

Honduras: Poverty Reduction Strategy Paper Progress Report

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POVERTY REDUCTION STRATEGY

PROGRESS REPORT 2004



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LIST OF ABBREVIATIONS

ADEL	Local Development Association
AFE	State Forestry Administration
AIERI	Comprehensive Care for Common Childhood Diseases
AIN	Comprehensive Care for Children
AIN - C	Comprehensive Community-Based Care for Children
AMHON	Honduran Municipalities Association
BANADESA	National Agricultural Development Bank
BCH	Central Bank of Honduras
BCIE	Central American Bank for Economic Integration
CAD	Teacher Education Center
CAFTA	Central American Free Trade Agreement
CAMEL Test	Capital Adequacy, Asset Quality, Management, Earnings and Liquidity.
CARE	Cooperative for Assistance and Relief Everywhere
CCERP	Consultative Council for the Poverty Reduction Strategy
CCPET	Consultative Council of the Program for Efficiency and Transparency in State Procurements and Hiring
CDA	Center for Agro-Business
CDC	Commonwealth Development Corporation
CEOT	Territorial Planning Executive Council
CEPREB	Preschool Education Center
CESSCO	Center for the Study and Control of Contaminants
CEVS	Sula Valley Executive Commission
CIF	Price including cost, insurance and freight
CIP	Comprehensively Planned Tourism Center
CNB	National Primary School Curricula
CNBS	National Banking and Insurance Commission
COHDEFOR	Honduran Forestry Development Corporation
CONADEH	National Human Rights Commissioner
CONATEL	National Telecommunications Commission
COPECO	Permanent Contingencies Commission
CPI	Consumer Price Index
DFID	Department for International Development of the U.K.
DGA	Department of Environmental Management
DICTA	Department of Agricultural Science and Technology
DPD	Honduras Decision Point Document
EFA	Education for All Program
ENCOVI	Standard of Living Survey
ENEE	National Electricity Company
ENESF	National Epidemiological and Family Health Survey
ENIGH	National Household Income and Spending Survey
EPHPM	Permanent Multi-Purpose Household Survey
FHIS	Honduran Social Investment Fund
FOB	Free On Board
FONAPROVI	National Fund for Production and Housing
FOSEDE	Deposit Insurance Fund
FSAP	Financial Sector Evaluation Program
FTA	Free Trade Agreement
GDP	Gross Domestic Product
G17	Group of 17 donors to Honduras
H & A	Harmonization and Alignment
HIPC	Heavily Indebted Poor Country
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HONDUTEL	Honduran Telecommunications Company
HDI	Human Development Index
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
INE	National Statistics Bureau
INICE	National Institute for Educational Research and Training
ISV	Sales Tax
MAFOR	Sustainable Management and Use of Softwood Forests
MARENA	Management Program for Natural Resources in Priority Watersheds

MDG	Millennium Development Goals
MIPYME	Micro, Small and Medium Enterprises
NFPS	Non-Financial Public Sector
NIR	Net International Reserves
ODA	Official Development Assistance
OMO	Open-Market Operations
ONCAE	Normative Office for State Hiring and Acquisitions
OPEC	Organization of Petroleum Exporting Countries
PACTA	Land Access Project
PANE VP	Percentage of Nominal Effective Debt Relief in terms of Current Net Value
PAPIN	Support Program for Indigenous and Black Populations
PARA	Rural Areas Administration Project (now PATH)
PATH	Honduran Land Administration Program
PEC	School Improvement Plans
PEDM	Strategic Municipal Development Plan
PEGAH	Gender Equity Policy for Honduran Agriculture
PMRTN	Master Plan for National Reconstruction and Transformation
PPA	Priority Protected Area
PRRAC	Central American Regional Reconstruction Program
PRAF	Family Allotment Program
PRGF	Poverty Reduction and Growth Facility
PRIESS	Institutional Reorganization and Extension of Health Care Services Program
PRIMHUR	Urban Renewal Program
PROBAP	Biodiversity Project for Priority Areas
PROCUENCA	Management Program for Renewable Natural Resources in the Cajón Reservoir Watershed
PRODEL	National Decentralization Program
PRODERT	Sustainable Rural Development Project in Ecologically Fragile Zones in the Trifinio Region
PROHECO	Honduran Community Education Program
PROMANGLE	Management and Conservation Project for Mangroves in the Gulf of Fonseca
PRONADERS	National Sustainable Rural Development Program
PRONOT	National Territorial Organization Program
PRSC	World Bank Poverty Reduction Support Credits
PRSP	Poverty Reduction Strategy
PSIA	Poverty and Social Impact Analysis
RENOT	Registry of Territorial Organization Norms
RNP	National Registry of Persons
SANAA	National Water and Sewerage Service
SEFIN	Secretariat of Finance
SERNA	Secretariat of Natural Resources and Environment
SIAFI	Integrated System for Financial Management
SIARHD	Integrated Teacher Administration System
SIERP	System of Indicators for the Poverty Reduction Strategy
SIFAR	Alternative Rural Financing System
SINIA	National Environmental Information System
SINIT	National Territorial Information System
SOPTRAVI	Department of Public Works, Transportation and Housing
STD	Sexually Transmitted Disease
SWAP	Sector Wide Approach
TNE	National Elections Tribunal
TRANSFORMA-CATIE	Technology Transfer and Promotion of Professional Training in Natural Forest Management / Tropical Agricultural Research and Higher Education Center
UAM	Municipal Environmental Unit
UBN	Unsatisfied Basic Needs
UMCE	Unit of Measurement for Educational Quality
UNAH	National Autonomous University of Honduras
UNAT	Technical Support Unit of the Office of the Presidential Secretariat
UNDP	United Nations Development Program
UPEG	Management Planning and Evaluation Unit
WB	World Bank

EXECUTIVE SUMMARY

- i. This report describes progress made in implementing the Honduran Poverty Reduction Strategy (PRSP) from the time of its approval by the Government of Honduras in August 2001, through to the present. The report also monitors the economic and social programs that were defined in the original document and which were revised, following consultation with civil society in the First Progress Report and Update of the PRSP. This document, published in November 2003, recalibrated the Strategy's goals and indicators and redefined poverty spending to ensure its consistency with the outlined objectives.
- ii. As part of its strategy to achieve the PRSP objectives, the Government has intensified actions to maintain a stable macroeconomic framework and increase economic growth. This was complemented by the National Competitiveness Program which aims to improve business confidence and stimulate private investment. This included actions to simplify administrative procedures and increasing public and private investment in infrastructure and the productive sectors.
- iii. These efforts, combined with responsible management of public finances, adequate monetary management, implementation of the state re-engineering process, and reform of the financial system, allowed Honduras to reach a new PRGF agreement with the IMF in early 2004, opening the way to increased international financing and to reaching the HIPC Completion Point.
- iv. The economy has responded very positively to these reforms. The GDP growth rate reached 4.6% in 2004, in which year Honduras met all the macroeconomic targets laid out in the PRGF agreement. There are also growing signs of positive outcomes in the poverty indicators. The percentage of Hondurans living in extreme poverty declined from 49% in 1999 to 44.6% in 2004, or by around one percentage point per year. However, the overall poverty headcount index fell less, from 66% to 64.2% and the distributive indicators show only modest improvement to date. It will be necessary to accelerate the rate of poverty reduction for Honduras to meet the PRSP goal of reducing the poverty and extreme poverty rates by 24 percentage points by 2105. It is expected that the recently approved tax measures will improve the pattern of income distribution and that sustained GDP growth will increase employment rates and accelerate the growth of the real incomes of the poor.
- v. Overall, Honduras thus far has achieved approximately 18% of the improvement on the PRSP indicators that will be needed to reach to the goals set for 2015. The PRSP indicators whose performance improved most during 2001-2004 included macroeconomic indicators, the extreme poverty index, education coverage, electricity coverage, telecommunications coverage, human development, and the amount of Protected Areas surface area with management plans in place. The indicators for the poverty headcount index, health outcomes, and access to water and sanitation services have evolved more slowly. Despite increased spending in these sectors, the advances in the indicators have been disappointing. A review of intervention strategies is needed, to improve the efficiency of resource utilization and guarantee greater impact on PRSP indicators.
- vi. As mentioned above, in 2004, a broadened definition of poverty spending was adopted. At the same time, a new tracking system was put in place to ensure that the

benefits of debt relief are channeled into increased spending on poverty. To this end, as recommended by the World Bank, Honduras adopted a “virtual” Poverty Reduction Fund”, which shows the trends of total poverty spending and its financing. The Finance Ministry’s budget administration system, SIAFI, is used for this purpose. Honduras met the PRGF target of increasing poverty spending by 0.6% of GDP, to 8.4% in 2004. “Investment in Human Capital,” absorbed 57% of total investment. This is followed by “Guaranteeing the Strategy’s Sustainability” (19% of the total) and “Reducing Poverty in Rural Zones,” for which 13% of resources were used.

- vii. Up to the end of 2004, Honduras had received \$256.8 million in Interim HIPC debt relief. The relief was equal to 0.2% of GDP in 2000, 0.9% in 2001 and 2002 and 0.8% in 2003 and 2004. Most of the HIPC relief has been assigned to investment in human capital, especially in education and health. A small remainder of \$20.2 million had not yet been applied to poverty programs by the end of 2004, and will be used in 2005. After HIPC Completion Point is reached, it is estimated that Honduras will receive a further \$581.4 million in debt relief between 2005 and 2018.
- viii. As intended under the HIPC initiative, debt relief has led to an increase in total poverty spending, rather than replacing other sources of funding. Analysis of data for poverty spending from 2000 to 2004 shows that –once post-hurricane reconstruction programs are excluded – the nationally funded effort of poverty spending has remained stable at around 4.6% of GDP in each year.
- ix. As well as funding increased spending programs targeted on poverty reduction, the PRSP also sets out an ambitious program of policy initiatives and legislative reforms designed to remove obstacles to increased growth and social equity. The following paragraphs outline the most important advances in each of the five broad programmatic areas of the PRSP.
- x. Key actions taken to promote **Equitable and Sustainable Economic Growth** include approval of the Finance System Law, and reforms of the law regulating the National Banking and Insurance Commission (CNBS), the BCH and the Insured Deposits Fund (FOSEDE). In addition, the Copyright Law and norms were approved, and the presidents of Central America approved a work program for the Central American Customs Union, aiding regional integration. The CAFTA negotiations with the United States were concluded and the National Commission on Competitiveness and the National Center to Promote Agro-Business were created. Moreover, a Tourism Cabinet and special Tourism Police Unit were set up, and the Policy to Support Competitiveness among MIPYMEs was approved.
- xi. In the area of **rural poverty reduction**, the Financial Support Law for Agricultural Producers was approved along with the Property Law on May 28, 2004, which includes the creation of a Property Institute. With respect to programs and projects, implementation of the National Sustainable Development Program (PRONADERS) continued, benefiting 288,461 rural families. Implementation of the Land Access Program (PATH, which was previously known as PAAR) has also continued, with financing of L. 267.8 million, along with FHIS programs aimed at improving the nation’s rural infrastructure. In the agriculture sector, the greatest progress has resulted from setting up six agro-food chains, which serve the production of dairy products, African palms, vegetables, honey, and pork and beef (benefiting approximately 70,000 producers nationwide), and creating the Agro-Business Center

(CDA), responsible for improving capacities to negotiate and commercialize products.

