

INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

HONDURAS

Assessment of Interim Poverty Reduction Strategy Paper

Prepared by the Staffs of the International Monetary Fund and the World Bank

April 13, 2000

The document prepared by the Honduran authorities meets the requirements for an I-PRSP and provides a sound basis for the development of a fully participatory PRSP, as well as an adequate framework for Fund and Bank concessional assistance programs. The major strengths of the Honduran I-PRSP are (i) a clear commitment toward poverty reduction; (ii) a good diagnosis of poverty; (iii) a detailed and critical discussion of the government's existing strategy; (iv) an identification of data gaps; and (v) the involvement of civil society through a substantial consultative process. The staffs recommend that the full PRSP should (i) identify lessons learned from the existing strategy; (ii) identify the targets to be monitored as well as the policy priorities for reaching them; (iii) make a clearer link between diagnosis and strategy; (iv) integrate better the macroframework with the strategy; and (v) include the full costing of all policy actions, identifying the medium-term public spending needs.

1. **The Interim Poverty Reduction Strategy Paper (I-PRSP)** prepared by the Honduran authorities¹ builds on past efforts at poverty reduction. In this context, an important milestone has been the Master Plan for Reconstruction and Transformation (MPRT), which described the government's strategy to rebuild the country after Hurricane Mitch in 1998.

¹ The Ministry of the Presidency is responsible for the PRSP in collaboration with the social cabinet that includes line Ministries. A unit within the Ministry of the Presidency, UNAT, is responsible for the technical work and coordination with the rest of the government, civil society, and donors. The unit is being supported by staff of both the Central Bank and the Ministry of Finance. In early December, the Minister of the Presidency requested support from bilaterals and multilaterals to strengthen UNAT, and the international community responded quickly. A group of both national and international experts reporting to the Ministry of the Presidency is receiving external technical assistance.

Apart from reconstruction, the MPRT contained policies aimed at structural reform and poverty reduction. It was also prepared in close consultation with civil society and the donor community, and the process itself has contributed to a closer dialogue. The I-PRSP notes that poverty reduction and improved social policies have been part of public policy goals for many years. The reinforced strategy under preparation, which is discussed in the I-PRSP, aims at refocusing and strengthening these efforts in their new framework.

2. **The document indicates a clear commitment to poverty reduction.** The diagnosis shows that although social indicators in Honduras are among the weakest in Latin America, they have improved as a result of policies applied by successive governments. Notwithstanding this progress, the authorities clearly state that addressing the existing levels of poverty in Honduras requires a long-run poverty strategy. In this regard, the authorities are fully committed to the PRSP process.

3. **The I-PRSP contains a good diagnosis of poverty.** The document relies heavily on national semiannual household surveys on incomes and characteristics of the poor available since the late 1980s, and is complemented by a number of other surveys dealing with the fulfillment of the basic needs of the population. The I-PRSP gives a good summary of the profile of the poor measured by various indicators, including spatial distribution, gender, education level, family composition, ethnic groups, and employment situation. It also contains an analysis of labor markets including linkages between wages and human capital; women and child participation in the labor force; and rural labor markets. The document makes a good start in analyzing the determinants of poverty and income inequality. The preliminary study concludes that income growth would have a higher impact in reducing poverty than policies aimed at correcting inequalities. However, these are not either/or options, and further work in this area would benefit from a more detailed analysis of the determinants of poverty-reducing growth and on their redistributive effects. Particular attention to the rural economy is important.

4. **The I-PRSP identifies gaps in poverty data and diagnosis (Annex D), and the actions to be undertaken to address them.** In this regard, the staffs support the government's willingness to participate in the MECOVI project—a partnership between the IDB, ECLAC and the World Bank to improve survey capacities and living conditions indicators in Latin America and the Caribbean. To improve the relatively poor statistical information that is currently available, the staffs recommend that the planned establishment of an independent statistics institute be accelerated. To improve macroeconomic data, in particular, participation in the General Dissemination Data Standards (GDDS) program supported by the IMF would provide a useful framework and development tool that could be backed up with technical assistance from various sources. The staffs of both institutions stand ready to provide any further support that might be required in adhering to these programs.

5. **Notwithstanding the lack of social sector targets in the document, the I-PRSP already shows progress in formulating a plan for monitoring and evaluation.** Specifically, Annex D describes the methodology the authorities are following toward

establishing the mentioned targets. The staffs welcome these efforts toward reaching realistic objectives and recommend that the full PRSP increase the number of social indicators to be monitored, distinguishing clearly between intermediate and final outcomes. As for the existing or proposed mechanisms for monitoring outcomes, the I-PRSP notes that new poverty strategy will adopt the current institutional and legal framework applied to the MPRT. The staffs recommend that the full PRSP describe in detail the existing framework, noting especially the extent to which a participatory process is planned for monitoring.

6. **The I-PRSP process has involved civil society through a substantial consultative process (Annex B).** While the present document itself was not discussed with representatives of the civil society, the authorities held a number of consultations on the overall strategy with them in January and February 2000. Also, more in-depth consultations on the document have taken place in March and April 2000 in various parts of the country aiming at reaching the broadest spectrum of civil society. Similar meetings will be held later in the year with a more comprehensive document. In addition, the authorities are conscious of the importance of involving Congress and representatives of the main political parties in the process, and some meetings have already taken place. Consultations will also continue with the donor community. A key challenge for the dialogue with the civil society will be prioritization of objectives to avoid disappointing the participants and to keep the process focused. The document does not describe the consultative process to be followed between May 2000 and March 2001, as this will be determined according to feedback received from ongoing consultations. Given the good start, staffs are confident that the consultative process will evolve in a satisfactory manner.

