainty for private investment.	Macroeconomic			
	Real GDP (% of growth)	5.7	2.6	2.5
	Real per capita GDP (% growth)	3.1	0.1	0
	Investment as % of GDP	26.1	23.6	22.2
	Fiscal			
	Central Gov't Deficit as % of GDP	5.6	6	5.4
	Current income as % of GDP	17.7	18.2	18.3
	Tax income as % of GDP	16.4	16.2	16
	Central Gov't Salaries as % of GDP	8.9	10.1	10.8
	Central Gov't Spending as % of GDP	24.3	26	24.8
	Monetary			
	Inflation (% 12 months through Dec).	10.1	8.8	8.1
	NIR \$ millions	1,002.5	1,104.6	1,235.1
	NIR months of imports	4.4	4.7	4.7
	Real active interest rate	14.5	14.4	14
	Nominal exchange rate L/US\$, end of year	15.31	16.05	17.07
	Deficit in current accounts, balance of payments, % of GDP	4.2	4.6	3.9
	External Sector			
	Service on the debt as % of exports	8.5	8.3	9.7
	Debt as % of GDP	72	67.5	69.7
	% of external indebtedness that is concessionary	73.4	76	73
	Financial Sector			
	Number of bank supervisions conducted	19	22	22
1.3 Improving competitive access to international markets				
Objective				
Promote greater access for national products to export markets (both traditional and new), under competitive terms.	% of Honduras's participation in regional commerce	14.2	13.4	13.1
	% of Honduras's participation in commerce with Mexico, South America and the Caribbean.	n.a.	0.7	0.7
1.4 Development of High-Potential Productive Sectors and Jobs				
Objective				
Create the conditions that facilitate the development of high-potential productive sectors, without ignoring support to traditional economic sectors.	Value of non-traditional exports (US\$ millions)	467.9	441.5	486.9
	% of non-traditional agricultural exports/ total exports	51.6	52.9	55.7
	% of wood and manufactured exports / total exports	4.8	4.8	5

APPENDIX A: PRSP QUANTITATIVE INDICATORS

OBJECTIVES	INDICATORS	YEARS		
		2000	2001	2002
	% of the aggregate value of the <i>maquila</i> industry/ exports of goods and services.	22.12	21.9	22.23
	Number of <i>maquila</i> industry jobs (thousands)	125	110	110
	Amount of foreign exchange generated by tourists (US\$ millions)	259.8	256.3	291.1
2. REDUCING POVERTY IN RURAL ZONES				
2.1 Improving Equitable and Secure Access to Land				
Objective				
Guarantee access to land tenure and secure land ownership for organized peasants, independent peasants and ethnic groups.	Number of land titles awarded	16,570	15,511	10,237
	Number of hectares awarded	114,905	126,129	52,680
	Number of hectares registered	372,447	182,728	115,323
2.4 Improving Social Conditions in Rural Areas				
Objective				
Strengthen the social infrastructure and expand the coverage of poverty relief programs in rural zones with the highest levels of poverty.	Number of homes constructed	n.a.	1,222	623
	% of rural population with access to Potable Water	n.a.	n.a.	63.2
	% of rural homes with Basic Sanitation System coverage	n.a.	n.a.	49.5
3. REDUCING URBAN POVERTY				
3.1 Stimulating the Development of Micro, Small and Medium Scale Enterprises				
Objective				
Support the growth and competitiveness of micro, small and medium scale enterprises, as a source of jobs and income for poor families.	National and regional CODESSE functioning	5	5	7
3.3 Support Social Interest Housing				
Objective				
Stimulate the construction of low-cost housing through instituting the corresponding legal, financial and participatory mechanisms.	Number of houses constructed	3,087	2,294	n.a.
4. INVESTING IN HUMAN CAPITAL				
4.1 Better Quality Education and More Educational Coverage, Basic Education and Technical-Vocational Education				
Objective				
Improve the educational levels of the Honduran people through providing better quality, more efficient and more equitable education at different levels, guaranteeing improvements in the profile of the work force and more efficient higher education.	Number of grade repeaters (Basic Education)	84,312	98,727	n.a.
	Number of dropouts (Basic Education)	29,715	31,940	n.a.
	Number of students failing their grade level (Basic Education)	76,041	68,335	n.a.
	Number of grade repeaters (Middle Education)	32,291	33,265	n.a.
	Number of dropouts (Middle Education)	7,811	8,047	n.a.
	Number of students failing their grade level (Middle Education)	38,033	39,180	n.a.
	Terminal efficiency coefficient for educational cycle (Basic Education)	n.a.	0.8	n.a.
	% of 5 year old children in pre-basic.	25.6	30.11	n.a.
	% of students graduating from ninth grade	13.64	13.63	n.a.

APPENDIX A: PRSP QUANTITATIVE INDICATORS				
OBJECTIVES	INDICATORS	YEARS		
		2000	2001	2002
	% of young people 16 years and older with formal secondary education	n.a.	18	n.a.
	Illiteracy rate	n.a.	20	n.a.
	Number of schools with healthy school program	n.a.	n.a.	1,502
	Number of students with scholarships	59,358	59,510	55,021
	Number of self-managed vocational schools	28	30	35
	Number of AECOSs set up	1,180	1,288	1,320
	Number of ADELs set up	n.a.	n.a.	1,008
4.2 More and Better Access to Health Services				
Objective				
Guarantee the poor population's access to quality and equitable health services, most importantly primary care and nutritional oversight.	Infant mortality rate/ 1,000 live births	n.a.	34	n.a.
	Under 5 mortality rate/ 1,000 live births	n.a.	45	n.a.
	% of children under 5 years adequately vaccinated	n.a.	93	n.a.
	% of infant malnutrition	n.a.	32.9	n.a.
	Maternal mortality rate/ 100,000 live births	n.a.	108	n.a.
	% of women in reproductive health programs	n.a.	61.8	n.a.
	% of population with access to health services	n.a.	n.a.	91.4
5. STRENGTHENING SOCIAL PROTECTION FOR SPECIFIC GROUPS				
5.1 Social Security Networks				
Objective				
Reduce risk factors among more vulnerable groups.	% of households with UBNs	n.a.	46	41
	Number of children assisted through IHNFA	9,405	48,982	49,717
	% of working children out of total children	n.a.	14.9	16
	Number of disabled attended	16,322	17,181	18,613
5.2 Gender Equity and Equality				
Objective				
Support the comprehensive development of women living in poverty, through their full and effective participation.	Income levels of women (average income in Lempiras)	n.a.	n.a.	2,629
	Male/Female ratio of % of average income, by occupation	n.a.	n.a.	96
6. GUARANTEEING THE STRATEGY'S SUSTAINABILITY				
6.1 Strengthening Accountability and Participatory Democracy				
Objective				
Consolidate good governance, guaranteeing transparent and accountable public management, and improving the quality of the population's political representation	Index of perceptions of corruption	n.a.	2.7	2.7
6.4 Improving Environmental Protection and Risk Management				
Objective				

APPENDIX A: PRSP QUANTITATIVE INDICATORS				
OBJECTIVES	INDICATORS	YEARS		
		2000	2001	2002
Reduce the nation's ecological risks and vulnerability through improving environmental management processes and risk management at the central and decentralized levels	Number of hectares under sustainable management with community participation	160,600	163,525	181,782
n.a.: Not Available				

APPENDIX B: MATRIX OF PROGRESS IN PRSP POLICY MEASURES

OBJECTIVES	POLICY MEASURES	Original Date of Implementation	STATUS	
(i) 1. ACCELERATING EQUITABLE AND SUSTAINABLE ECONOMIC GROWTH				
1.1 MACROECONOMIC FRAMEWORK FOR REDUCING POVERTY AND ECONOMIC GROWTH				
<p>Objective: To have a stable macroeconomic framework in place that helps validate more sustained public investments in poverty reduction programs and projects, and generates confidence and certainty for private investment.</p>	<p>Short Term Policy Outline</p> <ul style="list-style-type: none"> i. Obtain medium term fiscal viability that permits more social spending. ii. Monetary and credit variables are congruent with economic growth objectives and low rates of inflation. iii. Continue strengthening the financial system, as an essential element in guaranteeing macroeconomic stability and long-term growth. iv. Improve equilibrium in the external sector, and continue prudent management of the external debt. v. Continue moving forward with structural reforms. 	<p>2001</p> <p>2001</p> <p>2001</p> <p>2001</p> <p>2001</p>	<p>CG Deficit in 2001 of 6.1% of GDP lowered to 5.3% in 2002</p> <p>Real inflation rates have diminished by more than 2 points per year</p> <p>General improvement in applying prudent norms</p> <p>Underway (in compliance with the Public Credit Law)</p> <p>Financial Equilibrium Law approved</p>	
	<p>(ii) 2. MEDIUM-TERM POLICY OUTLINE</p>			
	<ul style="list-style-type: none"> i. Strengthen fiscal revenues. 	2002 – 2015	Underway (FRP Law approved)	
	<ul style="list-style-type: none"> ii. Rationalize public spending, giving priority to spending for poverty reduction programs. 	2002 – 2015	Financial Equilibrium Law and Tax Equity Law being applied	
	<ul style="list-style-type: none"> iii. Obtain sustainable levels of external financing, limiting flows to donations and concessionary loans. 	2002 - 2015	Obtained	
	<ul style="list-style-type: none"> iv. Maintain inflation at international levels through effective monetary control, improving public finances, and reforming salary policies. 	2002 - 2015	2001-2002 Inflation of 8.8% and 8.1%, respectively	
	<ul style="list-style-type: none"> v. A solid and competitive financial system that supports economic growth. 	2002 - 2015	Improvement in applying prudent norms	
	<ul style="list-style-type: none"> vi. Create the conditions that motivate competition based on efficient and productive investments. 	2002 - 2015	National Competitiveness Program being implemented	
	1.2. STRENGTHENING INVESTMENTS AND EMPLOYMENT GENERATION			