- xii. With respect to **urban poverty reduction**, actions are focused on stimulating the development of micro, small and medium scale enterprises as a source of employment and income generation for poor families in urban zones. The Competitiveness Policy, now in force, is aimed at supporting MIPYMES and the economy's social sector. The Framework Law for Potable Water and Sanitation was approved, with the goal of improving access to basic services in priority areas. The purpose of this law is to promote an expansion of coverage and assure water quality as part of an appropriate environmental management scheme that protects and preserves water sources and health.
- xiii. In the area of **education**, the design, approval and initiation of the Education for All (EFA) program for 2003-2015 is particularly noteworthy, with resources totaling some US\$86 million. The objective is to achieve universal sixth grade graduation for all school-age children by the year 2015. The General Education Law and reforms of the UNAH Organic Law were also harmonized, and a national educational research and training network was created by four schools affiliated with the INICE and 2,725 teacher education centers (CADs)
- xiv. In the **health** sector, PRSP priorities target strengthening primary care, primary care for children and women, and better quality health services all around. The most important policy measures include developing and discussing the framework for the health sector reform process, which is based on separating functions, strengthening the regulatory role of the Secretariat of Health, implementing the maternal-infant mortality initiative, developing, approving and implementing the Global Fund for HIV/AIDS, tuberculosis and malaria, financing community-based prevention actions, and delivering anti-retroviral medications. Some 76.3% of all funds utilized in the health sector by September 2004 were national funds, while 11.1% were loans, 6.4% HIPC funds and 6.2% donations. Approximately 86% of these resources have been invested in programs and projects providing outpatient care, epidemiological control of illnesses, and hospital treatment. An average of L.1.2 billion has been used every year to finance these projects. Some 91% of national funds assigned to the hospital network have been used for acquiring medicines and surgical equipment, as well as for strengthening primary care. In particular, these funds have been used to sustain the Expanded Program of Immunizations (EPI) and community-based comprehensive care for children (AIN-C).
- xv. With respect to providing **greater social protection to specific groups**, a Plan of Attention for the Most Socially Vulnerable—street children, sexually exploited children, children orphaned by HIV/AIDS, gang members, the disabled, the elderly and female victims of violence—is being defined. In addition, the National Policy on Preventing Disabilities and the Comprehensive Care and Rehabilitation of Disabled Persons and Protecting their Rights and Responsibilities has been approved. Meanwhile, the National Plan of Action for the Disabled is being developed, and cooperation agreements supporting a community-based rehabilitation strategy in the Miskito coast region of Honduras have been signed. To improve the socio-economic situation of indigenous and Afro-Caribbean Hondurans, a Commission to Eliminate All Forms of Racial Discrimination has been created. Moreover, the Support Program for Indigenous and Black Populations (PAPIN), whose main component is

implementing an ethnic-engineering model in two pilot communities (Belén in Mosquitia and Nueva Esperanza, Lempira), is being implemented with 34 projects at a cost of L. 21.9 million.

- xvi. Actions **to guarantee the strategy's sustainability** are being implemented to promote good governance and democratic participation, such as eliminating the figure of the “presidential designate” and replacing it with a Vice-President. A constitutional reform was adopted on November 24, 2004, through which the plebiscite and referendum were incorporated as democratic options, and the New Electoral Law and Political Organization Law were also adopted. With respect to improving citizen security, initiatives such as implementing Preventive Education Programs have been approved, which are managed by the Division on Gang Prevention. In addition, the “Safer Community” program was implemented, in which citizens and the National Police jointly work on community security issues. The Strategy to Combat Drug Trafficking has been implemented in the Gracias a Dios and Colón provinces, and the Transit Law and Law on Firearm Ownership, Registration, and Possession and Control of Munitions, Explosives and Other Similar Devices were reformed (published in *La Gaceta* No. 30-224 on November 19, 2003).
- xvii. The basis for PRSP's medium-term implementation is contained in the **PRSP Implementation Plan for 2004-2006**, which the Government presented at the Consultative Group meeting in June 2004. This Plan integrates the first sector wide planning efforts carried out by the six Sector Roundtables that, under Government leadership, consolidated and aligned the demand for programs related to PRSP goals. This was reinforced further by approval of the Budget Law, which establishes a mechanism for developing a Medium Term Multi-Year Plan that will link PRSP goals with medium-term budgetary programming. The Government of Honduras has taken on the challenge of leading the process of harmonizing and aligning cooperation support, with the principal goal of determining which steps are needed to insure that international cooperation complement national efforts rather than substitute them, to achieve more sustainable economic and social development.
- xviii. Monitoring of PRSP programs and projects requires effective financial oversight and ongoing review of activities. The Technical Support Unit (UNAT), together with the National Statistics Bureau (INE)—attached to the Presidential Secretariat and the Finance Secretariat—took the initiative to begin developing a prototype for a monitoring and evaluation system using available resources and information. On March 31, 2004, the PRSP Information System (SIERP) was presented on the official web site: www.sierp.hn.
- xix. The SIERP is a general information system that facilitates monitoring and evaluation of national anti-poverty measures. It is based on analyzing the progress of global and intermediate indicators, and the physical and financial advance of PRSP programs and projects. To provide sustainability to the follow-up process, a SIERP Implementation Master Plan (PMSIERP) was drafted with a vision to 2015. One of the main tasks assigned to the SIERP is **defining, compiling and discussing the indicators** with all institutions. To achieve it, model matrices were developed so that each institution could include the indicators it considers pertinent. The matrices were designed to compile information from the institution, from existing information systems, and the indicators themselves. The indicators are differentiated by time, level of aggregation and source.

- xx. To measure progress toward achieving PRSP goals, adequate monitoring and evaluation of specific advances in concretely improving the population's living conditions are needed. For this, technical instruments and tools are required that allow policy recommendations to be made, like the **PSIAs**, which are studies about impact and poverty.

- xxi. The main challenges facing PRSP implementation in the medium and long term include the need to further strengthen the articulation between PRSP program goals and sector-level planning and budgeting, including the alignment and harmonization of donor funding. It is also important to increase national appropriation of the process through building civil society capacities, adequate outreach about the PRSP's objectives, goals and results, and the promotion of "social audits" as a mechanism for overseeing the efficiency and accountability of program implementation. Moreover, decentralized mechanisms that link local supply and demand are also needed, to improve the effectiveness of resource use.

I. INTRODUCTION

1. This report describes progress made to date in implementing the Poverty Reduction Strategy (PRSP), since its approval by the Government of Honduras in August 2001. The PRSP, whose primordial goal is reducing the levels of poverty and indigence in a sustainable manner through economic growth with equitable distribution of resources, through the year 2015, is strengthened and further accentuated by the commitment of Honduran authorities to achieve the Millennium Development Goals. This commitment was concretized by Honduras and 188 other nations in 2000. A complete description of the PRSP goals, its global indicators, and the policies and programs designed to achieve these was published in the governmental document, "Poverty Reduction Strategy,"¹ which was approved by the Directorates of the International Monetary Fund (IMF) and the World Bank (WB) in October 2001.
2. In late 2003, the process of updating the PRSP was concluded. This process consisted of recalibrating its goals and indicators, and redefining poverty spending to make the Strategy more coherent with defined objectives. This process took place in the framework of the first progress report, which summarized the achievements and outstanding challenges facing program implementation and the impact on indicators during the 2002-2003 period. This report monitors the recalibrated goals, in light of the new poverty spending definition and institutional structure changes that arose in 2004.
3. The report is also reinforced by the Poverty Reduction and Growth Facility (PRGF) agreement that the Government of Honduras signed with the IMF, by the World Bank's Poverty Reduction Support Credits (PRSC), and by agreements made in the framework of the Fourth Meeting of the Consultative Group held in Tegucigalpa in June 2004. It is hoped that the same will serve as the basis for achieving the Floating Culmination Point in the framework of the Heavily Indebted Poor Countries initiative, to facilitate the achievement of PRSP goals through external debt service relief and its conversion into higher levels of spending for the most unprotected members of society.
4. Since the PRSP was developed, important events have occurred that have altered the nation's medium-term economic outlook. The negative effect of the US economy's deceleration after September 11th, 2001, the continued worsening of the terms of exchange, added to a two year delay signing the PRGF with the IMF have attenuated Government efforts to achieve PRSP goals. However, a more exhaustive review of the impact of policy measures under implementation, and of the increased spending on poverty reduction programs, reveal important progress in terms of achieving significant improvements in the well being of the most vulnerable members of Honduran society.
5. The report will be subjected to a consultative process through the PRSP Consultative Council (CCERP), whose structure was expanded to include a greater number of civil society representatives. The results of this process improved Honduran society's understanding of PRSP implementation to date, and more precisely defined the outstanding challenges to be faced in the future. A detailed description of the consultation process along with its results has been included in Chapter II.
6. Chapter III outlines the nation's macroeconomic situation and its influence on PRSP implementation. Reference is made to the economic deceleration and fiscal crisis

¹ Poverty Reduction Strategy, Government of the Republic of Honduras, August 2001.

underway since 2001, as well as the measures taken to correct this situation. The PRGF agreement signed in March 2004 with the IMF, combined with access to World Bank Poverty Reduction Support Credits (PRSC) and the achievements made in the Consultative Group reaffirm the centrality of poverty reduction to the nation's development strategy. This is also reflected in later reviews of these agreements and the positive projections for compliance with the monetary program approved by authorities at the beginning of the year, despite obstacles generated by external shocks mostly associated with the world energy crisis.

7. Chapter IV summarizes the state of poverty and the performance of the main economic and social indicators for poverty reduction, between September 2001 and September 2004. The results of the Standard of Living Survey (ENCOVI) are still not available; these will shed light on important themes related to poverty in the country. This section also contains some fundamental innovations in relation to previous reports. The evolution of poverty is extensively reviewed, considering not only its incidence but also the severity and scope of disparities. In addition, income redistribution is considered using more stylized indicators than the Gini coefficient, such as the Atkinson and Theil indices. Well-being is also briefly evaluated using the Unsatisfied Basic Needs method.
8. In Chapter V, implementation of the PRSP's financial resources during the 2001-2004 period is analyzed. The first part of the analysis provides a global overview of budgetary implementation, detailing the use of financing following the redefinition of poverty spending in 2003. Later, the acquisition and use of interim debt relief resources between 2001 and September 2004 is explained in detail. It is important to stress the manner in which HIPC resources have allowed greater insertion and focalization of public resources earmarked for the fight against poverty. The consolidation of national efforts is sought under the principle of HIPC relief additionality, achieving adequate budget implementation by social sectors, avoiding the fungibility and displacement of financial resources, and assuring the use of an increasingly larger portion of the budget to achieve the PRSP goals.
9. Chapter VI details the PRSP's programmatic implementation and progress made in implementing legal and political reforms in each of the six programmatic areas contained in the document. It also includes an examination of advances in the decentralized implementation of the PRSP, especially with respect to municipal strategic planning and building local capacities. Finally, the development of the PRSP's operational-institutional framework is assessed, justifying changes in the CCERP's structure and in the institutional participatory planning model generated by the Sector Roundtables.
10. Efficient implementation of the PRSP should be proposed in a framework of a strategic planning process that is consistent with the requirements for achieving the PRSP goals. For this, the Government and the G-17 Donor Group began a process in 2003 of harmonizing international cooperation and aligning it to the priorities defined in the framework of PRSP goals. The progress of this process is described in Chapter VII, where the design and implementation of SWAPs Programs—a fundamental long-term planning instrument—are also evaluated.
11. Monitoring and evaluating the impact of both PRSP policies and programs and projects are a priority, to facilitate decision-making. Chapter VIII analyzes the performance of

the PRSP Information System (SIERP), including progress in monitoring impact and process indicators, as well as studies carried out to measure the impact of policies and programs (the so-called Poverty and Social Impact Analysis, or PSIA). The chapter also describes the medium term outlook for these instruments.

12. Finally, Chapter IX describes obstacles encountered during PRSP implementation, as well as the main challenges that need to be confronted in the medium and long term. The purpose here is to pinpoint the main aspects to be considered in future work, in light of institutional changes and shifts in policy cycles, as well as the influence of medium-term world economic trends.

II. REPORT CONSULTING PROCESS

13. As has been done on previous occasions, a draft of the PRSP Progress Report through 2004 was submitted for consultation to Civil Society and the International Cooperation Community through the CCERP. The fundamental goal of this task was to learn the viewpoint of the citizenry represented in the different sectors regarding relevant aspects in implementing the Strategy and stimulating them to become more aware of the process, as well as to obtain inputs to enrich the document and improve its quality.

A. ORGANIZATION AND PARTICIPATING SECTORS

14. On this occasion, the consultation took place through six regional workshops in order to ensure broad participation by Civil Society at the national level. The consulted regions were: i) Central Region, which covers the provinces of Francisco Morazán, Comayagua, La Paz and Olancho; ii) South Region, for the provinces of Valle and Choluteca; iii) Western Region, for the provinces of Copán, Ocotepeque, Lempira and Intibucá; iv) North Region, provinces of Cortés and Santa Bárbara; v) Seaboard Region, provinces of Atlántida, Islas de la Bahía and Yoro; and vi) Bajo Aguan Region, provinces of Colón and Gracias a Dios. Approximately 800 people participated in the consultation, among the 12 sectors of Civil Society and representatives of the G-17.

15. A methodology was designed to facilitate the analysis and reflection on the topics addressed in the report, as well as the later inclusion of the participants' contributions in the final version. This methodology, as well as the definition of the participants was done together with the members of the recently installed CCERP.²

16. The first draft of the report was turned in ahead of time to the CCERP members so that they could share it with their base organizations before the workshops. The working sessions began with a presentation by the Government regarding the content of the document, followed by work in groups, in which the participants offered their contributions and comments regarding their vision of the process.

17. The results of the workshops were systematized in matrixes, which served for drafting a summary of the observations and proposals by Civil Society that were then included in the document. Annex A contains a summary chart of the contributions from Civil Society, noting the topic and origin of each one.

18. The International Cooperation Community grouped in the G-17 offered valuable contributions to the report. A document with general and specific comments on the draft was submitted to the Government. It included numerous ideas for improving the internal coherency of the report. In addition, one or more representatives of the donors participated as observers in all the consultation workshops.