7. **The PRSP process is also being supported by multilateral and bilateral donors.** The I-PRSP was able to draw on background studies by UNDP on a diagnosis of poverty, a social expenditure review, and the expertise of a number of international experts. The preparation of the full PRSP will benefit from further studies by IDA including a poverty assessment, a public expenditure review, and a public infrastructure assessment. Fund staff are also planning background papers to the next Article IV staff report on macroeconomic and poverty issues, which will be shared with the authorities. IDB and other donors are also providing expert assistance to the team preparing the strategy.

8. **While the I-PRSP adequately describes the past strategy, the full PRSP would benefit from a more in-depth analysis of the lessons learned.** So far, the past strategy has relied on reforms in macroeconomic and structural policies aimed at higher growth, such as exchange rate, trade and financial sector liberalization, public sector modernization, privatization of public enterprises, and tax reform. In the social sectors, the past strategy has focused on expanding and improving the quality of services in primary health care, nutrition, education, water and sanitation, housing, and rural sectors. The staffs recommend that the full PRSP include a more detailed analysis and discussion of the success of the different policies either in increasing growth or reducing poverty and the lessons learned in these areas, linking these experiences to the diagnosis.

9. **The long-term poverty strategy still needs to be developed.** The strategy section in the I-PRSP contains general objectives but it still requires the identification of the targets to be monitored, as well as the policies to achieve those targets. In the absence of a fully elaborated and agreed strategy, the policy matrix (Annex A) remains indicative and does not contain specific dates for policy actions. In this regard, the final PRSP should identify more clearly policy priorities and include clearer time-bound actions.

10. **The long-term poverty strategy should be linked to the poverty diagnosis.** The staffs recommend that the full PRSP make a clearer link between the diagnosis and the strategy. The strategy needs to build on past and existing economic and social policies, and draw on the lessons that have been learned. In the macroeconomic area, building on the existing PRGF program, the strategy should identify key policies for poverty-reducing growth. These are likely to be related to (i) success in continuing to open up the economy to attract additional investment; (ii) develop exports; (iii) improve governance, transparency, and accountability at all government levels and in the corporate private sector; and (iv) spur competition to increase productivity investments. The strategy should also improve conditions to the poor, benefiting from such growth and new opportunities. In the social policy area, the strategy should identify the social programs that have been effective. In this regard, success in increasing human capital, and policies to improve the delivery of basic social services and the efficiency and targeting of safety net programs are particularly important.

11. **The three-year macroeconomic framework and the policy matrix need to be better integrated into the overall strategy.** At present the I-PRSP includes a description of the key macroeconomic targets supported by the PRGF program. For the full PRSP, the staffs recommend that the macroframework and the main elements of the chosen strategies, including the growth-promoting and social policies, be better integrated. An area that would deserve special attention in the full PRSP is the identification of the full costing of the proposed policies and programs, and the medium-term spending needs required by the strategy. The full PRSP should also contain a description of how the savings associated with HIPC will be used, including how these savings will be incorporated into the macroframework. In addition, the staffs recommend that the full PRSP incorporate the government's plans to improve the transparency and accountability of the budgetary process, including budget formulation and monitoring.

12. **Possible risks for the future implementation** of the strategy can arise from an unfavorable external environment, particularly in developed countries, such as adverse terms of trade shocks, lack of access to foreign markets, or a slowdown in the world economy. On the domestic front, project implementation will become more difficult as institutions attempt to do more with the same limited managerial capacity, in the context of increasing public and donor expectations. Another risk for the strategy is the ability of the authorities to stop the large increases in public sector wages in recent years, which, if continued, can crowd out social expenditures. Moreover, the Honduran political calendar (primary elections are scheduled for November 2000 and national elections for November 2001) may divert attention away from a nationally focused strategy.

13. **The government's timetable described in the I-PRSP envisages the completion of the full PRSP by March 2001. The timeframe seems realistic, and was determined by the authorities taking into account the expected completion dates of the planned analytical work and the political calendar. Many elements of the PRSP process would be subject to continuous improvements—the consultation process; costing and budgeting; and the institutional setup for poverty analysis, monitoring, and policy implementation. Possible risks that could derail the process are the implicit difficulty of designing and agreeing with diverse interest groups on a coherent strategy with monitorable targets, and disruptions associated with potential natural disasters in the upcoming rainy season.**

Honduras - Summary of IMF/World Bank Operations in 2000

<i>IMF</i>	Date
Second Review of PRGF	May 2000
I-PRSP Assessment	May 2000
HIPC Decision Point	July 2000
Article IV/Third Review of PRGF	November 2000

<i>World Bank</i>	Date
I-PRSP Assessment	May 2000
Emergency Disaster Management Project	May 2000
Road Reconstruction Project	June 2000
Economic and Financial Management TA	June 2000
HIPC Decision Point	July 2000
Health Sector Project	August 2000
FHIS V Project	October 2000