APPENDIX B: MATRIX OF PROGRESS IN PRSP POLICY MEASURES

OBJECTIVES	POLICY MEASURES	Original Date of Implementation	STATUS
<p>Objective: Increase investments and improve their efficacy, as the basis for increasing employment opportunities and improving the quality of jobs</p>	<ul style="list-style-type: none"> i. Reduce the costs of new investments. ii. Create conditions that raise the quality of jobs, with substantial increases in productivity and increases in the real incomes of workers iii. Promote more participation of private capital in public service provision. iv. Correct problems related to the insecurity of property and investments, through better application of the law. v. Promote and protect market competition. 	<p>2002 - 2015</p> <p>2002</p> <p>2001 - 2015</p> <p>2001 - 2015</p> <p>2002</p>	<p>The Administrative Simplification Law was approved.</p> <p>National Competitiveness Plan being implemented.</p> <p>Plan: Telephones for People</p> <p>Underway</p> <p>Awaiting approval of the Competitiveness Promoting and Protection Law</p>
<p>1.3 IMPROVING COMPETITIVE ACCESS TO INTERNATIONAL MARKETS</p> <p>Objective Promote greater access for national products to export markets, both traditional and new, under competitive terms.</p>	<ul style="list-style-type: none"> i. Strengthen Honduras's participation in the Central American integration scheme. ii. Implement the Free Trade Treaty with Mexico and the Dominican Republic, and conclude negotiations with Panama, Chile and Canada iii. Create the conditions that permit Honduras's more extensive and competitive participation in new export markets. 	<p>2001 - 2015</p> <p>2001 - 2015</p> <p>2001 - 2015</p>	<p>Process underway</p> <p>Underway</p> <p>CAFTA negotiations began</p>
<p>1.4 DEVELOPING HIGH-POTENTIAL PRODUCTIVE SECTORS AND GENERATING EMPLOYMENT</p> <p>Objective Create the conditions that facilitate the development of high-potential productive sectors, without ignoring support to traditional economic sectors.</p>	<ul style="list-style-type: none"> i. Create the National Competitiveness Council, with public and private sector participation. ii. Define a "productive chain" strategy for developing clusters, including small and medium scale businessmen, both vertically and horizontally. iii. Support the supply of medium and long-term resources for developing clusters under competitive conditions. iv. Fortify the development of agro-businesses. v. Promote the development of the forestry cluster. 	<p>2002</p> <p>2001 - 2015</p> <p>2001 - 2015</p> <p>2001 - 2015</p> <p>2001 - 2015</p> <p>2001 - 2015</p>	<p>Done</p> <p>Underway</p> <p>Underway</p> <p>Underway</p> <p>Underway</p> <p>Underway</p> <p>(iii)</p> <p>Underway</p>

APPENDIX B: MATRIX OF PROGRESS IN PRSP POLICY MEASURES			
OBJECTIVES	POLICY MEASURES	Original Date of Implementation	STATUS
	vi. Define and implement a strategy to develop the light assembly industry	2001 - 2015	Delayed
	vii. Fortify the development of the tourist industry cluster.	2001 - 2015	Underway
(iv)	2. REDUCE POVERTY IN RURAL ZONES		
2.1 IMPROVING EQUITABLE AND SECURE ACCESS TO LAND			
Objective Guarantee access to land tenure and secure land ownership for organized peasants, independent peasants and ethnic groups.	i. Effectively apply idleness or non-use as grounds for affected lands.	2002 – 2015	Under negotiation
	ii. Strengthen land judgment and titling programs, especially among the land reform sector, ethnic groups and independent peasants.	2001 – 2015	Being implemented
	iii. Develop and implement mechanisms that facilitate clear demarcation of lands and the security of rural properties.	2001 – 2015	Being implemented
2.2 SUSTAINABLE DEVELOPMENT IN PRIORITY ZONES			
<u>Objective</u> Successfully integrate, coordinate and sustain actions aimed at reducing poverty in rural zones.	i. Consolidate and expand the National Sustainable Rural Development Program (PRONADERS).	2001 – 2015	Being implemented
	ii. Increase rural development actions in the nation's border zones, and their linkage with the national economy.	2001 – 2015	Being implemented
	iii. Expand training programs for the poor who live in forest zones, in developing sustainable small-scale agro-forestry businesses.	2001 – 2015	Pending implementation
	iv. Increase actions that favor the development of small-scale craft activities.	2001 – 2015	Pending implementation
2.3 IMPROVING THE COMPETITIVENESS OF SMALL SCALE RURAL ECONOMIES			
<u>Objective</u> Increase production and improve the efficiency and competitiveness of small-scale rural producers.	i. Promote the productive conversion of the reformed agrarian sector, ethnic groups, and rural micro-enterprises, to make them competitive and sustainable entities.	2001 – 2015	Underway
	ii. Implement actions that help reduce transaction costs and thereby improve the competitiveness of the rural economy.	2001 – 2015	Underway (partially)

APPENDIX B: MATRIX OF PROGRESS IN PRSP POLICY MEASURES

OBJECTIVES	POLICY MEASURES	Original Date of Implementation	STATUS
	<ul style="list-style-type: none"> iii. Improve access by small and medium scale farmers to basic support services for developing their economic activities. iv. Develop mechanisms for capitalizing small agricultural businesses dedicated to basic consumption products. 	<ul style="list-style-type: none"> 2001 – 2015 2001 – 2015 	<ul style="list-style-type: none"> Being implemented Pending implementation
<p>Objective Strengthen social infrastructure and expand poverty relief programs in the rural zones with the highest incidence of poverty.</p>	<p>(v) 2.4 Improving Social Conditions in Rural Areas</p> <ul style="list-style-type: none"> i. Support rural housing projects that involve beneficiaries directly and that receive financial support from the Government, and that include the participation of Local Governments and NGOs in constructing rural houses. ii. Expand the coverage of potable water and basic sanitation services. iii. Incorporate the promotion of yard production and food conservation activities by peasant women in the FHIS and PRAF programs. iv. Improve the coordination of donations of food and inputs, for helping implement small-scale productive projects and community works. 	<ul style="list-style-type: none"> 2001 – 2015 2001 – 2015 2001 – 2015 	<ul style="list-style-type: none"> Pending implementation Being implemented Pending implementation Pending implementation
<p>3. REDUCING URBAN POVERTY</p>	<p>(vi) 3.1 Stimulating the Development of Micro, Small and Medium Scale Enterprises</p>	<ul style="list-style-type: none"> - 2001-2015 	<ul style="list-style-type: none"> Pending implementation
<p>Objective Support the growth and competitiveness of micro, small and medium scale businesses, as a source of jobs and income for poor families.</p>	<ul style="list-style-type: none"> i. Strengthen public and private institutions that provide assistance to micro, small and medium scale businesses. ii. Support alternative savings and credit modalities, with the participation of beneficiaries. iii. Promote young entrepreneurs, incorporating training in project design and administration into different modalities at different educational levels, and award financing with favorable terms. iv. Facilitate the creation of zonal markets and other centers where mobile sellers can set up sales posts, as part of a plan for organizing informal commerce at the municipal level. 	<ul style="list-style-type: none"> - 2001-2015 - 2002-2015 - 2002-2015 	<ul style="list-style-type: none"> Pending implementation Pending implementation Cooperation being negotiated Pending implementation
<p>(vii)</p>	<p>3. Development of Intermediate Cities</p>		

APPENDIX B: MATRIX OF PROGRESS IN PRSP POLICY MEASURES			STATUS
OBJECTIVES	POLICY MEASURES	Original Date of Implementation	
<p>Objective Promote the development of intermediate cities, seeking their establishment as regional development areas.</p>	<p>i. Organize solidary markets at the regional level, preferably through the association of municipalities, generating mutually beneficial trade exchange.</p>	- 2002-2015	Being implemented
	<p>ii. Promote the organization of business setups that consider the potential of intermediate cities.</p>	- 2002-2006	Advanced negotiations underway
	<p>iii. Promote industrial activity in intermediate cities.</p>	- 2002-2015	The Decentralized Investment Program being negotiated
<p>Objective Stimulate the construction of low-cost housing through instituting the corresponding legal, financial and participatory mechanisms.</p>	(viii) 3.3 Support to Social Interest Housing		
	<p>i. Approve the Law to Modernize the Housing Sector, and increase the efficiency of the sector's regulatory structure while avoiding its direct involvement in implementing projects.</p>	- 2002	Delayed; Draft Law is being reviewed
	<p>ii. Facilitate the construction of housing or housing improvements for the low-income population.</p>	- 2001-2015	Being implemented
	<p>iii. Legally guarantee land tenure and housing ownership, under titling modalities that especially protect women and children.</p>	- 2001-2015	Pending implementation
<p>Objective Improve access to basic services by the inhabitants of marginal urban zones.</p>	<p>iv. Establish norms for the organized development of human settlements, with close attention to risk prevention.</p>	- 2002	Pending implementation
	(ix) 3.4 Access to Basic Services in Priority Areas		
	<p>i. Promote Municipal Develop Funds, to provide efficient basic services in the main cities of the nation.</p>	2002 - 2005	Underway
<p>(x) Objective Improve access to basic services by the inhabitants of marginal urban zones.</p>	<p>ii. Promote the "municipalization" of water and sanitation systems.</p>	- 2001	Approval delayed
	<p>iii. Move ahead with decentralization, creating the conditions that allow effective public service delivery at the local level.</p>	- 2001 2015	Decentralization Program underway
<p>(xi) Objective Improve access to basic services by the inhabitants of marginal urban zones.</p>	4. INVESTING IN HUMAN CAPITAL		
	<p>i. Conclude formulation and approval of the General Framework Law for Education</p>	<p>(xi) 4.1 Better Quality and Coverage of Basic Education and Technical-Vocational Education</p>	- 2001