² Changes to the FRP Law permitted the CCERP to expand its Civil Society membership from 5 to 12 members, which were elected in free assemblies that were ratified by the President of the Republic. The installation of the new CCERP took place on December 7, 2004 and its first task was to take responsibility for the consultation process for this report.

B. RESULTS OF THE CONSULTATION

a. General aspects

19. The impression of the majority of participants is that document pulls together a valuable amount of information about the main actions carried out by the Government regarding implementation of the PRSP. Nonetheless, they expressed concern about the lack of impact of these actions on the global goals. The majority agreed that this is principally because the current efforts will crystallize in the long term. The impression also persists that the delay in reaching the Culmination Point of the HIPC initiative has stagnated the process.
20. Another recurring aspect in the discussions was the need for Honduran society to appropriate the PRSP. Concern was expressed regarding the sustainability of the process in the fact of changes of government, especially in a political year, and the implementation of a broad outreach program to publicize the Strategy was proposed, to make it known by both civil society and the authorities.
21. There was insistence on the need to adequately prioritize the programs and projects to strengthen the link between actions to be undertaken and the goals of the Strategy. In this context, the need was expressed to link all Government actions to the PRSP through sector-wide inter-institutional coordination.
22. In this framework, the proposal was made in the majority of the meetings to increase civil society's participation in determining the programs to be financed with Strategy resources. To this end, it was proposed, among other things, to strengthen decentralization in their implementation, especially through the Strategic Municipal Development Plans and promotion of the Regional Strategies.
23. Greater participation by society was also urged in determining strategic aspects of the PRSP, such as the definition of macroeconomic policies, the country's strategy regarding processes such as CAFTA, and the formulation of an appropriate strategy for combating corruption. As part of this effort, it was stated that the national consultation processes must be more ongoing and genuinely affect the orientation and implementation of the Strategy
24. The importance of having access to information about all the programs and projects was remarked upon, including disaggregating at the level of implementing institution, geographic reach and expected impact. Greater information was also requested regarding fulfillment of the program's physical and financial targets and the degree of progress in that regard. There was also insistence on the need for disaggregated information at the municipal level. The same type of information must be available for the programs and projects suggested for incorporation into the PRSP in the medium and short term.
25. General enthusiasm was perceived in all the workshops regarding the participation and opening that the Government has generated around the PRSP. Unlike previous processes, Civil Society expressed positive expectations regarding the future implementation of the programs. Nonetheless, criticisms were evident regarding the slowness of the majority of public institutions, as well as the lack of commitment on the

part of authorities to push the programs and projects. Greater accompaniment by public officials at the future participatory processes was requested.

b. Specific Comments

26. With respect to the macroeconomic chapter, it was expressed that although the GDP growth, inflation and the interest rates show stability, this behavior is not becoming tangible in the situation of employment and well-being of the majority of population sectors. It is necessary that the measures taken by the Government be joined by policies capable of developing production with the participation of all sectors. As on other occasions, there were diverse opinions regarding how to configure the macro-fiscal framework in concrete terms.
27. On the topic of Economic Growth, the private sector representatives and the social sector of the economy criticized the fiscal measures for increasing taxes on the formal sector. Others said that it is not observable how the corruption-fighting measures have been a source of financing for the PRSP. The impression persists that the government is excessively large and they consider it important to make public spending on salaries consistent with the country's macroeconomic possibilities. They also criticized the persisting tax exemptions.
28. The discussions also centered on the need to strengthen the National Competitiveness Program, the development of micro and small businesses, and the importance of the negotiation of the trade opening taking into consideration its linkage to poverty. Some of those consulted did not agree with the trade liberalization in the CAFTA framework, for fear of a negative impact on some sectors such as agro, while others see it as an essential factor for strengthening Honduras' competitiveness.
29. There was insistence in the majority of workshops on the need to order public interventions toward the poorest sectors. Institutional disorder continues to be observed in the implementation of programs and projects. In addition, the NGOs and Cooperation were criticized in that they often duplicate efforts, leading to a waste of much-needed funds to reduce poverty.
30. On the issue of Rural Poverty, the participants agreed on the need for an effective land access policy to be designed together with an efficient land use scheme that permits the land to be used well. There was a demand by the peasant organizations that a land redistribution be carried out in the framework of a broad agrarian reform, assigning the needed budget resources to that end. Others emphasized the importance of improving the irrigation systems and access to basic infrastructure services such as water and sanitation, electricity, telecommunications and a rural road system to facilitate the recovery of productive activities.
31. The discussions regarding urban poverty demanded the development of social and economic infrastructure in the marginal neighborhoods of the development polls. Several of those consulted stressed the importance of improving the existing informal housing in marginal neighborhoods. A greater disaggregating of the indicators of access to basic services was requested, as was greater participation by residents and councils in the policy decisions regarding the PRSP. Some questioned whether the People's Housing program could attend the truly poor. Skepticism was expressed

about the reported figures of urban water coverage, with the comment that many who are connected to a system receive bad service. It was requested that greater importance be given to this issue.

32. Those consulted on education and health centered their comments on the development of a better scheme for following up on attainment of the goals, better linkage of public policies with local actors, a more transparent usage of resources and that the quality of the services be taken into account. Concern was expressed about the failure to meet several of the goals in this area, including net coverage in primary and secondary education.
33. With respect to attention to specific groups, those consulted want a comprehensive vision of ongoing poverty reduction of those groups, and not through social compensation programs and temporary poverty alleviation (which were characterized as charity or paternalistic projects). It was requested that the issues of third age and people with disabilities be made more visible, as they are absent from the program. There was also a request for better treatment of the issue of at-risk children and youth.
34. With respect to the sustainability of the strategy, it was requested that actions regarding public security, democratic participation and governmental transparency be implemented. Regarding environmental protection and risk management, concerns were expressed about the apparently reduced importance given these themes in recent years and the need was expressed for establishing a clear state environmental and risk-management policy. It was requested that the follow-up systems to the PRSP and civic participation in them both be strengthened

C. INCORPORATION OF THE RESULTS INTO THE REPORT

35. This PRSP Progress Report incorporates many of the comments and suggestions received. The majority of them have been incorporated into the document considering their pertinence to specific chapters and sections of the document. Parallel to the document, a minute of the process is being drafted, detailing evidence of the incorporation of the suggestions. In addition, matrix A details the contributions by city and Report section.
36. The strengthening of the sections of statistics and indicators of PRSP results and impacts are among the most important changes to the Report. Moreover, greater emphasis has been given to the PRSP work program by strengthening the participatory and decentralized implementation processes of the Strategy and the creation of transparent follow-up mechanisms for the PRSP. Work has begun to align the PRSP interventions and goals within the framework of sector-wide programs in education, health, water and sanitation, agroforestry and public security.

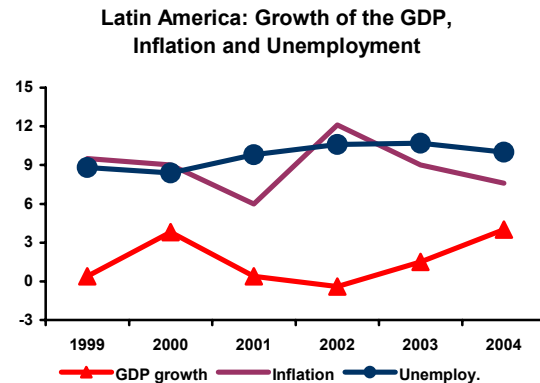
III. MACROECONOMIC FRAMEWORK

A. INTERNATIONAL PANORAMA

37. The world economy showed strong signs of recovery in 2003 and 2004, following economic deceleration and uncertainty at the start of the century. Preliminary data reveal that the global GDP grew around 4% last year, pulled upward by the acceleration of the US and Chinese economies. Japan's recovery injected a new demand factor into the international scene. Its 2.7% growth rate in 2003 and 2004 easily surpassed the 0.2% rate of growth in 2002. Other factors affecting this behavior were the end of the war in Iraq, the rise in world hydrocarbon prices, and better access to financing in developing countries.

38. Propelled by world trends, the economies of Latin America and the Caribbean as a whole had encouraging growth in 2004, registering a 5.5% increase in the GDP.

39. The USA's 4% growth rate facilitated an increase in Latin American and Caribbean imports to that country. Moreover, the expansion of Asian economies, headed by China's 9.8% growth rate, triggered price and volume increases for basic products exported by the region, including copper, tin, iron and soy. In addition, the recovery of intra-regional trade flows in Latin America favored this increased economic activity.



40. Central America also produced good economic results, despite some adverse external factors. Macroeconomic stability was maintained throughout the period, expressed in inflation rates below 10% in most of the region. Other positive factors included maintaining stable exchange rates, increased exports and increasing international reserves. However, the balance of payments current account deficit deteriorated in most of the countries in the region, reflecting growing import demand as GDP growth increased, and some countries reported slippage on the fiscal deficit

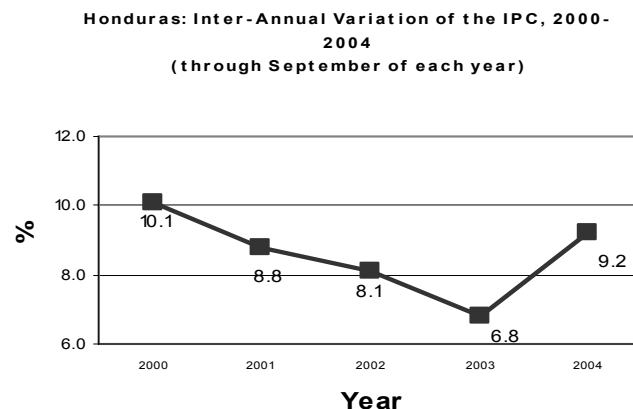
41. Besides these generally positive macroeconomic results, the Central American Free Trade Agreement (CAFTA, or "TLC" in Spanish) was negotiated with the United States, generating positive expectations for medium-term trade and investment flows. In addition, state modernization processes and structural reforms continued in most countries of the region.

B. NATIONAL ECONOMY

a. Macroeconomic overview

42. Honduras registered very positive results for the first full year implementation of the PRGF agreement with the IMF (see Table III.1). Based on provisional data (subject to review by the IMF Mission programmed for the first week of February, 2005), real GDP growth is estimated to have reached 4.6% (against the forecast of 3.75%)

43. The level of Net International Reserves surpassed program goals comfortably and the monetary targets were met. In spite of these achievements, the inflation rate (consumer price index, CPI, point-to-point) reached 9.2%, above the revised PRGF objective of 8.0%, due mainly to the pressure of increased fuel prices. However, the GDP deflator rose only 7.7%, which indicates that domestic inflationary pressure was contained broadly in line with the program goals. The long-term trend in inflation is clearly downwards (see graph) and it is expected that this will continue in the second year of the PRGF program, as international fuel markets move back towards normality. It is also noteworthy that the relative increase in the Honduran CPI in 2004 was the lowest in the Central American region.



44. Most important of all, the fiscal goals of the PRGF program were met. The deficit of the Central Government was 3.5% of GDP (down from 5.4% in 2003) and the combined deficit of the non-financial public sector was 3.0% (compared with 4.9% in 2003). This adjustment was achieved without sacrificing poverty reduction spending, which (on the new definition outlined in the previous Progress Report) rose from 7.8% of GDP in 2003 to 8.4% in 2004. In the following paragraphs, the main aspects of the government's successful macroeconomic program are outlined. Chapter V presents further details on the trends of poverty spending.

b. Growth, investment and competitiveness

45. GDP growth for 2004 is estimated at 4.6%, higher than the 3.75% revised projection of the PRGF agreement. The continued recovery of GDP growth was propelled by government efforts to maintain a stable macroeconomic framework complemented by implementation of the National Competitiveness Program, the generation of an improved business climate and increased public investments to support production. The main factors contributing to growth on the demand side were a sharp rise in investment (from 23.4% of GDP in 2003 to 26% in 2004) and strong growth of export of goods (not including maquila) (up from 20.3% of GDP in 2003 to 21.1% in 2004). The continuing strong inflow of family remittances helped to offset the shock of increased oil prices.

46. Private investment grew strongly in 2004, rising to 19.8% of GDP, compared with 17.9% in 2003. To stimulate private investment, the Government has promoted accelerated liberalization of the telephone sector through the "Phones for All" program; has awarded a second cell phone concession (leading to significant reductions in rates and a very rapid increase in the number of phones), and has contracted 400 Mw of electricity generation capacity on very favorable terms from private generators. Public investment also rose, from 5.4% to 6.2% of GDP. Much of the public investment program is oriented towards economic recovery and improving the competitiveness of the economy, including major infrastructure investments in the roads sector, irrigation

projects in the agriculture sector, and an ambitious housing program for low-income families.

	2000	2001	2002	2003	2004
	Real	Real	Real	Real	Prelim.
National Revenues and Prices					
Real average GDP (real growth, %)	5.7	2.6	2.7	3.75	4.6
GDP Deflator (% increase)	9.7	8.0	6.3	7.7	7.7
Consumer prices (% increase at end of period)	10.1	8.8	8.1	6.8	9.2
Per capita GDP (US\$) (at December 1999 prices)	879	867	850	872	884
Poverty rate (% of population)	n.a.	64.4	63.9	63.5	64.2
Extreme Poverty rate (% of population)	n.a.	47.4	45.0	44.7	44.6
% of GDP					
Balance of Payments					
Current account	-4.1	-4.9	-2.6	-5.2	-5.8
Trade balance	-20.5	-22.3	-21.9	-24.7	-26.3
Exports	23.8	21.5	20.7	20.3	21.1
Imports	-44.3	-43.8	-42.6	-45.0	-47.4
Non-factor services (net)	6.4	5.1	6.7	7.3	7.6
Factor services (net)	-2.4	-2.2	-2.4	-2.9	-2.8
Transfers (net)	12.4	14.5	15.0	15.1	14.9
Savings and Investment					
Gross fixed capital formation	26.1	23.7	22.1	23.4	26.0
Non-Financial Public Sector (NFPS)	5.9	6.8	4.8	5.4	6.2
Private Sector	20.3	16.9	17.3	17.9	19.8
National Savings	22.1	18.7	19.5	18.3	19.3
Public Sector	6.1	4.5	2.8	1.4	4.0
Private Sector	16.0	14.2	16.6	16.9	15.3
Public Finances					
Combined NFPS Deficit	-0.7	-3.5	-3.3	-4.9	-3.0
Central Government Deficit	-5.6	-5.9	-5.3	-5.4	-3.5
Total Revenues Including Donations	18.7	19.9	19.4	19.8	20.6
Tax Revenues	16.4	16.2	15.9	16.3	17.3
Total Spending	24.3	25.9	24.8	25.0	24.1
PRSP Spending	8.2	8.8	7.5	7.8	8.4
Memorandum Items					
Nominal GDP in market prices (Lempiras)	89,401	99,032	108,124	120,465	135,681
Nominal GDP in market prices (US\$ million)	6,025	6,400	6,580	6,945	7,455
Average Exchange Rate, Lempiras/US\$	14.84	15.47	16.43	17.35	18.20
Source: BCH, INE, SEFIN					

47. The external sector has been strengthened by export growth and the increase in remittances, which are expected to reach close to 15.6% of the GDP in 2004. The growth of exports of goods in 2004 is mainly due to: bananas, coffee, shrimp, gold, silver, lead, sugar, pineapples, soap and detergent, wood, tilapia, and plants and vegetables. Although the international prices for some of these products dropped,

export volumes were strong.³ The apparel maquila sector also remains strong, recovering well from the 2001-2002 down-turn. These factors have offset the impact of oil price increases, and international reserves of the central bank reached 2004, comfortably surpassing the US\$1.623 billion in December PRGF goal of maintaining 4 months of import cover.

c. Fiscal Performance

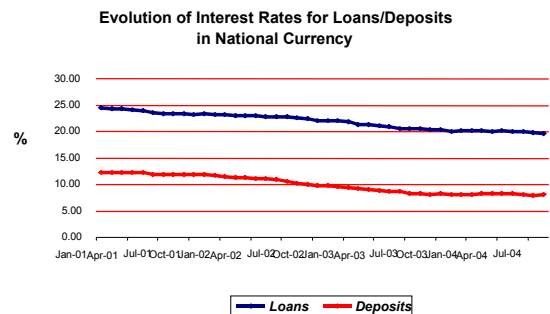
48. The weak fiscal situation in Honduras was the principal problem addressed under the first year of the PRGF program. All the PRGF program fiscal goals were met.
49. On the revenue side, the measures implemented under the program have reversed the decline in tax revenues observed between 2000 and 2002, when they fell to 15.9% of GDP. A combination of tax reforms implemented by the current administration and improved tax administration led to a sharp recovery in tax revenues, which reached 16.3% of GDP in 2003 and 17.3% in 2004, and are expected to rise by a further 0.2% of GDP in 2005. Total revenues (including donations) rose from 19.4% of GDP in 2002 to 19.8% in 2003 and 20.6% in 2004. Coupled with the reduction of total spending from 25.0% of GDP in 2003 to 24.1% in 2004 (whose causes are detailed below), this translated into sharply increased public sector savings (up from 1.4% of GDP in 2003 to 4.0% in 2004).
50. The tax reform program was applied in three stages. The first reform included measures to expand the Sales Tax (ISV) base, unification of corporate income tax rates and increased fines and license fees. It also included some measures that implied a loss of revenues, since it eliminated excise taxes and reduced taxes on vehicles, clothing and other goods to 15%. The second phase included measures to improve tax equity, to expand the tax base, to reduce fiscal fraud and to improve tax administration. The third reform—approved in December 2003—applied sales tax to public enterprises, increased the sales tax base by eliminating unjustified exemptions, established a temporary 5% income tax surcharge on corporate profits above L.1 million and modified taxes on petroleum and its derivatives.
51. The Government's strategy to control current spending has centered on controlling unjustifiable increases in public sector wages and rationalizing the executive branch. The rapid growth of salary costs began following reforms to the economic clauses of the laws governing teachers and doctors remuneration in the mid 1990s, and pushed the previous PRGF off-track in 2001. By 2002 the Central Government wage bill had reached 10.8% of GDP, close to double the level recorded 5 years earlier. Wage growth was contained following negotiations with the unions in 2002, when the government faced-down a teachers' strike that sought further immediate increases of nearly 50%. To establish a permanent solution to the problem, the government reformed the public sector remuneration system to reassert executive control over salary policies and restore equity between different groups of employees. The implementing legislation was approved by the National Congress in December 2003. Central government wage spending fell to 10.5% of GDP in 2003 and 10.2% in 2004, and is projected to continue falling gradually in the coming two years.

³ Imports have grown during the same period, mainly an increase of capital goods for industry explained by the importation of machinery and equipment for thermal energy generation and telephone projects.

52. State restructuring is another strategic component of the expenditure rationalization program. The Government has initiated a “re-engineering” process to eliminate excess costs and more efficiently restructure governmental departments. Legislation on this issue has been remitted to the Congress and is expected to be finalized during 2005.
53. A World Bank study of the distributive impact of the fiscal adjustment program (conducted as a Poverty and Social Impact Appraisal, PSIA, under the aegis of the PRSP) confirmed that the tax measures undertaken by the Government have been slightly progressive (i.e. have shifted the tax burden somewhat towards better-off families). It also found that the combined distributional impact of the tax measures and spending reforms to date under the PRGF program has been strongly progressive, because. The fiscal adjustment program was carefully designed not to prejudice poverty reduction efforts and to protect spending programs benefiting poorer households. Poverty related spending (under revised definitions established in the First PRSP Progress Report) increased from 7.8% in 2003 to 8.4% in 2004. Under PRGF program goals, it is expected to reach 8.7% in 2005 and 9.4% in 2006. The trend of poverty spending is discussed in more detail in Chapter V.
54. As a result of the factors outlined above, as already mentioned in paragraph 44, the Central Government’s fiscal deficit was sharply reduced, to 3.5% of GDP in 2004. The deficit is expected to continue falling gradually, to 3.0% in 2005 and 2.7% in 2006. Similarly, the combined public sector deficit was reduced to 3.0% in 2004, and will continue falling to 2.5% in 2005 and then 1.7% of the GDP in 2006. These projected levels of the overall deficit are congruent with Honduras’ ability to raise concessionary financing from the international community and – therefore – with the maintenance of a sustainable debt load after the HIPC Completion Point is reached in 2005.

d. Monetary and Credit Policy

55. The Central Bank’s monetary and foreign exchange policies are geared to achieving internal price and foreign exchange stability through the implementation of a stringent monetary program. The main instruments of monetary policy are Open-Market Operations (OMO)



56. During 2004, the increase in Net International Reserves was greater than the forecast in the PRGF, due principally to the increase in family remittances from Hondurans living abroad. This was mainly offset by increased banking system investments in monetary absorption certificates issued by the BCH and higher deposits in the BCH. However, to avoid the risk that excess liquidity might trigger an increase in dollarization, the BCH also required temporary obligatory investments to the financial institutions. This allowed the BCH to sterilize the growth of currency issue caused by foreign exchange inflows, without pushing up interest rates on CAMS. The latter are an important reference point for system lending rates and also produce considerable quasi-fiscal costs. To reduce the excessive rate of growth of dollar lending, the BCH also tightened the prudential limits for the financial system’s external indebtedness.

57. Since 2001, interest rates for national currency operations in the banking system have declined steadily, as inflation has come under control and the 2001 financial sector crisis has been resolved. The weighted average of the financial system's nominal lending rate fell from 23.2% in 2001 to 19.5% in 2004, while deposit rates have been reduced from 11.76% in 2001 to 8.0% in 2004. The margin of financial intermediation has remained stable, allowing banks to strengthen their balance sheets and capital positions.
58. Throughout the same period, exchange rate management policy sought to maintain currency stability while avoiding further real exchange rate appreciation. Honduras operates a crawling peg system based on an auction of all foreign exchange, administered by the Central Bank. To prevent instability, the outcome of the auction is limited within a band around a reference price set by the BCH. The monetary authorities have continued to adjust the reference price based on the differential between inflation in Honduras and that of its main trading partners. This strategy aims to shore up competitiveness and prevent real exchange rate appreciation, in spite of the strong inflows of foreign exchange linked to private transfers, investment flows and official capital flows, noted above.

e. Financial System

59. Following the 2001 financial crisis, the Government has implemented a successful sector stabilization program. In 2003, the National Banking and Insurance Commission (CNBS) began implementing a Financial Sector Adjustment Program (FSAP) with support from international organizations. Key actions under this program were included among the structural conditions of the PRGF. The Congress passed a new Financial System Law, whose objective is to strengthen the CNBS's supervisory capacity and establish a legal basis for the consolidated supervision of financial groups. Reforms were also made to the CNBS Law, the Central Bank Law, and the Deposit Insurance Fund (FOSEDE). The penal code was reformed to criminalize financial offenses (previously they were civil offenses). The BCH accounts were published together with the auditor's opinion; commercial banks were required to publish their accounts quarterly; and the government continued the process of liquidating the assets of the failed banks.
60. In this context, the system has been stabilized and strengthened. The consolidation process resulted in four bank mergers and the reduction of commercial banks from 21 to 16 between 2001 and 2004. The capital adequacy of commercial banks averaged 13.01% for 2003 and 14.16% at December 2004, which is comfortably above the minimum of 10% required by the National Bank and Insurance Commission (CNBS). These ratios have been maintained in spite of the application of stricter provisioning requirements. A fiscal contingency of close to 0.5% of GDP for dealing with financial sector problems remained unused, and was re-assigned to poverty-related investments.

f. Debt Sustainability

61. In the aftermath of Hurricane Mitch (1998), the Government sought to mobilize international resources for reconstruction and poverty reduction, and at the same time, to achieve a definitive solution to the debt crisis which had dogged macroeconomic management for close to two decades. The strategy aimed at achieving a sustainable

foreign debt and freeing fiscal resources to promote economic and social development, in the framework of the Poverty Reduction Strategy (PRSP). Honduras reached Decision Point on the HIPC initiative under the fiscal window in 2000. However, as noted above, unfortunately, the PRGF program with the IMF went off track in 2001, due to fiscal indiscipline, and as a result the HIPC Completion Point was delayed and Honduras started to accumulate technical arrears with bilateral creditors.

62. The signing of the new PRGF in 2004 made it possible to re-open negotiations with the Paris Club and move towards HIPC Decision Point, which is now expected for the first quarter of 2005. On April 14, 2004, the fifth Minute was signed with the Paris Club Creditor Nations. The eligible debt (including previously restructured and deferred debts) was reduced by 90% of its present net value, on Cologne terms (see text box). After the Minute was signed, the Government continued seeking a negotiated cancellation of 100% of debts falling due through June 2005, and has achieved debt write-offs with the United States, Germany and Italy.

Box 1 - Negotiation with the Paris Club

On April 14, 2004, Honduras successfully re-negotiated the debt service in arrears through December 2003 and capital and interest payments due between January 2004 and June 2005 with the Paris Club. The amount negotiated was US\$360 million, of which US\$214 million was in arrears. Of the negotiated sum, around US\$147 million will be forgiven, and the rest will be restructured on Cologne terms, which are only awarded to HIPC countries. Of approximately US\$405 million that was to have been paid as external debt service between January 2004 and June 2005, only US\$49 million will be paid. The relief will be implemented through bilateral agreements that are being formalized with individual creditor nations.