APPENDIX B: MATRIX OF PROGRESS IN PRSP POLICY MEASURES

OBJECTIVES	POLICY MEASURES	Original Date of Implementation	STATUS
<p>Objective</p> <p>Improve the educational levels of the Honduran people through providing better quality, more efficient and more equitable education at different levels, guaranteeing improvements in the profile of the work force and more efficient higher education.</p>	<p>i. Conclude formulation and approval of the General Framework Law for Education</p> <p>ii. Improve the quality of education at different levels.</p> <p>iii. Expand the educational system's service provision, with special emphasis on pre-basic education, the third cycle of basic education (7th-9th grade), and middle education, both for the enrolled and non-enrolled population.</p> <p>iv. Improve programs and mechanisms that increase the population's demand for educational services.</p> <p>v. Strengthen formal and non-formal vocational-technical education.</p> <p>vi. Strengthen the management and efficiency of the educational system.</p> <p>vii. Improve the efficiency of higher education.</p>	<p>- 2001</p> <p>- 2002-2015</p> <p>- 2001-2015</p> <p>- 2002-2015</p> <p>- 2002-2015</p> <p>- 2002-2003</p> <p>-</p>	<p>Working in the Education Sector</p> <p>Being implemented</p> <p>Being implemented</p> <p>Being implemented</p> <p>Being implemented</p> <p>Being implemented</p>
<p>Objective</p> <p>Guarantee the poor population's access to quality and equitable health services, most importantly primary care and nutritional oversight.</p>	<p>i. Strengthen primary and preventive health care.</p> <p>ii. Provide more attention to the health conditions of women.</p> <p>iii. Achieve more efficient and higher quality health service provision.</p>	<p>- 2002-2015</p> <p>- 2002-2015</p> <p>- 2002-2015</p>	<p>Being implemented</p> <p>Being implemented</p> <p>Being implemented</p>
<p>Objective</p> <p>Assign a strategic value to socio-cultural management, as a fundamental factor helping to strengthen civic, ethical, moral and democratic values.</p>	<p>(xiii) 4.3 Cultural Wealth and National Identity</p> <p>i. Promote the creation and publicizing of different artistic expressions nationwide.</p> <p>ii. Define a plan of action aimed at promoting ethnic-moral values, to strengthen national identity.</p> <p>iii. Establish agreements aimed at better using cultural resources for tourist purposes, and at achieving the self-sustainable maintenance and conservation of these resources.</p> <p>(xiv) 5. STRENGTHENING SOCIAL PROTECTION FOR SPECIFIC GROUPS</p> <p>(xv) 5.1 Social Security Networks</p>	<p>- 2002-2015</p> <p>- 2002-2015</p> <p>- 2002-2015</p>	<p>Being implemented</p> <p>Pending implementation</p> <p>Being implemented</p>

OBJECTIVES	POLICY MEASURES	Original Date of Implementation	STATUS
<p>Objective Reduce the risk factors among more vulnerable groups.</p>	<p>i. Strengthen and improve the impact of programs aimed at alleviating extreme poverty. ii. Support programs that protect children and young adolescents. iii. Provide comprehensive attention to disabled people living in poverty. iv. Improve attention to older adults.</p>	<p>- 2001-2015 - 2001-2015 - 2002-2015 - 2002</p>	<p>Being implemented Being implemented Actions being implemented in the framework of SESAL/FHIS Pending implementation</p>
<p>Objective Support the comprehensive development of women living in poverty, through their full and effective participation</p>	<p>(xvi) 5.2 Gender Equity and Equality i. Guarantee the conditions that provide women with effective equal opportunities, especially for those living in poverty. ii. Review and apply the Law on Domestic Violence, to prevent and eliminate the incidence of this problem that affects women iii. Incorporate information disaggregated by sex in censuses and surveys, to highlight women's economic contributions and obtain more specific information about women.</p>	<p>- 2002-2015 - 2002 - 2002-2005</p>	<p>PNM approved Being implemented Done</p>
<p>Objective Help build the local capacities of different ethnic and black population groups in Honduras.</p>	<p>(xvii) 5.3 Developing Ethnic Groups i. Create the National Council on Ethnic Groups, with the objective of defining a national agenda and facilitating adequate coordination when programs and projects are implemented. ii. Incorporate the category of "ethnic group to which you pertain" in census statistics, or as a module in the Household Survey. iii. Homologize national legislation with the ILO's Agreement 169 (which refers to indigenous peoples) to which Honduras is a signatory, to guarantee its corresponding application.</p>	<p>- 2002 - 2002-2003 - 2002-2005</p>	<p>Underway Done Delayed</p>
<p>Objective Consolidate good governance,</p>	<p>(xviii) 6. GUARANTEEING THE STRATEGY'S SUSTAINABILITY (xix) 6.1 Strengthening Accountability and Participatory Democracy i. Guarantee transparency and accountability in all public administration activities, and especially in the implementation of social programs and projects.</p>	<p>- 2001-2005</p>	<p>Underway Pending approval in the National Congress</p>

APPENDIX B: MATRIX OF PROGRESS IN PRSP POLICY MEASURES

OBJECTIVES	POLICY MEASURES	Original Date of Implementation	STATUS
<p>guaranteeing transparent and accountable public administration, and improving the quality of the population's political representation.</p>	<p>ii. Formulate and approve the legal organization and prudent supervision of NGOs, in coordination with the sectors involved, to guarantee their good functioning.</p> <p>iii. Improve the parliamentary process through providing adequate technical assistance, and automate oversight procedures and mechanisms for determining legislative priorities.</p> <p>iv. Concert and approve policy reforms, to improve participatory democracy.</p>	<p>- 2002</p> <p>- 2002-2015</p> <p>- 2002</p>	<p>Underway</p>
<p>Objective Generate the conditions needed for a surveillance system that truly guarantees and protects the rights of people, legal security for investments, and a peaceful life in society.</p>	<p>(b) i. Strengthen the independence of the justice system.</p> <p>ii. Improve the application of justice and equitable access to the same.</p> <p>iii. Prevent and sanction crime, to guarantee social order and the right to life and property.</p>	<p>- 2001-2002</p> <p>- 2001-2002</p> <p>2001</p>	<p>Underway</p> <p>Underway</p> <p>Underway</p>
<p>6.3 MODERNIZE PUBLIC ADMINISTRATION AND DECENTRALIZATION</p>			
<p>Objective Achieve effective decentralization and municipal development, which in turn will help to reduce poverty in the framework of modern and efficient public administration.</p>	<p>i. Continue implementing the Public Administration Modernization Program.</p> <p>ii. Approve the Administrative Simplification Law.</p> <p>iii. Decentralize and deconcentrate Government functions and transfer them to the municipalities.</p> <p>iv. Strengthen the role of Local Governments in promoting development, with broad-based participation from their communities.</p>	<p>2001</p> <p>2001</p> <p>2001-2015</p> <p>2002</p>	<p>Underway</p> <p>Approved</p> <p>Underway</p> <p>Underway</p>
<p>6.4 IMPROVING ENVIRONMENTAL PROTECTION AND RISK MANAGEMENT</p>			
<p>Objective Reduce the nation's ecological</p>	<p>i. Adapt the legal framework and improve the efficiency and effectiveness of the institutional framework, in order to reduce ecological vulnerability.</p>	<p>2002</p>	<p>Pending implementation</p>

APPENDIX B: MATRIX OF PROGRESS IN PRSP POLICY MEASURES

OBJECTIVES	POLICY MEASURES	Original Date of Implementation	STATUS
risks and vulnerability, through improving environmental management and risk management at the central and decentralized levels.	<ul style="list-style-type: none"> ii. Improve environmental management and planning systems. iii. Promote the financial sustainability of environmental management and protection actions. iv. Promote citizen participation in environmental protection and risk management actions. v. Prepare and apply an emergency prevention, mitigation and response strategy, based on a permanent and decentralized structure, coordinated and implemented by different actors and structures. 	<ul style="list-style-type: none"> 2002 - 2003 2002 – 2015 2002 – 2015 2002 – 2015 	<ul style="list-style-type: none"> Underway Initiated Initial actions Establishing the basis

APPENDIX C: DEFINITION OF POVERTY SPENDING

The expanded conception of poverty spending in Honduras considers all that is included in the original version of the PRSP, adopted in 2001, plus other programs and projects identified during the consultative process (2003) as relevant to achieving the Poverty Reduction Strategy's goals. This appendix provides a more precise description of the elements included.