63. At the same time, the international community has continued to provide strong support to Honduras' reconstruction and poverty reduction efforts, and the Government has maintained its policy of accepting fresh debt only on concessionary terms. The total of foreign assistance credits received from June 2002-June 2004 was US\$509.8 million, the majority of which came from multilateral organizations (US\$377.4 million or 74.0%), with the Inter-American Development Bank (IDB) supplying US\$181.4 million (35.6%) and the International Development Association (IDA) contributing US\$121.0 million (23.7%). The remaining 26% came from bilateral agencies. The accumulated foreign debt as of June 2004 was US\$4.362 billion.

g. Medium-term Implementation of the PRGF

64. The medium-term macroeconomic projections indicate that the macro-fiscal stability and growth dynamics established in the framework of the PRGF agreement should allow Honduras to meet the goals of the PRSP in the coming years. Real GDP growth is projected to hold steady at an average of 4.5% annually. Once the international fuel markets have normalized, inflation will tend to drop gradually, settling at 2.5%. The external sector will continue to be strengthened by increased non traditional exports and flows of family remittances, allowing a sharp reduction in the current account deficit, and ensuring balance of payments viability. With the reaching of HIPC Completion Point, foreign public debt is projected to decline from 66% of GDP in 2004 to 45.6% in 2005. Thereafter it will continue to decline more slowly, reaching 40.6% of GDP in 2009, as GDP growth will be faster than future debt accumulation (see Table III.2).

Table III.2						
Honduras: Macroeconomic Projections						
	2004	2005	2006	2007	2008	2009
GDP (real growth, %)	4.6	4.2	4.5	4.5	4.5	4.5
Consumer prices (% increase to the end of the period)	9.2	6.9	5.0	4.0	3.0	2.5
	% of GDP					
Deficit of the Combined Public Sector	-3.0	-2.5	-1.7	-1.7	-1.7	-1.7
Primary deficit of the Combined Public Sector	-2.7	-2.7	-2.2	-2.2	-2.2	-2.2
Current Account Balance	-5.8	-3.6	-3.0	-3.3	-3.3	-3.7
Gross International Reserves (In months of imports)	4.6	4.3	4.3	4.2	4.1	4.1
Total Public Debt	66.1	51.4	50.7	49.4	48.3	47.3
Foreign Public Debt	66.0	45.6	44.3	43.0	40.6	40.6

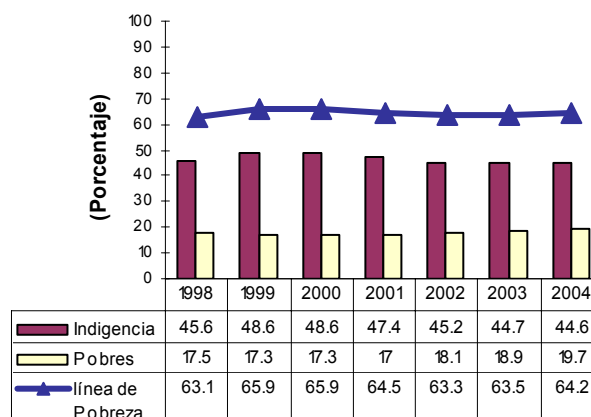
Source: BCH

IV. THE STATE OF POVERTY, PRSP GOALS AND GLOBAL INDICATORS

A. POVERTY AND INEQUALITY

37. The main challenge posed in the PRSP is reducing poverty from 66.0% (1999) to 42% (2015). Using the income method, we find that the poverty rate has diminished slightly from 65.9% to 63.5% between 2000-2003. The same trend is seen in the magnitude of poverty, in terms of the proportion of poor people and indigents according to indicators for the scope and severity of poverty—in other words the relative income deficit of the poor with respect to the poverty line (the Gap) as well as the degree of the disparity in income distribution among the poor (Severity). (See Table IV1).

Honduras. Pobreza según ingresos, 1998-2004



38. The conclusions outlined in this analysis clearly illustrate that despite their slight reductions, the changes in these indicators are not statistically significant. To summarize, although poverty has not diminished in an accelerated manner during the period being examined, the situation of the poor—in terms of income—has not worsened.

Year*	Poverty Gap	Severity of Poverty
1998	37.7	28.0
1999	38.6	27.9
2001	37.3	26.3
2002	35.5	24.7
2003	35.9	25.0

*The exercise makes use of the EPHPM rounds conducted during the first half of each year.
Source: UNAT, developed based on the EPHPM, INE

39. A better outlook may be found in the extreme poverty indicator, the incidence of which has dropped four points between 1999 and 2003, showing a systematic trend of reduction. This trend would imply a better possibility of achieving the goal of reducing extreme poverty by 24 points by 2015, which is also consistent with the Millennium Development Goals (MDGs). Nonetheless, efforts will need to be redoubled, above all in relation to designing adequate policies that increase the income of the poor through generating employment in the economy's formal sector.

40. The highest incidence of poverty is found in rural zones, where 70.2% of households lack sufficient income and 58.4% are living below the extreme poverty line. This contrasts with urban areas, where extreme poverty reaches around 29.6% (2003). This clearly evidences the need to expand efforts through measures that insure that the poorest share the benefits of economic growth.

41. Although the Government may focus greater efforts on developing programs and projects for sectors with the greatest poverty indices in the country, programs stimulating productive sectors are key to increasing productivity and competitiveness so that the lowest income segments of the population may more successfully integrate into the economy.

Table IV.2
Honduras: Participation in total income distribution,
by quintiles. 1999-2003
(in percentages)

Quintile	2001	2002	2003
1	2.3	2.4	2.4
2	6.1	6.1	6.1
3	11.3	11.2	11.2
4	20.2	20.0	20.0
5	60.2	60.2	60.2

*The exercise makes use of the EPHPM rounds carried out during the first half of each year.

Source: UNAT, developed on the basis of the EPHPM, INE

42. When we evaluate the structure of income distribution based on the percentage of total income that households receive (in increasing order), we find that 80% of households received only 39.8% of the nation's total income (May 2003) while 60.2% of the nation's income pertained to the wealthiest 20% of households. Table IV.2 shows that although this structure has not been significantly modified in recent years, there is a slight trend toward increased income among the poorest quintile of the population, due to a slight shift downward of income from the third and fourth quintiles.

Table IV.3
Honduras. Evolution of Inequality Indices.
(in percentages)

Year*	Gini	Theil	Atkinson (e=2)
1998	57.2	65.5	74.6
1999	55.1	58.1	74.6
2001	56.9	64.4	74.6
2002	56.8	63.5	79.1
2003	56.8	63.5	79.1

*The exercise makes use of the EPHPM rounds carried out during the first half of each year.

Source: UNAT, developed based on the EPHPM, INE.

43. The Gini index shows that inequality has remained relatively stable since the PRSP began (2001-2003), reaching 56.8% in 2003. Despite the stability shown by the indicator, its level is still relatively high compared to neighbor countries such as Costa Rica (44.6%) and even Nicaragua (54.1%).⁴ Furthermore, when we consider transfers to the lowest portion of the income distribution scale, the Theil index shows a two-point decrease for the period analyzed. Similarly, by assigning more weight to households with lower income than those with higher income, the Atkinson index (e=2) shows an increase of almost four points for this period. We can conclude that distributional inequality remained generally stable in terms of the Gini quotient, albeit still at high levels; but by assigning greater weight to the lower portion of income distribution we find a slight distributional deterioration with a tendency to fall over the medium term, given the greater income expectations associated with decreases in extreme poverty levels in recent years and the economic improvement forecasted for the country.

⁴ Source: Gasparini, L. Different Lives: Inequality in Latin America and the Caribbean. Chapter 2 World Bank LAC Flagship Report (2003)

B. GLOBAL PERFORMANCE INDICATORS

44. The PRSP's global goals and indicators were designed to be consistent with elements that are closely associated with poverty. These were discussed with civil society organizations and the cooperation community during the consultative process, and were aligned with the Millennium Development Goals (MDGs).
45. During the first years of PRSP implementation, the trends among most of the global indicators have been relatively stable, due mainly to the generally unfavorable economic environment in Honduras and delays caused by the absence of an agreement with the IMF. This, in turn, impeded reaching the Culmination Point of the HIPC Initiative and full relief of the external debt. The agreement signed with the IMF in February 2004 directs government efforts at structural reforms that will help reassign resources in function of achieving the Strategy's goals, and that will allow results-based programming and budgetary assignments to increase the efficiency of public sector interventions.
46. Table IV.4 details the results for global indicators in relation to the goals planned during 2003 and 2004. In analyzing these achievements, we find that the Government has faithfully fulfilled its commitments to adopt certain policy measures. The goal for GDP growth was met, with 3.75% growth registered for 2003 versus the goal of 3%. In 2004, a real GDP growth of 4.6% is planned, again surpassing the proposed goal. Per capita GDP increased by 0.8%, surpassing the 0.6% goal for 2003, and it is expected that the goal for 2004 will be met as well. Poverty spending as a percentage of the GDP had similar results, reaching 7.8% in 2003 versus the goal of 7.5%. In 2004, the PRSP budget is expected to fulfill the 8.1% proposed goal for this indicator, since spending was already equal to 7.2% of the GDP in September.
47. Although the specific goals for poverty and extreme poverty were not met, as mentioned earlier, a systematic improvement in the latter indicator was observed. This behavior may be attributed to the fact that per capita growth is still not sufficient to guarantee sustainable income levels in the poorest households, and the fact that income is still poorly distributed (see above).

TABLE IV.4 HONDURAS: GLOBAL PRSP INDICATORS

GOAL	INDICATOR (base year)	Base	Observed in 2003	2003 Goal ¹²	Goal met in 2003? ¹⁷	Observed in 2004	2004 Goal ¹²	Goal met in 2004? ¹⁷
Real GDP Growth	% of real GDP Growth (2000) ¹	5.7	3.75	3.0	Yes	4.6 ¹⁵	3.75	Yes
Per Capita GDP Growth	% of Per Capita GDP Growth (2000) ²	2.6	0.8	0.6	Yes	1.9 ¹⁵	1.1	Yes
Social Spending	Spending on Poverty as % of GDP (2000) ³	7.0	7.8	7.5	Yes	8.4 ¹⁶	8.1	Yes
Reduce poverty by 24 percentage points	Poverty rate (1999) ⁴	66.0	63.5	62.1	No	64.2 ¹³	60.2	No
	Extreme Poverty rate (1999) ⁴	49.0	44.7	43.4	No	44.6 ¹³	41.5	No
Double net preschool education coverage (through 5 years)	Preschool coverage rate (1999) ⁴	32.9	37.7	34.9	Yes	36.0 ¹³	35.7	Yes
95% net coverage in the first two cycles of primary education.	Net coverage rate (except over-age) in the 1 st and 2 nd cycles (1999) ⁴	89.8	88.1	90.7	No	89.3 ¹³	91.2	No
70% net coverage in the third cycle of primary education (middle school).	Coverage rate (except over-age) in the 3 rd cycle of primary education (middle school) (1999) ⁴	24.2	31.2	32.9	No	38.2 ¹³	35	Yes

TABLE IV.4 HONDURAS: GLOBAL PRSP INDICATORS

GOAL	INDICATOR (base year)	Base	Observed in 2003	2003 Goal ¹²	Goal met in 2003? ¹⁷	Observed in 2004	2004 Goal ¹²	Goal met in 2004? ¹⁷
50% of the emerging population completes secondary education.	Net coverage (except over-age) in the Diversified Cycle (10 th – 12 th grades)(1999) ⁴	12.4	18.9	19.0	Yes	21.3 ¹³	20.6	Yes
Reduce infant and Under 5 mortality rates in half.	Infant mortality rate/1,000 l.b. (1996) ²	36.0	n.a	32.0	n.a	n.a	30.0	n.d
	Under 5 mortality rate (per 1,000 l.b.) (1996) ⁵	48.0	n.a	43.0	n.a	n.a	41.0	n.d
Reduce Under 5 malnutrition by half.	Child malnutrition rate (1996) ³	37.8	n.a	30.9	n.a	n.a	29.9	n.d
Reduce maternal mortality by half.	Maternal mortality rate, per 100,000 l.b. (1996) ⁶	147.0	n.a	102.0	n.a	n.a	98.0	n.d
Achieve 80% electricity service coverage.	Electricity coverage rate (2000) ⁷	54.9	62.1	61.7	Yes	63.7 ¹⁴	63.3	Yes
Triple the density of telephone coverage nationwide.	Density of fixed lines per 100 inhabitants (2000) ⁸	4.8	4.9	5.0	No	5.18 ¹⁴	5.2	Yes
	Penetration of mobile telephones (users per 100 inhabitants) ⁹	2.5	5.6	5.5	Yes	8.85 ¹⁴	6.4	Yes
95% access to potable water and sanitation.	% of population with access to potable water (1999) ⁴	81	81	82.1	No	82.2 ¹³	82.6	Yes
	% of population with access to sanitary facilities (excreta elimination) (1999) ⁴	70.2	68.6	70.7	No	76.7 ¹³	71.9	Yes
Raise human development index of women by 20%	HDI relative to gender (1999) ⁹	0.6	0.65	0.65	Yes	n.a	0.66	n.d
	Gender empowerment index (1999) ⁹	0.5	0.43	0.47	No	n.a	0.48	n.d
Reduce the nation's environmental vulnerability.	Number of priority protected areas (PPAs) with management plans (2000) ¹⁰	5.0	15.0	15.0	Yes	23 ¹⁴	23	Yes
	% of total PPAs' surface area with management plans (2000) ¹⁰	12.5	37.5	60.0	No	57.5 ¹⁴	75.0	No
	Air pollution in urban centers (ug/m3 of PTS) (2000) ¹¹	668.7	708.0	n.a	n.a	n.a	n.a	n.d

1 1.BCH; 2.UNAT, with data from the BCH and INE; 3.SEFIN based on the new definition of poverty spending; 4.Estimates based on EPHPM; 5.ENESF; 6.Secretariat of Health: Research about maternal mortality and women of childbearing age in Honduras, 1997; 7.ENEE Registries; 8.HONDUTEL/CONATEL Registries; 9.Report on Human Development (UNDP); 10.COHDEFOR statistical yearly report; 11.SERNA (Center for the Study and Control of Contaminants, CESCO), no monitoring was carried out in 2002, and monitoring was carried out through December of 2004; 12.Data for this year are the revised goals based on the First Progress Report; 13.For 2004, the estimate is based on the May 2004 EPHPM; 14.For 2004 there are estimates through September based on the registries of the respective Secretariat; 15.The real GDP growth rate is a BCH projection, and the per capita GDP also makes use of INE population projections; 16.The amount observed corresponds to PRSP spending programmed and approved for 2004 (it is worth mentioned that implementation through September was equal to 7.2% of the GDP); 17.The goal is considered met if the difference between the value observed and the goal is not greater than 0.5%.

48. In addition, the data for 2003 is from the month of September while data for 2004 is from May, given that it is the only information available at this time. Therefore, the statistical significance of differences caused by estimating poverty during different periods should also be considered.⁵ When data from May is compared for the 2003-2004 period, we find that poverty in 2003 equaled 65.1%, and extreme poverty 47.0%. Although the goals in this respect were not met, we see an even more marked trend of diminishing levels of both indicators. Finally, it should be stressed that these poverty measurements will be complemented by data from the Standard of Living Survey (ENCOVI) when it becomes available. The data of this Survey is currently being processed, and it will provide more robust indicators for measuring poverty. This Survey will provide measurements of traditional poverty indicators, but these measurements will classify well-being based on consumption, making them more comprehensive and well-rounded. In addition, measurements based on income can also be made, allowing information to be compared.

⁵ Historically, poverty data from the month of May is higher than September, although the difference is not statistically significant.

49. In education, the goals for preschool coverage were met in 2003 and 2004. In 2003, coverage was 37.7%, surpassing the goal of 34.9%, and 36.0% coverage was achieved in 2004, again surpassing the 35.7% goal.⁶ On the other hand, the net coverage index for the 1st and 2nd cycles of primary education has not met the proposed goals for the periods under study: 88.1% (2003) and 89.3% (2004). Although the trend was in the right direction, it was not sufficient for achieving the specific goals. It is hoped that initiation of the Education for All (EFA) program, launched in mid-2004 and beginning implementation in February 2005, will help to effectively adjust the goals. In addition, there was a significant improvement in net coverage of the 3rd cycle of primary education (middle school), which rose from 31.2% in 2003 to 38.2% in 2004, effectively meeting its goal for that year. In a similar fashion, the net coverage indicator for the diversified secondary school cycle shows permanent improvements, meeting the goal in both years. This indicator for 2003 was 18.9%, versus the goal of 19.0%, and rose to 21.3% in 2004, versus the goal of 20.6%.
50. Up to date information about indicators in the health sector are not available, since the ENESF is only conducted every five years. As described in the first progress report, the indicators showed positive results in 2001. Moreover, the trend of intermediate indicators points to improved access to basic health services, which directly impacts global indicators. It should be mentioned that resources are being negotiated to conduct the ENESF more frequently and to strengthen health sector administrative registries up to date, so that more continuous health indicators and/or higher quality intermediate indicators are available to better evaluate progress toward the goals.
51. With respect to access to infrastructure services, the rate of electricity coverage has tended to improve since the PRSP began, even though the proposed goals have not been fully met. Thus, the indicator increased from 62.1% to 63.7% during the 2003-2004 periods.⁷ The telecommunications sector showed a similar trend. The global indicators for this sector changed due to the evolution of this market, with the expansion of fixed lines, the entry of new cell phone companies, and the deregulation of the Internet market. The indicators that are used to measure telephone density in the country are: density of fixed lines (for every 100 inhabitants) and the penetration of mobile phones (users per 100 inhabitants).⁸ The density of fixed lines for each 100 inhabitants evolved from 4.9 in 2003 to 5.18 in 2004. The penetration of mobile telephones increased from 5.6 (2003) to 8.85 (2004), meeting and surpassing the goal in the last year thanks to the entry of a new cell phone concession into the market. The goals for these two indicators have been revised in the context of SIERP implementation, sector growth programs (Telephones for All, Modernization for Honduras), and thanks to the development of technological platforms and the evolution of national and international markets.
52. Water and basic sanitation coverage did not meet goals until 2004. Potable water coverage increased from 81% (2003) to 82.2% (2004), as compared to the goals for the respective years: 82.1% and 82.6%. Basic sanitation coverage grew from 68.6% in

⁶ Data for 2004 was obtained from the EPHPM of May 2004. Therefore, this indicator will be updated at the end of the year on the basis of coverage during the entire year.

⁷ Data for 2004 are estimates through September, provided by ENEE. The source of information for this indicator has changed in relation to the First Progress Report, and therefore the goal has been recalibrated. For more details, refer to Appendix B1.

⁸ Data for 2004 are estimates through September, provided by CONATEL. The source of information for this indicator has changed in relation to the First Progress Report, and therefore the goal has been recalibrated. For more details, refer to Appendix B1.

2003 to 76.7% in 2004, in comparison to the goals of 70.7% and 71.9% for the same years.

53. The goal for the gender-related Human Development Index was met in 2003, just reaching the proposed 0.65. Meanwhile, the gender empowerment index showed a trend toward improvement but not enough to achieve the goal proposed for that year (0.43, instead of the goal of 0.47). It is likely that this indicator will improve significantly in the 2004 report with approval of policy measures aimed at guaranteeing access to elected office for more women.
54. In relation to the environment, the goal for Priority Protected Areas with management plans in place was met, achieving the specific goals for 2003 (15) and 2004 (23). Thus, the percentage of priority protected areas with management plans has evolved from 37.5% in 2003 to 57.5% in 2004. Finally, the air pollution indicator for urban centers is under review, since no annual data for monitoring is available and the methodology used for measuring contamination has varied from year to year.
55. To summarize, the indicators that showed permanent improvements during the 2001-2004 period are macroeconomic indicators, and indicators for extreme poverty, education, electricity, telecommunications, human development, and the territory declared as protected areas. This translates into an approximate 18% improvement in relation to the goals proposed for 2015.
56. The main problems in achieving the PRSP goals have been related to health coverage and service coverage, mainly water and sanitation. Despite government efforts to increase spending in these sectors, no significant progress has been made. Therefore, intervention strategies will need to be reviewed and an approach that better focuses resources on coverage will need to be developed, to insure greater impact on PRSP indicators.
57. Thus, what should be stressed is the generally improved performance of indicators, which is verified when we add up fulfillment of goals in relation to levels achieved in the previous year. While 40% of the goals were met in 2003 (7 out of 17 observable goals), this percentage rose to 75% in 2004 (12 out of 16 observable goals), which is a significant improvement.

V. TRENDS IN POVERTY SPENDING

A. EVOLUTION OF POVERTY SPENDING

58. This chapter deals with the financial implementation of the PRSP during 2001-2004. This first section provides detailed documentation and analysis of PRSP spending by program area, by economic classification and source of financing. In the second section, the use of interim debt relief funds awarded to Honduras between 2001 and September 2004 is detailed.
59. The PRGF sought to ensure that the necessary fiscal adjustment was not undertaken at the expense of poverty-related spending. To this end, the 2004 PRGF agreement included a precise definition of poverty spending and a target was set for this to increase at 0.6% of GDP in each year of the program. At the same time, the definition of poverty spending was revised, following extensive discussions and consultation around the first PRSP Progress Report, which was submitted to the boards of the World Bank and IMF in the first quarter of 2004, together with the PRGF agreement itself.
60. The spending definition was widened from the conceptualization used in the original PRSP, drafted in 2000, which was limited in the main to externally funded investment operations. The new definition includes both current and capital expenditures and both externally and nationally funded activities.⁹ On this basis, poverty spending was estimated at 7.5% of GDP in 2003 and was slated in the PRGF program to increase to 8.1% in 2004.¹⁰
61. Particular attention was given to defining the poverty-related component of spending financed with national funds. This was necessary to ensure that HIPC debt relief led to additional poverty related spending, rather than substituting for expenditures that were already being undertaken with national funds.
62. To this end, in 2004 the Government reformed the Law of the Poverty Reduction Fund, to establish a “Virtual Fund”, along the lines of that established in Nicaragua and other HIPC countries. This change – which was supported by World Bank technical staff - replaced the previous tacking mechanism, which was a real fund in the Central Bank. The old mechanism was limited to ensuring that the direct product of debt relief was spent on poverty related items, without checking for fungibility in the rest of the fiscal program.
63. The new system for tracking poverty spending is centered on the Finance Secretariat’s Integrated Financial Administration system (SIAFI), which was strengthened with World Bank support during 2003-2204. The SIAFI system labels all expenditure items in the budget according to whether or not they fall within the poverty definition established in the first PRSP Progress Report. These definitions have also been applied retroactively to all financial years since 2000, allowing analysis of the global trend of poverty spending (on the new definition) during the period of HIPC Interim Relief (2001-2004).
64. Table V.1 summarizes the financial execution of the PRSP between 2000 and 2004, in Lempiras, and Table V.2 summarizes the same data as a ratio of GDP. The data show that total poverty spending stood at 8.2% of GDP in 2000, rose to 8.8% in 2001 (when

⁹ Annex D.4 summarizes the expanded definition of poverty spending.

¹⁰ These are the figures incorporated in the original PRSP Program – which was prepared before final fiscal data for 2003 were available. However the final figures for 2003 show poverty spending reached 7.8% of GDP in that year. The increase of 0.6% of GDP programmed for 2004 was still implemented, taking the total to 8.4%.

post-hurricane reconstruction spending was at its apogee); fell back to 7.5% in 2002 and then grew to 7.8% in 2003 and 8.4% in 2004. Thus, Honduras clearly met the PRGF goal of increasing PRSP spending by 0.6% of the GDP in 2004.