Original Definition

The original definition of the Poverty Reduction Strategy contained in the PRSP of 2001 was based on an analysis of the portfolio of projects included in the nation's public spending program (financed with donations and loans) that were related to any of the Strategy's six "pillars."

The emphasis of the original definition was programs and projects financed with external resources and additionally with national counterpart funds corresponding to these projects. A small number of projects financed only by national resources were also included.

A financing gap was identified, which would need to be covered with additional external resources that would be discussed at meetings with the Consultative Group, or via similar mechanisms. This financing gap was distributed in an indicative manner amongst the PRSP's six programmatic areas, but specific interventions with known costs or results were not assigned.

In the original version of the PRSP, total spending for the 2001-2015 period was estimated at US\$2.666 billion, approximately 2.6% of the GDP. Of this amount, some 60% was to be financed with external resources and donations, 35% with debt relief, and 5% with national funds. In programmatic terms, 1% of poverty spending would be destined for programs aimed at accelerating sustainable and equitable growth, 21% for reducing rural poverty, 17% for reducing urban poverty, 40% for human capital programs (education and health), 10% for social protection, and 8% for the Strategy's social, political and environmental promotion.

During 2001-2002, the list of projects included in the original PRSP document was adjusted to include relevant projects that had originally been excluded, to incorporate new projects negotiated since 2001 (such as EFA and the Global Fund for HIV-AIDS), to eliminate some projects that were not related to the PRSP's goals, and to correct duplicate projects (due to the use of different names in the databases of different agencies such as SETCO and SEFIN).

New Definition

This appendix presents the revised definition of the Poverty Reduction Strategy, adopted in 2003:

Programs Financed with External Resources

1. The PRSP includes programs and projects financed with external resources for achieving the goals specified in the programmatic areas of the original PRSP document (six programmatic areas and 21 sub-areas). This includes both investment projects and projects that finance recurrent expenses that contribute to achieving the PRSP goals.
2. Although most of the external financing is earmarked for direct investment, some of the externally financed programs consist mainly of recurrent expenses. These include the Family Assignment Program, technical assistance programs for small-scale farmers administered by PRONADERS through SAG, and PRIESS, dedicated to providing basic medical care in remote rural communities.
3. The decisions regarding which externally financed projects to include as part of the Poverty Reduction Strategy are made by a technical committee with representatives from UNAT and SEFIN. The resulting list of projects has been shared among interested parties, including civil society representatives, during the consultative process carried out in 2003, which led to some adjustments to assure the list's consistency.

Programs Financed with National Funds

4. The national counterparts of all Poverty Reduction Strategy projects that are financed with external resources were automatically included in the PRSP budget.
5. **Capital Outlays financed with National Funds.** The main components included as part of the PRSP, as part of the investment budget financed with national resources, are:
 - a. All investments of the Education and Health Secretariats.
 - b. In SOPTRAVI, investments in low-income housing, the construction and repair of secondary highways and rural roads, and rural bridges.
 - c. All of the Agriculture Secretariat's capital investments.
 - d. All FHIS capital investments.
 - e. Capital transfers to the Municipalities to finance their investment programs.
 - f. All transfers to SANAA and other agencies for building potable water and sanitary sewage systems.
 - g. Capital transfers for expanding electricity and telecommunications coverage in rural and marginal-urban communities.
6. **Recurrent Expenses Financed with National Funds.** The expanded definition includes recurrent expenses that are relevant to the PRSP's programmatic areas and goals, which are financed with national resources.
7. **Education Secretariat.** The expanded version includes:
 - a. Salaries for teachers (excluding personnel from the Secretariat's central administration who are hired under the Civil Service regime, such as Ministers, Vice-Ministers,

Administrators and other administrative personnel). For purposes of the PRSP, the number of teachers is calculated using data from the Education Secretariat's teacher information system (SIARDH) for personnel assigned to non-administrative posts. In addition, data about teachers in administrative posts outside of the central administration (mainly Secondary School Principals, supervisors, technical assistants and Provincial Directors) was obtained from the SEFIN's budget system. It is hoped that all of this information will be consolidated in SIARDH by 2005. The salary per teacher admissible as poverty spending is calculated at 3.5 times the per capita GDP. This amount was decided jointly with the World Bank's technical staff, based on benchmarks from the neighboring nations of El Salvador and Nicaragua. To calculate per capita GDP, information was obtained from official INE projections, while GDP information was obtained from the Central Bank. Once the admissible salary rate for the PRSP is computed, any remaining portion of total salaries is registered as non-PRSP salary spending. However, the total amounts of salaries for personnel hired to improve coverage and quality, which are financed by HIPC debt relief, are included.

- b. Recurrent transfers and other costs related to developing and financing community education (PROHECO, AECO and others). (Transfers to universities are not included).
 - c. Other programs to develop alternative delivery systems (including at the primary and secondary levels, such as Basic Education Centers, Educatodos, Telebásico and programs for specific groups such as ethnic minorities, marginal neighborhoods and rural communities).
 - d. Economic support programs to promote academic excellence and to cover the costs of transportation and thereby improve access to education.
8. **Health Secretariat (SS).** The expanded version includes:
- a. The salaries of medical personnel providing outpatient care, environmental health and treatment of infectious-contagious diseases, and hospital care programs (excluding central administration personnel of the SS, such as Ministers, Vice-Ministers, administrators and other administrative personnel, except for the auxiliary staff of service delivery units). For purposes of the PRSP, the number of medical personnel is calculated using information from the SEFIN's budgetary system. The average admissible salary per person is calculated at five times the per capita GDP. This formula was jointly defined with World Bank technical personnel, based on benchmarks with the neighboring countries of El Salvador and Nicaragua. Population data obtained from official INE projections were used to calculate the per capita GDP, and GDP data was obtained from the Central Bank. Once the admissible salary for the PRSP was calculated, any remaining portions of SS salaries are registered as non-PRSP salary spending. However, the total amount of salaries financed with HIPC debt relief to improve the quality and coverage of services is included.

- b. The cost of medicines for outpatient care, environmental health/infectious-contagious diseases and hospital care.
 - c. The cost of per diems related to implementing the basic health programs (outpatient care, environmental health/infectious-contagious diseases).
 - d. Transfers to finance community programs and other third-party mechanisms used to expand and improve basic health coverage.
9. **Secretariat of Agriculture (SAG).** The expanded definition includes:
- a. All costs related to rural development and poverty reduction, but none that cover the Secretariat's central administration costs.
 - b. Transfers to COHDEFOR or other agencies to administer protected areas and watershed management programs.
10. **PRAF.** The expanded version includes:
- a. All recurrent transfers to finance programs directly targeting beneficiaries, but not including the program's central administrative costs.
11. **FHIS.** The expanded definition includes:
- a. All recurrent transfers to finance programs that directly reach beneficiaries, but not the program's central administrative costs.
12. **Presidential Secretariat.** The expanded version includes:
- a. The School Snack Program.
 - b. The Healthy School Program.
 - c. The Efficient and Transparent State Purchases Program.
13. **Public Security Secretariat.**
- a. Salaries financed with debt relief funds for additional personnel hired to improve the security conditions in low-income communities.

A complete list detailing the funding source and economic classification of the revised PRSP's programs and projects follows. This includes time series for projected and already implemented spending for the 2001-2007 period.

**APPENDIX D: CENTRAL GOVERNMENT: SPENDING FOR EXPANDED PRSP
PROJECTS
(MILLIONS OF LEMPIRAS)**

DESCRIPTION	2001	2002	2003	2004	2005	2006	2007
NATIONAL FUNDS	5,138.0	5,598.6	5,789.1	6,514.6	7,642.4	8,508.6	9,556.0
Salaries	3,164.8	3,555.7	3,839.7	4,304.6	4,686.7	5,184.6	5,668.8
Goods and Services	487.6	456.3	408.1	509.2	539.7	566.7	595.0
Recurrent Transfers	532.3	455.0	518.8	590.6	651.5	700.0	741.3
Capital Transfers	798.3	949.5	928.1	1,010.3	1,664.5	1,901.7	2,382.5
Investment	155.0	182.1	94.4	100.0	100.0	155.7	168.4
Concessionary Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LOANS	2,526.7	1,682.4	2,126.9	2,193.8	2,560.8	3,129.5	3,289.0
Salaries	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goods and Services	58.3	87.1	168.9	207.5	215.0	296.8	361.5
Recurrent Transfers	227.7	202.0	202.0	307.9	329.4	380.4	280.3
Capital Transfers	1,800.2	1,134.3	1,257.0	1,308.8	1,640.1	1,608.2	1,484.9
Investment	372.3	240.2	421.7	284.4	290.1	695.4	1,048.6
Concessionary Loans	68.2	18.9	77.4	85.2	86.1	148.8	113.7
TOTAL DONATIONS	776.4	406.6	508.2	1,476.8	1,021.9	1,028.7	1,268.7
DONATIONS	776.4	406.6	508.2	816.5	668.9	735.5	1,008.9
Salaries	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goods and Services	149.1	0.0	0.7	22.9	21.6	22.1	22.7
Recurrent Transfers	0.0	0.0	47.5	178.9	42.6	20.3	20.7
Capital Transfers	572.6	392.6	459.9	450.0	512.1	531.8	542.6
Investment	54.7	14.0	0.0	164.7	92.6	161.3	422.9
Concessionary Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EFA DONATIONS/GLOBAL FUND	0.0	0.0	0.0	660.3	353.0	293.2	259.8
Salaries							
Goods and Services	0.0	0.0	0.0	528.2	353.0	293.2	259.8
Recurrent Transfers				132.1			
Capital Transfers							
Investment							
Concessionary Loans							
	311.2	468.0	505.3	538.8	1,598.2	2,698.4	3,223.9
HIPC	311.2	468.0	505.3	538.8	1,510.0	1,487.7	1,288.8
Salaries	93.2	125.0	140.2	184.6	374.3	399.6	424.5
Goods and Services	0.0	132.0	139.5	133.5	263.6	271.2	557.8
Recurrent Transfers	95.5	207.0	169.6	203.7	523.3	490.1	183.9
Capital Transfers	122.5	4.0	55.0	0.0	174.4	163.4	61.3
Investment			1.0	17.0	174.4	163.4	61.3
Concessionary Loans							
TO BE FINANCED	0.0	0.0	0.0	0.0	88.2	1,210.7	1,935.1
Salaries							
Goods and Services							
Recurrent Transfers			0.0	0.0	88.2	926.4	1,186.9
Capital Transfers			0.0	0.0	0.0	284.3	374.1
Investment			0.0	0.0	0.0	0.0	374.1
Concessionary Loans							
TOTAL	8,752.2	8,155.6	8,929.4	10,724.0	12,823.3	15,365.2	17,337.5
TOTAL % of GDP	8.8	7.5	7.5	8.1	8.7	9.4	9.7
				0.6	0.6	0.7	0.3
Exchange Rate	15.47	16.43	17.2	18.14	18.83	19.37	19.92
GDP	99,062.0	108,175.0	118,544.0	132,080.0	147,445.0	163,370.0	179,073.0

APPENDIX E: SUMMARY OF EXPANDED BASE BY PROGRAMMATIC AREA
MILLIONS OF LEMPIRAS

DESCRIPTION	2001	2002	2003	2004	2005	2006	2007
	REAL	REAL	PROJ.	PROJ.	PROJ.	PROJ.	PROJ.
1. ACCELERATING EQUITABLE AND SUSTAINABLE ECONOMIC GROWTH	70.3	117.8	34.6	104.2	164.7	352.3	375.1
1.1 Strengthening Investments and Improving Competitive Access to Markets	-	-	-	-	12.7	149.5	181.6
Strengthening Competitiveness	-	-	-	-	12.7	149.5	181.6
1.2 Support to Developing High-Potential Productive Sectors and Generating Employment	70.3	117.8	34.6	104.2	151.9	202.8	193.5
Sustainable Coastal Tourism Project	-	6.8	34.6	30.6	37.4	39.0	-
Copán (Tourism)	-	-	-	15.5	22.9	63.2	131.1
Environmental Management of the Bahía Islands	70.3	111.0	-	58.0	91.6	100.6	62.3
2. REDUCING POVERTY IN RURAL ZONES	1,528.7	1,205.8	1,131.8	1,086.9	1,346.4	1,704.3	1,743.5
2.1 Improving Equitable and Secure Access to Land	235.1	249.1	149.6	72.2	91.3	104.9	178.6
Administration of Rural Areas (IDA 2940 and 936)	180.7	172.1	89.1	31.6	38.7	50.2	121.4
Plan of Action for Land Organization, Conservation, and Environmental Management of the Sico and Paulaya Valleys	-	7.4	-	-	-	-	-
Land Access Pilot Program (PACTA)	54.4	69.6	60.5	40.6	52.6	54.7	57.2
2.2 Sustainable Development in Priority Zones	286.5	316.1	339.7	280.4	321.4	494.2	353.2
Construction of Irrigation Works, Quimistán Valley Project	9.2	19.3	28.7	12.7	7.5	-	-
South Lempira Comprehensive Development Project	7.0	7.3	9.8	-	-	-	-
Sustainable Rural Development in Ecologically Fragile Zones of the Trifinio Region	-	-	2.4	-	-	86.3	116.4
Rural Development Foundation (FUNDER)	-	3.4	11.6	-	-	-	-
Agricultural Development of Guayape Valley	-	0.5	-	-	-	-	-
Support for Medium and Small Scale Peasant Farmers in Olancho Province	5.5	2.0	1.0	-	-	-	-

APPENDIX E: SUMMARY OF EXPANDED BASE BY PROGRAMMATIC AREA
MILLIONS OF LEMPIRAS

DESCRIPTION	2001	2002	2003	2004	2005	2006	2007
	REAL	REAL	PROJ.	PROJ.	PROJ.	PROJ.	PROJ.
National Sustainable Rural Development Program - PRONADERS-FONADERS (Financial Assistance), includes REURRAL	86.4	38.4	83.6	152.4	149.4	171.4	166.9
Rural Development Project in Central-Eastern Honduras (PRODERCO)	67.4	58.3	20.6	-	-	-	-
Rural Development in Southwestern Honduras (PROSOC)	82.3	76.8	41.5	31.3	21.3	35.2	36.0
PLANDERO	-	0.8	-	-	-	-	-
National Sustainable Rural Development Program - PRONADERS-DINADERS (Technical Assistance) PRONADEL and Local Development	-	94.4	57.6	75.8	127.1	178.1	11.8
National Sustainable Rural Development Program - PRONADERS-DINADERS (Technical Assistance – Coordination and Administration)	28.7	14.9	82.9	8.3	16.0	23.1	22.0
	-	-	-				
2.3 Improving the Competitiveness of Small Rural Economies	698.1	449.3	463.3	498.6	588.2	696.3	774.0
Regional Transfer of Technology Program, Post-Harvest Basic Grain Technology	-	-	0.3	-	-	-	-
Special Food Security Project (PESA)	1.2	36.8	5.0	-	-	-	-
Western Component of the National Conservation and Natural Resources Economic Development Program (COHASA)	-	-	1.1	-	-	-	-
Irrigation Works, Nacaome Valley	182.3	40.6	39.6	54.9	52.3	129.4	71.3
Irrigation Works, El Coyolar Dam	52.5	15.0	21.1	5.4	-	-	-
Highways and Bridges	321.3	228.3	251.8	212.5	224.0	415.6	449.4
Agro-Business Project, Jicatuvo River	10.0	7.0	4.5	-	-	-	-
Department of Agricultural Science and Technology (DICTA)	75.8	68.0	55.8	68.0	76.0	32.5	9.9
ENEE Social Electrification	55.0	53.5	84.1	157.8	235.8	118.8	243.4
	-	-	-				
2.4 Improving Social Conditions in Rural Areas	309.0	191.3	179.3	235.7	345.5	408.9	437.7
Project to Extend Food Security (EXTENSA)	-	-	1.5	-	-	-	-
Different Community Responses Attending to Poverty	-	60.0	38.5	50.0	53.0	55.7	57.9
SOCIAL PROTECTION	-	-	-	-	8.1	76.3	114.9

APPENDIX E: SUMMARY OF EXPANDED BASE BY PROGRAMMATIC AREA
MILLIONS OF LEMPIRAS

DESCRIPTION	2001	2002	2003	2004	2005	2006	2007
	REAL	REAL	PROJ.	PROJ.	PROJ.	PROJ.	PROJ.
Water and Basic Sanitation Service, Dispersed Rural Areas (FHIS)	64.5	27.4	29.1	30.4	35.6	34.5	35.6
Major Infrastructure (FHIS)	244.5	103.9	110.2	115.5	135.1	130.7	135.0
Investment Program for Potable Water and Sanitation	-	-	-	39.7	113.7	111.8	94.3
3. REDUCING POVERTY IN URBAN ZONES	484.3	431.2	632.3	843.9	885.2	751.2	562.8
3.1 Developing Micro, Small and Medium Scale Enterprise	-	1.5	1.5	14.9	45.5	53.2	69.9
Small and Medium Scale Industry	-	-	-	8.5	38.9	46.4	63.0
Micro, Small and Medium Scale Businesses	-	1.5	1.5	6.4	6.6	6.8	7.0
	-	-	-	-	-	-	-
3.2 Developing Intermediate Cities	-	5.8	66.8	34.5	42.0	42.8	-
Comprehensive Pilot Program to Fight Poverty	-	5.8	66.8	34.5	42.0	42.8	-
	-	-	-	-	-	-	-
3.3 Support to Social Interest Housing	200.3	78.4	63.1	88.4	90.7	120.6	84.3
Post-Hurricane Housing Program	-	1.4	46.0	-	-	-	-
Minimal Rural Housing Program	-	5.0	2.5	8.7	9.0	9.2	9.4
Social Housing	-	5.0	-	10.3	10.6	10.9	11.1
Housing	123.3	60.7	2.1	30.9	30.6	60.1	10.3
Urban Home Improvement Program (PRIMHUR)	77.0	6.3	12.5	38.4	40.5	40.5	53.6
	-	-	-	-	-	-	-
3.4 Access to Basic Services in Priority Areas	284.0	345.5	500.9	706.1	706.9	534.7	408.5
SANAA	284.0	345.5	491.1	698.2	706.9	534.7	408.5
Water and Sanitation	-	-	9.8	7.9	-	-	-
	-	-	-	-	-	-	-
4. INVESTING IN HUMAN CAPITAL	4,293.7	4,754.5	5,297.4	6,388.3	6,860.4	7,639.1	8,718.5
4.1 Better Educational Quality and Coverage	3,011.7	3,308.5	3,747.4	4,399.3	4,795.4	5,462.6	5,967.9
Academic Excellence Scholarship Program	50.0	41.1	42.0	44.2	46.8	49.1	51.1