Table V.1 Honduras: Poverty Reduction Strategy
SUMMARY OF FINANCIAL IMPLEMENTATION
Millions of Lempiras

Program	2000	2001	2002	2003	2004	
					Budgetted	Real
1. Accelerating equitable and sustainable economic growth	-	-	-	13.9	104.2	27.5
2. Reducing rural poverty	1,083.1	1,543.5	1,124.8	1,184.3	1,087.0	1,478.8
3. Reducing urban poverty	699.6	486.9	482.1	792.5	843.9	787.0
4. Investing in human capital	3,869.2	4,519.1	5,014.7	5,640.8	6,520.4	6,484.4
5. Social protection for specific groups	406.6	482.9	374.5	406.2	476.6	473.6
6. Guaranteeing the strategy's sustainability	1,239.8	1,722.8	1,160.8	1,217.5	1,674.9	2,105.1
Total PRSP	7,298.3	8,755.3	8,156.8	9,255.2	10,724.0	11,356.4
Of which: Reconstruction	1,611.2	1,850.0	1,092.0	0	0	0
Not Reconstruction	5,687.1	6,905.3	7,064.8	9,255.2	10,724.0	11,356.4
Source of Financing						
National Funds	4,389.1	4,680.5	5,108.4	5,417.0	5,962.3	6,318.9
Loans	2,178.3	2,526.7	1,665.0	2,026.7	2,193.8	3,560.3
Donations	579.0	687.2	443.1	894.2	1,476.8	385.9
HIPC	152.0	860.8	940.3	917.3	1,091.1	1,091.2
Total PRSP	7,298.3	8,755.3	8,156.8	9,255.2	10,724.0	11,356.4
Economic Classification						
Salaries	2,894.3	3,259.2	3,681.2	3,992.0	4,489.2	4,517.9
Goods and services	853.3	695.2	675.4	869.4	1,401.3	1,020.9
Current transfers	546.9	855.8	864.1	1,177.7	1,281.1	1,597.1
Investment inc capital transfers	2,891.0	3,877.1	2,917.3	3,120.9	3,467.3	4,026.3
Net lending	112.9	68.0	18.9	95.2	85.2	194.1
Total PRSP	7,298.3	8,755.3	8,156.9	9,255.2	10,724.0	11,356.4
GDP	89,401.0	99,062.0	108,175.0	118,544.0	132,080.0	134,512.0
Total PRSP USD\$ mn	491.8	566.0	498.9	538.1	589.2	623.9
GDP USD\$ mn	6,024.3	6,403.5	6,616.2	6,892.1	7,257.1	7,390.7
Exchange Rate	14.8	15.5	16.4	17.2	18.2	18.2

Source: SEFIN and BCH

65. By Program Area, investments in human capital have been consistently the largest item in the PRSP. In 2004, they accounted for 4.8% of GDP or 57% of the total. Second in importance are investments related to the sustainability of the strategy (1.6% of GDP, 19% of the PRSP total in 2004). Programs to reduce rural poverty in 2004 accounted for 1.1% of GDP (13% of the total). Programs focused on urban poverty were 0.6% of GDP (7% of the program total); social protection programs were 0.4% of GDP (5% of the PRSP total); and programs focused on economic growth were less than 0.1% of GDP (only 0.2% of the program total). However, the PRSP Implementation Plan for 2004-2006 (presented to the Consultative Group meeting in Tegucigalpa in June 2004) emphasized the need to increase investment in programs focused on faster, more equitable growth. The programs linked to the Millennium Challenges Account (MCA) financed by the US Government, presently under

negotiation, will concentrate in this part of the Strategy. As a result, this part of the PRSP budget will be considerably strengthened in 2005.

Table V.2 Honduras: Poverty Reduction Strategy
SUMMARY OF FINANCIAL IMPLEMENTATION
% of GDP

Program	2000	2001	2002	2003	2004	
					Budgeted	Real
1. Accelerating equitable and sustainable economic growth	-	-	-	0.0	0.0	0.0
2. Reducing rural poverty	1.2	1.6	1.0	1.0	0.9	1.1
3. Reducing urban poverty	0.8	0.5	0.4	0.7	0.7	0.6
4. Investing in human capital	4.3	4.6	4.6	4.8	4.7	4.8
5. Social protection for specific groups	0.5	0.5	0.3	0.3	0.4	0.4
6. Guaranteeing the strategy's sustainability	1.4	1.7	1.1	1.0	1.4	1.6
Total PRSP	8.2	8.8	7.5	7.8	8.1	8.4
Of which: Reconstruction	1.8	1.9	1.0	0	0	0
Not Reconstruction	6.4	7.0	6.5	7.8	8.1	8.4
Source of Financing						
National Funds	4.9	4.8	4.8	4.5	4.7	4.7
Loans	2.4	2.6	1.5	1.7	2.1	2.6
Donations	0.6	0.7	0.4	0.8	0.4	0.3
HIPC	0.2	0.9	0.8	0.8	0.8	0.8
Total PRSP	8.2	8.8	7.5	7.8	8.1	8.4
Economic Classification						
Salaries	3.2	3.3	3.4	3.4	3.3	3.4
Goods and services	1.0	0.7	0.6	0.7	0.5	0.8
Current transfers	0.6	0.9	0.8	1.0	1.2	1.2
Investment inc. capital transfers	3.3	3.8	2.7	2.6	2.9	2.9
Net lending	0.1	0.1	0.0	0.1	0.2	0.1
Total PRSP	8.2	8.8	7.5	7.8	8.1	8.4

Source: SEFIN

66. In 2004, the distribution of PRSP spending by economic category was as follows. A little over 40% of the total was used for wages and salaries of workers providing basic services such as education and health,¹¹ 35% was used for investments (both direct investments by the Central Government and capital transfers to municipal governments and agencies such as the water company, SANAA). 14% of the resources were used for current transfers, and 9% for the purchase of goods and services (such as medicines).

67. The main source of financing for the portfolio of PRSP projects has been the National Treasury, which has financed an average of 63% of the total investment over the last four years, followed by loans (25%), and donations and HIPC funds, which have supplied an average of 7% and 4% of resources, respectively.

¹¹ It should be noted that this calculation uses standardized salaries and does not take into account the total wage bill. For instance, teachers' salaries are calculated as 3.5 times per capita GDP. This was agreed with the IMF during the negotiation of the PRGF to avoid salary rises being reflected as an increase in PRSP spending.

68. In 2004, the largest part of the funding for the PRSP, as in previous years, came from national resources (4.7% of GDP and 56% of the PRSP total). Loans from international development agencies were the second largest contributor (2.6% of GDP and 31% of the PRSP total). During 2004, the implementation rate for loan-funded programs surpassed that projected in the PRGF, in an amount equivalent to 0.5% of GDP. This more than offset the shortfall in the execution of PRSP programs funded by donations, which reached 0.4% of GDP compared with 0.5% in the PRGF projections, due to delays in implementation of the Education for All (EFA) Fast Track Initiative and of the Global Fund for HIV-AIDS and Tuberculosis.
69. HIPC interim relief financed poverty spending worth 0.2% of GDP in 2000, 0.9% in 2001 and 0.8% in each of 2002, 2003 and 2004. Total nationally funded poverty spending stood at 4.9% in 2000 and declined to 4.5% in 2003 before recovering to 4.7% of GDP in 2004. However, this analysis does not take into account the effect of post-hurricane reconstruction spending, much of which was classified as PRSP spending.

HIPC Relief Additionality

70. The principle of HIPC relief additionality establishes that the debt relief must be invested in initiatives aimed at reducing poverty. This condition was established in Cologne, Germany in 1999. However, debt relief funds were also to be used to complement national efforts underway to combat poverty (using national resources). Thus, HIPC relief should not be fungible, and should be added to—in other words, complement—internal Poverty Reduction efforts.
71. At first sight, in the data presented in Table V.2, it appears that there may have been a tendency for part of the HIPC relief to “crowd out” nationally funded poverty spending, since the latter declines from 4.9% of GDP in 2000 to 4.5% in 2003, rising back to 4.7% in 2004. However, in order to provide an undistorted measure of the underlying trends in poverty spending, it is necessary to distinguish between post-hurricane reconstruction spending and the rest of the PRSP.
72. This is done in Table V.3, which provides details of the total national budget in nominal Lempiras between 2000 and 2004, distinguishing between non-reconstruction PRSP spending; PRSP spending related to reconstruction; and non PRSP spending. It can be seen that adjusted pro-poor spending (excluding spending related to Hurricane Mitch) has grown systematically and at a higher rate than total spending, even greater than the increase in interim debt relief resources that have been awarded, despite delays in reaching the Completion Point.
73. Table V.4 presents a detailed summary by spending source of PRSP spending excluding reconstruction spending, in nominal Lempiras and in % of GDP. The data show that on this adjusted definition, poverty spending stood at 6.4% of GDP in 2000. This rose to 7.0% in 2001, fell back slightly to 6.5% in 2002 and recovered strongly to 7.8% in 2003 and 8.4% in 2004, in line with PRGF program targets. Within this total, nationally funded poverty spending (excluding reconstruction spending) can be seen to have remained steady between 2000 and 2004.
74. In summary, the data presented in this section show that Honduras met the target for poverty spending subscribed in the PRGF for 2004. It has also met its obligation to

establish a transparent tracking system for poverty spending and to assign debt relief to additional poverty related spending.

Table V.3 -Honduras: HIPC Relief Additionality						
<i>MILLIONS OF LEMPIRAS</i>						
DESCRIPCION	2000	2001	2002	2003	PROYECCION	
					2004 ^{a/}	2005 ^{b/}
TOTAL REVENUES	16,753.1	19,807.7	20,977.3	23,632.4	27,821.1	31,105.0
d/c Donations	881.0	1,739.0	1,138.3	1,328.2	1,295.0	2,084.0
TOTAL SPENDING	21,769.1	25,634.0	26,644.8	30,738.1	32,548.6	35,570.0
Payment of Interest	2,306.4	2,128.9	2,046.9	2,292.6	2,364.0	2,618.0
Total PRSP Spending	7,298.4	8,755.3	8,156.8	9,255.1	11,356.4	12,850.0
PRSP Spending not related to MITCH	5,687.1	6,905.3	7,064.8	9,255.1	11,356.4	12,850.0
Financing						
Internal	3,991.2	4,595.8	4,906.6	5,417.0	6,319.2	7,669.2
External (incl. Donations)	1,695.9	2,309.5	2,158.2	3,838.1	5,037.4	5,180.9
HIPC Relief ^{c/}	152.0	860.8	940.3	917.3	1,091.1	1,576.7
Other	1,543.9	1,448.7	1,217.9	2,920.8	3,946.2	3,604.2
PRSP Spending related to MITCH	1,611.2	1,850.0	1,092.0	-	-	-
Financing						
Internal	397.9	84.7	201.8	-	-	-
External (incl. Donations)	1,213.4	1,765.3	890.2	-	-	-
Total Non-PRSP Spending	12,164.4	14,749.8	16,441.1	19,190.4	18,828.2	20,102.0
Financing						
Internal	11,173.1	12,211.6	15,013.1	17,440.4	17,381.5	17,340.6
External (incl. Donations)	991.3	2,538.2	1,428.0	1,750.0	1,446.7	2,761.4
BALANCE	(5,016.0)	(5,826.3)	(5,667.5)	(7,105.7)	(4,727.5)	(4,465.0)
Financing	5,016.0	5,826.3	5,667.5	7,105.7	4,727.5	4,465.0
Net External Financing	1,111.9	2,731.8	873.6	2,116.8	5,708.0	2,915.0
External Resources (excl. don.)	3,019.5	4,874.0	3,338.1	4,259.9	7,179.4	6,216.0
Amortization	1,907.6	2,142.2	2,464.5	2,143.1	1,471.4	3,301.0
Financing Gap						1,539.0
Internal Financing	3,904.1	3,094.5	4,793.9	4,988.9	(980.5)	11.0
a/ December						
b/ Includes saving due to reingeneiring measures for L. 326 mm						
c/ Includes Multilateral Relief (HIPC including CABI) and Bilateral Relief (Paris Club)						

Source: SEFIN

Table V.4 – Honduras PRSP Spending excluding hurricane reconstruction

	2000	2001	2002	2003	2004
	Lempiras, mn				
National funds	3,991	4,596	4,907	5,417	6,319
Loans	1,354	1,538	900	2,027	3,560
Donations	190	-89	318	894	386
HIPC Total	152	861	940	917	1,091
Paris Club	0	0	132	547	599
Multilateral & Commercial	152	861	808	370	492
TOTAL	5,687	6,905	7,065	9,255	11,356
	% of GDP				
National funds	4.5	4.6	4.5	4.6	4.7
Loans	1.5	1.6	0.8	1.7	2.6
Donations	0.2	-0.1	0.3	0.8	0.3
HIPC Total	0.2	0.9	0.9	0.8	0.8
Paris Club	0.0	0.0	0.1	0.5	0.4
Multilateral & Commercial	0.2	0.9	0.7	0.3	0.4
TOTAL	6.4	7.0	6.5	7.8	8.4

Source: SEFIN and BCH

B. UTILIZATION OF HIPC FUNDS

a. Interim HIPC Debt Relief received

75. The Decision Point Document for Honduras (DPD) provided for interim relief between July 2000 and July 2002, which was the date originally set for the Completion Point. However, this period was extended due to the delay in reaching the Completion Point. Table V.5 provides details the HIPC Debt Relief received by Honduras to date, which totals USD\$256.8 million.
76. The World Bank (WB) began delivery of debt relief in December 2000 in the form of a quarterly donation modality (transfers) covering approximately 50% of the debt service paid during the previous quarter. By July 2002, the WB had awarded the total interim debt relief specified in the DPD, totaling US\$36.8 million and further relief was suspended pending Completion Point.