APPENDIX E: SUMMARY OF EXPANDED BASE BY PROGRAMMATIC AREA
MILLIONS OF LEMPIRAS

DESCRIPTION	2001	2002	2003	2004	2005	2006	2007
	REAL	REAL	PROJ.	PROJ.	PROJ.	PROJ.	PROJ.
Scholarships and Social Assistance	31.1	49.2	35.0	33.2	35.2	37.0	38.4
National Alternative Education Commission	20.0	20.0	20.0	21.0	22.3	23.4	24.3
Developing Education in marginal urban communities	4.9	6.9	33.4	9.9	10.5	11.0	11.5
SOUTH LEMPIRA DEVELOPMENT PROJECT	0.7	0.7	-	-	-	-	-
Basic Education Human Resources	25.7	-	-	-	-	-	-
Basic Education (IDA 2694)	64.9	-	-	-	-	-	-
KFW Education	-	-	12.9	8.1	4.5	13.4	-
Middle Education	-	-	18.4	27.2	28.8	26.7	-
Strengthening Secondary Education	-	-	-	-	8.5	81.4	111.8
Transforming Education	-	40.5	44.3	60.0	63.1	75.5	78.5
Transforming the Third Cycle of Basic Education	3.4	8.3	17.7	12.2	12.6	13.0	13.7
Educadores	4.0	-	-	7.3	7.5	7.7	8.0
1000 Teachers	93.2	125.0	140.2	163.3	317.6	339.6	361.5
Teacher salaries	2,531.5	2,878.5	3,107.1	3,512.4	3,824.2	4,240.0	4,646.0
PROHECO	144.1	118.3	232.3	292.7	194.7	316.3	386.5
ADEL (AECOS)	-	-	4.0	4.0	4.2	4.5	4.6
EXPANDING HORIZONS	18.6	-	20.0	-	-	-	-
EDUCATION TRANSPORTATION BONUS	14.3	15.0	15.0	16.0	16.9	17.8	18.5
EFA	-	-	-	182.9	192.7	200.7	207.8
TELEBASICO EDUCATIONAL SYSTEM	5.3	5.0	5.0	5.0	5.3	5.6	5.8
-	-	-	-	-	-	-	-
4.2 Better and More Access to Health Services	1,281.9	1,446.1	1,550.0	1,989.0	2,064.9	2,176.5	2,750.6
Construction and Improvement of Buildings CESAR/CESAMO/CLIPER	-	-	-	-	-	-	-
Institutional Reorganization and Extension of Basic Health Sector Services Program (PRIESS)	50.2	43.4	74.6	102.1	97.5	86.8	157.6
Access to Health Services	-	-	-	13.4	13.9	14.3	14.8
Health Sector Reform Program	-	-	-	-	-	-	-
Physician and Other Health Worker Salaries	633.3	677.2	732.6	792.2	862.5	944.6	1,022.8
GLOBAL FUND	-	-	-	345.3	160.3	92.5	52.0

APPENDIX E: SUMMARY OF EXPANDED BASE BY PROGRAMMATIC AREA
MILLIONS OF LEMPIRAS

DESCRIPTION	2001	2002	2003	2004	2005	2006	2007
	REAL	REAL	PROJ.	PROJ.	PROJ.	PROJ.	PROJ.
Equipment for Eight Hospitals	-	-	-	-	-	69.5	199.2
Equipment for the Regional Atlántida Hospital	-	-	-	-	-	-	296.6
Hospital construction	16.7	107.7	128.2	46.7	61.0	60.8	54.6
Pharmaceutical Products and Medicines, minor medical equipment for surgery and laboratories.	540.8	583.1	547.5	642.7	803.3	837.9	873.9
HEALTHY SCHOOLS PROJECT	35.0	34.7	67.1	46.5	26.7	28.0	35.1
HIPC Physicians	-	-	-	-	39.6	42.0	44.1
Health and Nutrition	5.9	-	-	-	-	-	-
5. STRENGTHENING SOCIAL PROTECTION FOR SPECIFIC GROUPS	515.5	397.0	398.3	476.3	449.8	431.0	393.7
5.1 Social Security Networks	387.5	333.1	316.5	400.5	368.8	353.9	318.3
Family Bonus	2.6	2.1	9.9	10.0	10.6	11.1	11.6
PRAF (Bonuses)	217.5	201.3	214.0	276.8	237.6	216.2	175.1
Basic Needs (FHIS)							
VARIOUS SOCIAL ASSISTANCE	66.0	33.0	19.6	19.5	20.7	21.7	22.6
IHADFA	5.0	7.5	7.0	7.5	8.0	8.3	8.7
INFA	96.4	89.2	66.1	86.7	91.9	96.5	100.4
	-	-	-				
5.2 Gender Equity and Equality	18.9	17.5	15.6	24.1	20.7	18.8	15.2
Comprehensive Development of Women	18.9	17.5	15.6	24.1	20.7	18.8	15.2
Support to Rural Women for Increasing Food Production	-	-	-	-	-	-	-
	-	-	-				
5.3 Development of Ethnic Groups	109.1	46.4	66.2	51.8	60.4	58.3	60.2
Support Program for Indigenous and Black populations (PAPIN)	-	-	17.0	0.2	-	-	-
Plaplaya Center Endowment Fund	-	-	-	0.1	0.1	-	-

APPENDIX E: SUMMARY OF EXPANDED BASE BY PROGRAMMATIC AREA
MILLIONS OF LEMPIRAS

DESCRIPTION	2001	2002	2003	2004	2005	2006	2007
	REAL	REAL	PROJ.	PROJ.	PROJ.	PROJ.	PROJ.
"Our Roots" and FIDAS	109.1	46.4	49.2	51.5	60.3	58.3	60.2
	-	-	-				
6. GUARANTEEING THE STRATEGY'S SUSTAINABILITY	1,859.8	1,249.3	1,396.0	1,674.7	2,156.1	2,459.0	2,759.9
6.1 Strengthening Accountability and Participatory Democracy	-	6.3	74.4	42.1	47.9	49.4	99.0
Efficiency and Transparency in State Purchases Program	-	6.3	74.4	42.1	47.9	49.4	99.0
	-	-	-				
6.2 Strengthening Justice and Citizen Security	-	-	-	21.3	17.1	18.0	18.9
Security for Low-Income Sector	-	-	-	21.3	17.1	18.0	18.9
	-	-	-				
6.3 Modernizing Public Administration and Decentralization	1,686.7	979.1	1,118.3	1,076.0	1,503.2	1,754.5	2,010.0
Investments in Municipalities (Concessions)	68.2	18.9	77.4	85.2	86.1	148.8	113.7
Support to Municipalities	350.0	400.0	450.0	433.0	809.3	1,014.9	1,284.8
COMMUNITY DEVELOPMENT PROGRAM	102.4	62.3	113.6	17.0	18.1	19.0	19.9
Municipal Decentralization (Education)	-	-	-	37.2	-	-	-
SUPPORT TO VARIOUS MUNICIPALITIES	39.6	46.5	- 0.0	3.4	4.6	5.8	7.1
PATRONAGES, TOWNS AND MUNICIPALITIES	67.6	1.3	-	-	-	-	-
Municipal Social Investment Plans (FHIS)	1,058.9	450.1	477.4	500.2	585.2	566.1	584.6
6.4 Improving Environmental Protection and Risk Management	173.1	263.9	203.3	535.3	587.9	637.1	631.9
Protection of Natural Resources	-	-	-	156.5	92.6	161.3	159.8
Priority Works (MITCH)	-	4.9	24.7	29.9	24.9	63.9	56.2
UPPER WATERSHED MANAGEMENT PROGRAM FOR THE LEMPA, OCOTEPEQUE RIVERS	-	-	1.7	26.9	42.8	28.5	10.8
Investment by Sula Valley Executive Commission	55.2	87.6	126.7	52.2	65.3	68.6	72.0

APPENDIX E: SUMMARY OF EXPANDED BASE BY PROGRAMMATIC AREA
MILLIONS OF LEMPIRAS

DESCRIPTION	2001	2002	2003	2004	2005	2006	2007
	REAL	REAL	PROJ.	PROJ.	PROJ.	PROJ.	PROJ.
Conservation of the Plátano River Biosphere Reserve	-	16.9	-	-	-	-	-
Disaster Mitigation Project	-	23.8	5.5	44.4	54.8	55.9	57.0
Multi-Phase Natural Resource Management Program for High Priority Watersheds (MARENA)	-	23.2	34.5	179.3	252.5	112.6	97.9
Comayagua Valley Watersheds	-	3.6	10.2	-	-	62.0	89.6
COHDEFOR (WATERSHEDS)	117.9	103.9	- 0.0	46.2	55.0	84.3	88.6
	-	-	-				
7. Others Pending Classification	-	-	39.0	17.0	960.3	2,027.6	2,783.6
OTHER	-	-	-	-	-	-	100.0
HIPC to be Assigned	-	-	36.4	-	697.7	653.5	524.1
HIPC INVESTMENT	-	-	1.0	17.0	174.4	163.4	61.3
NON-FINANCED PRSP INVESTMENT	-	-	-	-	-	-	374.1
INVESTMENT WITH DONATIONS	-	-	-	-	-	-	163.1
PRSP to be Financed	-	-	-	-	88.2	1,210.7	1,561.0
PRSP Support	-	-	1.6	-	-	-	-
TOTAL PROGRAMS AND PROJECTS	8,752.2	8,155.6	8,929.4	10,591.3	12,822.8	15,364.6	17,337.0

APPENDIX F

PROGRAM IMPLEMENTATION IN RELATION TO PRSP GOALS FOR THE WATER AND SANITATION SECTOR

POVERTY REDUCTION STRATEGY GOALS AND CAPITAL COSTS

1.1. POVERTY REDUCTION STRATEGY GOALS

The Poverty Reduction Strategy's goals for the potable water and sanitation sector for 2015 have been defined for the following areas:

- Water installation coverage;
- Sanitation coverage;
- Urban wastewater treatment.

The proposed solutions for achieving water coverage include domestic connections in concentrated urban and rural localities, along with non-conventional solutions such as wells equipped with manual pumps in more dispersed rural locations.

Sanitation coverage will be increased through domestic connections to sewage systems in urban locations, and latrine construction in rural areas and the marginal urban neighborhoods of large and intermediate cities that have the required environmental conditions for such installations.

Treatment of urban waste water will be expanded depending upon the size of locations: a) For locations with 2,000-10,000 inhabitants, wastes will be treated with Imhoff Tanks, which have already shown positive results in some parts of Honduras and private urban developments; b) For localities with 10,000-100,000 inhabitants, stabilization pools will be used for wastewater treatment. These require sufficient space, and intermediate size communities have the land needed for this more economical solution; c) For large cities with more than 100,000 inhabitants, the proposed solution is activated mud treatment plants, which are high in cost but are the best option given the topographical conditions of cities such as Tegucigalpa, and the lack of municipal lands that would allow use of more economical technology such as the stabilization pools.

The proposed goals in terms of population coverage are detailed in the following table:

No.	Item	% Coverage		
		Rural	Urban	Total
A. Current – 2001				
1	Water coverage ^{/1}	71.9	91.3	79.5
2	Sanitation coverage ^{/1}	62.9	96.8	78.0
3	Urban waste water treatment ^{/2}	-	21.4	21.4
B. Future - 2015				
1	Water coverage	95.0	95.0	95.0
2	Sanitation coverage	95.0	95.0	95.0
3	Urban waste water treatment	-	57.3	57.3

1/ INE, 2001 Census. 2/ PAHO/WHO, PWS Sector Analysis 2003

The current coverage estimate (2001) for sanitation in both rural and urban areas includes all types of systems: from toilets connected to sewage networks, to septic tanks or discharge into rivers or gullies, to well latrines.

Table 5 details the rural and urban housing with water coverage in 2001, according to type, and Table 6 details housing with sanitation service in 2001, according to the type of disposal system used.

1.2. CURRENT POPULATION AND PROJECTIONS

National census population and housing data, published by the National Statistics Bureau (INE), indicate that the nation's population totaled 6,535,000 inhabitants in 2001, who were housed in some 1,282,000 dwellings, with an average of 5.10 inhabitants per dwelling. The rural population represents 53.7% of the nation's total (3.5 million inhabitants), while the urban population accounts for 46.3% of the total (3.0 million).

Census data shows that the percentage of rural population has predominated, although the recent trend has been a slight shift in this distribution. The numbers from the national censuses of 1974, 1988 and 2001 are presented in the following table:

Population	1974		1988		2001	
	Amount	%	Amount	%	Amount	%
Rural	1,823,769	68.6	2,691,838	60.7	3,509,480	53.7
Urban	833,179	33.4	1,751,883	39.3	3,025,864	46.9
Total	2,656,948		4,443,721		6,535,344	

Source: INE

This proposal utilized projected population data that differs slightly from the numbers in the censuses, since the censuses correspond to the actual date they were carried out while projections seek the average for each year. Population projections through 2015 may be found in the following table:

Area	2001	2005	2010	2015
Rural	3,508,181	3,692,573	3,917,338	4,135,005
Urban	3,022,150	3,504,729	4,128,652	4,759,970
Total	6,530,331	7,197,302	8,045,990	8,894,975

Source: INE.

Table 3 details the rural and urban population projections and growth rates.

1.3. INVESTMENTS REQUIRED FOR THE POVERTY REDUCTION STRATEGY

The investments required to meet the goals proposed in the PRSP for 2015 have been estimated in annual amounts according to the components of increasing water and sanitation coverage, and increasing urban wastewater treatment, as described above.

1.3.1. INCREASE IN WATER COVERAGE

The goal for the water component is to achieve 95% coverage by 2015, both in rural and urban areas. In rural areas, services will be provided to the population through non-conventional systems such as community wells with manual pumps. An estimated cost of US\$37 per person is estimated, given that current infrastructure will allow coverage to be partially increased without any expansion. In urban areas, water service will be provided through domestic connections to the water system, at an estimated cost of US\$400 per connection (data taken from the Potable Water and Sanitation Sector Analysis, PAHO / Collaborative Group), with an estimated 4.96 inhabitants per dwelling. The following tables summarize the population that will receive water services and the total estimated cost:

Area	2001 Population	2015 Population	Population with PW in 2001	95% Target Population in 2015	Population to be attended by 2015
Rural	3,508	4,135	2,487	3,928	1,441
Urban	3,022	4,760	2,759	4,522	1,763
Total	6,530	8,895	5,246	8,450	3,204

Area	Connections to be made by 2015	Cost per Connection US\$	Total Cost US\$	Annual Average US\$	Total Cost in Lempiras
Rural	267.4	200.0	53,472	3,819	888,170
Urban	355.5	400.0	142,190	10,156	2,361,776
Total	622.9		195,662	13,976	3,249,946
Average 2002 rate of exchange, L.16.61 x US\$ 1.00.					

Table 5 presents details of the estimated capital costs needed to increase water coverage.

1.3.2. INCREASE IN SANITATION COVERAGE

The PRSP goal for the sanitation component is to achieve 95% coverage in rural areas and 100% in urban areas by 2015. In rural areas, sanitation services will be provided to the population through non-conventional well latrine systems. A cost of US\$60 per latrine is estimated. In urban areas, sanitation service provision is calculated for domestic connections to sewage collection networks, at an estimated cost of US\$600 per connection (data taken from the PWS Sector Analysis, PAHO / Collaborative Group), serving 4.96 inhabitants per dwelling. In some cities, service via latrines will also be provided, which will be determined on the basis of topographical, economic and other factors. The population to receive sanitation services and the total estimated costs are summarized in the following tables:

TABLE 6
POPULATION TO RECEIVE SANITATION SERVICE 2002 - 2015 (IN THOUSANDS)

Area	2001 Population	2015 Population	Population with Sanitation Service 2001	Target Population, 95% and 100% in 2015	Population to be attended by 2015
Rural	3,508	4,135	2,207	3,928	1,721
Urban	3,022	4,760	2,925	4,760	1,835
Total	6,530	8,895	5,132	8,688	3,556

TABLE 7
SANITATION INVESTMENT COSTS 2002 - 2015
INCREASE IN COVERAGE
(IN THOUSANDS OF 2002 US DOLLARS)

Area	Connections to be made by 2015	Cost per Connection US\$	Total Cost US\$	Annual Average US\$	Total Cost in Lempiras
Rural	319.5	60.0	19,168	1,369	318,380
Urban	370.0	600.0	222,004	15,857	3,687,486
Total	689.5		241,172	17,227	4,005,866

Average 2002 rate of exchange, L.16.61 x US\$ 1.00.

Table 7 presents details of the estimated capital costs needed to increase sanitation coverage.

1.3.3. URBAN WASTE WATER TREATMENT

In the sanitation component, the PRSP not only proposes increasing sanitation coverage but also increasing the treatment of wastewaters in urban locations, with the goal of 50% of the deficit in liters per second (lps) accumulated by 2015, based on the current (2001) installed capacity.

According to data in the PWS Sector Analysis prepared by the PAHO / Collaborative Group, the current installed capacity for wastewater treatment (including projects underway) in the 38 cities with more than 10,000 inhabitants is 1,032 lps versus an estimated demand of 3,664 lps. This signifies a current deficit of 2,632 lps, based on the 2001 population and the generation of 160 liters per person per day (lppd), multiplied by a factor of 80%.

TABLE 8
POPULATION TO RECEIVE SANITATION SERVICE 2002 - 2015 (IN THOUSANDS)
WASTE WATER TREATMENT

Population Range	2001 Population	2015 Population	Population with Treatment Service, 2001	2015 Target Population	Population to be attended by 2015
2,000 – 10,000	1,248	1,966	0	982.8	982.8
10,000 – 100,000	659	1,038	382.1	709.8	327.7
> 100,000	1,115	1,756	314.6	1,035.5	720.9
Total	3,022	4,780	696.7	2,728.1	2,031.4

The type of treatment depends upon the size of each location: a) For locations with 2,000 to 10,000 inhabitants, the use of Imhoff Tanks is proposed, whose per capita lps cost is estimated

at US\$10,000; b) For locations with 10,000 to 100,000 inhabitants, treatment with stabilization pools is proposed, with a per capita lps cost of US\$22,000; and c) For locations with more than 100,000 inhabitants, activated mud treatment plants are proposed with a per capita lps cost of US\$100,000. A summary of the urban population to receive wastewater treatment services and the total estimated costs are presented in the following tables:

Population Range	2015 LPS Demand to be attended	Cost per LPS in US\$	Total Cost US\$	Annual Average US\$	Total Cost in Lempiras
2,000 – 10,000	1,456	10.0	14,560	1,040	241,843
10,000 – 100,000	480	22.0	10,560	754	175,402
> 100,000	1,068	100.0	106,800	7,629	1,773,948
Total	3,010		131,920	9,423	2,191,193
Average 2002 exchange rate, L.16.61 x US\$ 1.00					

Table 9 presents details of the estimated capital costs needed to increase urban wastewater treatment.

1.3.4. COST SUMMARY

The total capital costs needed to meet the goals for 2015 for the potable water and sanitation sector proposed in the PRSP are US\$568.7 million, estimated in 2002 prices. This amount is equal to L.9.447 billion. In proportional terms, the distribution of total costs is: 13% for increasing rural coverage, 64% for increasing urban coverage, and 23% for increasing urban wastewater treatment. A summary of the total estimated costs is presented in the following table:

Item	Water	Sanitation	Total	%
Increase in rural coverage	53,472	19,168	72,640	13
Increase in urban coverage	142,190	222,004	364,194	64
Wastewater treatment	-	131,920	131,920	23
Total in US\$	195,662	373,092	568,754	100
Total in L.	3,249,946	6,197,058	9,447,004	
Average 2002 exchange rate, L.16.61 x US\$ 1.00				

Table 10 presents details of the consolidated estimates for PRSP capital costs in the Potable Water and Sanitation (PWS) sector.

1.3.5. PER CAPITA DEBT SERVICE FOR INVESTMENTS IN URBAN AREAS

Debt service estimates have been made (amortization and interest) for the cost of investments proposed for urban areas. It is assumed that investment costs in rural areas will continue to be subsidized by the State, as has been the practice to date, leaving the cost of operating and managing services to the population.

These estimates are made with the goal of determining the indicative value of the possible monthly cost per household benefiting from new potable water, sewage, or wastewater treatment services. Using the “useful life reference” for investments in water and sewage projects determined by the Finance Secretariat in a recent operation with the IDB, these calculations were based on the following financial conditions: a payment period of 20 years, with a two year grace period, and a 4% annual interest rate in dollars. The results of these estimates are summarized in the following table:

Item	Cost in US\$ / connection / mon.	Cost in Lempiras / connection / mon.
Water coverage	2.63	43.74
Sanitation coverage	3.95	65.60
Waste water treatment		
2,000 – 10,000	0.48	8.03
10,000 – 100,000	1.08	17.88
> 100,000	4.84	80.34
Average 2002 exchange rate, L.16.61 x US\$ 1.00		

Table 11 presents details of the estimates for total and per capita debt service costs for investments in urban areas.

HONDURAS
PROGRAMMING OF SPENDING IN RELATION TO PRSP DESIRED RESULTS
SUMMARY FOR POTABLE WATER AND SANITATION

	Goals																
	Baseline	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1 PRSP Goals																	
1.1 Total water coverage	%		79.5%	81.4%	82.4%	83.5%	84.5%	85.6%	86.6%	87.6%	88.7%	89.7%	90.8%	91.8%	92.9%	93.9%	95.0%
Rural water coverage	%		70.9%	72.4%	73.9%	75.5%	77.1%	78.7%	80.4%	82.1%	83.8%	85.6%	87.4%	89.2%	91.1%	93.0%	95.0%
Urban water coverage	%		91.3%	91.6%	91.8%	92.1%	92.3%	92.6%	92.9%	93.1%	93.4%	93.7%	93.9%	94.2%	94.5%	94.7%	95.0%
1.2 Total sanitation coverage	%		78.0%	79.9%	81.2%	82.6%	83.9%	85.2%	86.6%	87.9%	89.3%	90.6%	92.0%	93.4%	94.8%	96.3%	97.7%
Rural sanitation coverage	%		62.9%	64.8%	66.7%	68.7%	70.8%	72.9%	75.1%	77.3%	79.6%	82.0%	84.4%	87.0%	89.6%	92.3%	95.0%
Urban sanitation coverage	%		96.8%	97.0%	97.3%	97.5%	97.7%	97.9%	98.2%	98.4%	98.6%	98.9%	99.1%	99.3%	99.5%	99.8%	100.0%
1.3 Urban waste water treatment																	
Annual increase	lps					250	250	250	250	250	250	250	250	250	250	250	250
Accumulated increase	"					250	501	751	1,001	1,252	1,502	1,752	2,003	2,253	2,503	2,754	3,004
Population coverage	%				21.4%	25.6%	29.5%	33.2%	36.6%	39.8%	42.7%	45.5%	48.1%	50.6%	52.9%	55.1%	57.2%
2 Estimate of urban and rural population																	
2.1 Total population	thous	6,173	6,530	6,695	6,861	7,028	7,197	7,367	7,537	7,707	7,877	8,046	8,215	8,385	8,555	8,725	8,895
2.2 Rural population	thous	3,320	3,508	3,554	3,600	3,646	3,693	3,739	3,784	3,829	3,874	3,917	3,961	4,004	4,048	4,091	4,135
2.3 Urban population	thous	2,853	3,022	3,141	3,261	3,382	3,505	3,628	3,753	3,878	4,003	4,129	4,255	4,381	4,507	4,634	4,760
2.4 Rural participation		53.8	53.7	53.1	52.5	51.9	51.3	50.8	50.2	49.7	49.2	48.7	48.2	47.8	47.3	46.9	46.5
2.5 Urban participation (annual incl. in %)		46.2	46.3	46.9	47.5	48.1	48.7	49.2	49.8	50.3	50.8	51.3	51.8	52.2	52.7	53.1	53.5

HONDURAS																	
PROGRAMMING OF SPENDING IN RELATION TO PRSP DESIRED RESULTS																	
SUMMARY FOR POTABLE WATER AND SANITATION																	
	2000	Goals															
		Baseline	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
3	Cost/connec.																
3.1	Potable water																
3.1.1	Rural coverage	Thous. of 2002 US\$	3,177	3,279	3,381	3,485	3,581	3,666	3,753	3,842	3,931	4,034	4,151	4,272	4,397	4,523	
3.1.2	Urban coverage	"	9,401	9,550	9,697	9,836	9,967	10,085	10,188	10,277	10,351	10,430	10,513	10,582	10,636	10,677	
	Sub-total	"	12,578	12,830	13,078	13,322	13,547	13,751	13,942	14,118	14,282	14,463	14,664	14,854	15,033	15,200	
3.2	Sanitation																
3.2.1	Rural coverage	Thous. of 2002 US\$	1,064	1,108	1,153	1,200	1,245	1,288	1,332	1,378	1,425	1,477	1,534	1,593	1,655	1,718	
3.2.2	Urban coverage	"	14,762	14,985	15,202	15,408	15,599	15,771	15,918	16,041	16,143	16,251	16,366	16,458	16,526	16,574	
3.2.3	Urban treatment	"	-	-	10,993	10,993	10,993	10,993	10,993	10,993	10,993	10,993	10,993	10,993	10,993	10,993	
	Sub-total	"	15,826	16,093	27,348	27,601	27,837	28,052	28,244	28,413	28,561	28,721	28,893	29,045	29,174	29,285	
3.3	Total capital costs	Thous. of 2002 US\$	28,404	28,923	40,426	40,922	41,384	41,803	42,185	42,531	42,843	43,184	43,557	43,899	44,207	44,485	
		Exchange rate															
3.4	Total	Thous. of 2002 L.	471,788	480,405	671,476	679,722	687,391	694,342	700,700	706,441	711,622	717,282	723,488	729,163	734,279	738,901	
3.5	Total	Thous. of current L.	471,788	516,435	765,147	813,270	863,568	915,917	970,518	1,027,393	1,086,675	1,150,083	1,218,036	1,288,969	1,362,913	1,440,067	
3.5	Total as % of GDP	%	0.44	0.43	0.58	0.56	0.55	0.53	0.52	0.50	0.48	0.47	0.46	0.44	0.43	0.41	
Memorandum																	
	Nominal GDP (Millions)		99,015	119,921	132,201	144,363	157,645	172,148	187,986	205,280	224,166	244,790	267,310	291,903	318,758	348,084	
	Real growth			1.035	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04	
	GDP deflator			1.075	1.06	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	
	Cumulative GDP deflator			1.08	1.14	1.20	1.26	1.32	1.39	1.45	1.53	1.60	1.68	1.77	1.86	1.95	
	Real GDP L. 2002		108,363	112,156	116,642	121,308	126,160	131,206	136,455	141,913	147,589	153,493	159,633	166,018	172,659	179,565	
	Real spending/real GDP		0.44	0.43	0.58	0.56	0.54	0.53	0.51	0.50	0.48	0.47	0.45	0.44	0.43	0.41	