Table V.5 -HIPC Debt Relief Received for the PRSP

Millions of US\$

	2000	2001	2002	2003	2004
Total Lempiras Received	152.0	860.8	940.3	917.3	1,363.2
Exchange Rate	14.8	15.5	16.4	17.2	18.2
TOTAL US\$ RECEIVED	10.2	55.6	57.5	58.6	74.9
a) Multilaterals	7.3	55.2	48.6	21.1	26.7
IDA	-	-	-	-	-
IBRD	5.7	18.9	12.3	-	-
IDB	-	22.8	18.5	5.8	-
CABEI	1.6	12.3	13.4	15.2	21.0
IMF	-	1.3	4.5	-	5.7
OPEC	-	-	-	-	-
IFAD	-	-	-	-	-
b) Bilaterals	-	-	8.5	37.2	47.9
Paris Club	-	-	8.5	37.2	47.9
Other Bilaterals	-	-	-	-	-
c) Commercial	2.9	0.4	0.4	0.4	0.3
CDC	2.9	0.4	0.4	0.4	0.3

Source: BCH

77. The IDB began debt relief in November 2001 in the form of transfers, totaling approximately US\$14.0 million. By late 2001 it had awarded a total of US\$22.8 million, and a further US\$18.5 million was given in 2002. During 2003, a further US\$5.8 million was received. In total, the IDB has contributed total debt relief of US\$47.1 million.
78. The IMF began delivery of interim debt relief in 2001. It provided relief of \$1.3 million in 2001, \$4.5 million in 2002 and \$5.7 million in 2004, for a total of, US\$11.5 million.
79. CABEI has awarded HIPC relief for the PRSP using a scheme a portion of the balance owed at March 8, 2000 was re-financed with a new loan of US\$251.8 million. This loan must be paid on the last day of its maturity, through a United States Treasury Bond purchased by the GOH and kept in custody for the BCIE. To estimate the value of this relief for application to poverty spending, the Government used a methodology called the Percentage of Effective Nominal Relief in Net Present Value Terms (PENR/NPV), which consolidates the positive debt relief flows and the negative debt relief flows (which occur in some years) using a Net Present Value calculation. Using this methodology, the estimated value of debt relief received to date from CABEI is US\$63.5 million.
80. Paris Club creditors began giving interim HIPC debt relief in April 2002, under the modality of debt service restructuring and write-offs, established (retroactively) in the Paris Club V Agreed Minute signed in April 2004. The value of the relief given has been calculated as the difference between the debt service after application of a hypothetical operation on Naples terms (67% reduction of current value), and the debt service really due after application of the Paris Club V Agreed Minute (90% reduction in the current value). The interim debt relief from these creditors will become effective once bilateral agreements have been signed with the specific creditors of each country. An estimated US\$93.6 million in debt relief will be received through the end of 2004.
81. The Commonwealth Development Corporation (CDC) has provided US\$4.3 million of relief through the end of 2004, under the modality of a 100% write off of the debt service, subtracting 67% of traditional relief and 10% of additional relief (in accordance with the principles specified in the DPD).

b. Assignment of Debt Relief

82. HIPC debt relief resources have been earmarked according to agreements made in the framework of the HIPC Decision Point for Honduras. As detailed in Table V4, US\$236.63 million had been implemented up to the end of 2004. Most of the investment has been earmarked for human capital, especially for education and health.

**TABLE V.6
HONDURAS: USE OF INTERIM DEBT RELIEF FUNDS, BY PROGRAMMATIC AREA**

PROGRAMMATIC AREA / PROJECT	2000	2001	2002	2003	2004
MILLIONS OF DOLLARS					
1. Accelerating equitable and sustainable economic growth	-	-	-	-	-
2. Reducing poverty in rural zones	-	0.20	1.57	1.45	-
3. Reducing poverty in urban zones	-	9.18	9.76	4.90	-
4. Investing in human capital	6.50	23.12	23.68	28.55	-
5. Strengthening social protection for specific groups	3.70	13.40	11.75	7.32	-
6. Guaranteeing the strategy's sustainability	0.00	9.75	10.76	11.12	-
TOTAL	10.20	55.64	57.51	53.33	59.95
PERCENTAGE OF GDP					
1. Accelerating equitable and sustainable economic growth	-	-	-	-	-
2. Reducing poverty in rural zones	-	-	0.02	0.02	-
3. Reducing poverty in urban zones	-	0.14	0.15	0.07	-
4. Investing in human capital	0.10	0.36	0.36	0.41	-
5. Strengthening social protection for specific groups	-	0.21	0.18	0.11	-
6. Guaranteeing the strategy's sustainability	0.04	0.15	0.16	0.16	-
TOTAL	0.14	0.87	0.87	0.77	0.88

Source: BCH/SEFIN

83. Spending of HIPC resources has represented less than an average of 1% of the GDP per year, concentrated during the four years mainly on implementation of the Honduran Community Education Program (PROHECO), support to formal primary schools, and support to formal primary education. In the area of health, most of the resources have been earmarked for hospital care and epidemiological control of diseases via Investments in Human Capital. An additional 9% of the total debt relief resources have been earmarked for social protection networks, specifically vouchers awarded by the Family Allotment Program (PRAF). Finally, 6% of the resources were invested in projects aimed at reducing poverty in rural zones. Appendix D presents more detailed information about the use of HIPC funds by program.

84. There is a small remainder of debt relief received to date which has not yet been applied to PRSP programs, estimated at \$20.2 million, as shown in table V.5. This will be applied to PRSP spending in 2005.

Table V.7
Honduras: Reconciliation of HIPC Debt Relief received and applied to the PRSP, 2000-2004

	2000	2001	2002	2003	2004	TOTAL
HIPC Relief received for the PRSP, US\$	10.2	55.6	57.5	58.6	74.9	256.8
HIPC Relief Utilized, US\$	10.2	55.6	57.5	53.3	59.9	236.7
Annual difference	-	-	-	5.3	14.9	20.2
Accumulated difference	-	-	-	5.3	20.2	-
Exchange Rate	14.8	15.5	16.4	17.2	18.2	-
Debt Relief Utilized (Millions of Lempiras)	152.0	860.8	940.3	917.3	1,091.1	3,961.5

Source: BCH

c. HIPC Debt Relief for the PRSP beyond the Completion Point

85. The amount of HIPC debt relief that is expected after achieving the Completion Point (estimated for March 2005) is calculated on the basis of the following assumptions. Each participating creditor (the World Bank, IDB, IMF, IFAD and OPEC) will calculate the remaining amount of debt relief taking account of Interim Relief already given, so that the total will be equal to the amount defined on the basis of the Common Reduction Factor specified in the Decision Point Document.
86. The debt relief modality proposed by OPEC is to award a new loan whose resources, combined with the profit from the investment of the same, are used to pay the debt service. In this way, relief that is channeled to the PRSP is calculated on the basis of the methodology (PANE/VPN) agreed upon by the WB and the GOH. In the case of the BCIE, debt relief is calculated on the basis of the prepayment agreement signed in March 2000, and using the same methodology. Debt relief for the CDC has been calculated on the basis of a 100% write of the balance at the moment of the Culmination Point, minus 67% of traditional relief and 10% of additional relief.
87. For the Paris Club creditors, the relief has been calculated on the basis of a debt restructuring and write off modality, reducing the eligible debt by 90% of its present net value according to the Cologne financial terms, effective as of April 2005, and subtracting the service resulting from application of the Cologne balance operation from the debt service remaining after the (hypothetical) balance operation in Naples terms.
88. For the bilateral creditors who are not members of the Paris Club, debt relief has only been calculated for Costa Rica, based on this nation's willingness to receive such relief (according to responses to notifications sent by the Central Bank of Costa Rica). In addition, the case of Venezuela has also been considered in the negotiations that the GOH is currently conducting. Meanwhile, the remaining bilateral creditors who are not members of the Paris Club have indicated that they will not take part in awarding debt relief.
89. Based on the information expressed in the paragraphs above, it is calculated that US\$838.2 million in external debt relief will be received for the 2000-2018 period for PRSP spending in the framework of the HIPC Initiative. Of this amount, US\$256.8 million will have been received by the end of 2004, thus US\$581.4 million will be received in the 2005-2018 period.

VI. PROGRESS BY PROGRAMMATIC AREA

90. This chapter centers on progress made in the financial and physical implementation of PRSP programs and projects. In addition, it enumerates the reforms to sector policies that adjust them to the PRSP's programmatic structure, and the evolution of intermediate indicators of the fulfillment of program goals.

A. AREA I: EQUITABLE AND SUSTAINABLE ECONOMIC GROWTH

a. Policy Measures

91. PRSP implementation has taken an important turn, shifting its focus to economic growth that favors the poor. The presentation of the 2004-2006 PRSP Implementation Plan at the Meeting of the Consultative Group in Tegucigalpa marked the launching of this proposal, whose purpose is revitalizing the economy in a framework of general well being. Some of the most noteworthy actions developed were:

- Approval of the Administrative Simplification Law.
- Approval of the Finance System Law and reform of the CNBS Law, the BCH Law and the Insured Deposits Fund (FOSEDE) Law.
- Approval of Copyright Protection Laws and norms.
- As part of Central American integration efforts, approval of the work program for the Central American Customs Union by the presidents of Central America.
- Conclusion of the FTA negotiations with the United States.
- Creation of the National Competitiveness Commission.
- Establishment of the National Center to Promote Agro-Business.
- Creation of the Tourism Cabinet and Tourism Police.
- Approval of a policy to support competitiveness among MIPYMEs.

92. The nation's possible qualification for the US Government's Millennium Challenge Accounts (MCA) will provide access to resources for productive infrastructure development, such as: the Logistical Corridor, which links the Atlantic and Pacific littorals; access roads linked to the Logistical Corridor; and a series of irrigation projects for the neediest sectors.

b. Program and Projects

93. The Government is strengthening the **road network** through investments in rural roads and primary and secondary road networks, and through improving access both within and outside of the country. This takes place in the context of the CAFTA agreement and support to the productive sector via micro-enterprises. Currently, 50 micro-enterprises located in different zones of the country are generating direct benefits to more than 600 people, and indirect benefits to close to 4,000. Approximately 2,777 kilometers of the paved road network are being serviced, and the goal for next year is inclusion of another 5 micro-enterprises. In addition, approximately L.7.5 million have been allotted to implementing "aperture," maintenance and small-scale construction projects (bridges, modules, etc.) as part of specific attention to ethnic communities.

94. The percentage of the maintained road network has grown from 21.03% (2000) to 49.98% (2003), and some 50.49% of the road network has received maintenance to date in 2004. In addition, roads constructed that are not part of the official road

network have increased from 96 kilometers (2001) to 225 kilometers (through September 2004). This clearly demonstrates the Government's commitment to public investment in this area, whose Road Fund is expected to cover 60% (7,920 km) of the road network in 2004, 70% in 2005, and 25% in 2006. .

95. With respect to the **energy** sector, ENEE has provided technical assistance through developing biomass, wind, geothermal and hydroelectric projects. In 2003, 18 renewable energy contracts were approved—both biomass and hydroelectric—and 6 additional contracts are anticipated in 2004. The electricity coverage indicators show that 2.6% increases had been registered between December 2003 (62.09%) and September 2004 (63.71%), as a result of the national electrification process. In 2003, 241 social electrification works were concluded nationwide, with an approximate investment of US\$6.6 million, which signified an additional 17,725 households receiving electricity service. A total of 134 projects were concluded by September 2004, with an investment of US\$3.5 million and 7,950 households electrified. By the end of 2004, national electricity coverage is expected to reach 65.94% of the population.
96. With respect to sector reforms to improve efficiency, the Government is planning to expand its generation capacity through contracting private generators, to adjust tariffs in order to compensate ENEE for operational losses and the rises in oil prices, and to restructure the organization of electricity services through separating generation, transmission and distribution.
97. In the area of **telecommunications**, and in the context of the “competitiveness” agenda, progress has been made in deregulating markets. This effort began in 2003 and the goal is to have achieved definitive deregulation by late 2005. Thus, the “Telephones for All” program was implemented (via private providers with rates set freely on the basis of costs), to deregulate the local call market, and a second cell phone concession was awarded to the Megatel Company. Progress restructuring HONDUTEL has continued, with the goal of readiness for deregulation by 2006.
98. In this context, the National Fiber-Optic Network was created, the Domestic Satellite Network was modernized, and the National Microwave Network was also modernized with 70 new links, the total digitalization of the network, and expansion of the MAYA 1 submarine cable. In addition, rate plans that reduce the cost per minute for local, national and international calls were instituted. Other noteworthy advances included the installation of 15,000 lines in Tegucigalpa, San Pedro Sula and Catacamas, the acquisition of 20,000 lines for different neighborhoods in the Central District and 8,000 lines for Tegucigalpa and San Pedro Sula through the copper pairs multiplier system as an access network. All of these efforts increased the fixed line density for every 100 inhabitants by 5.3%, which increased from 4.87 (2003) to 5.13 (September 2004).
99. As part of its plans and strategies for developing **tourism**, the Government of Honduras is carrying out actions to develop the first Comprehensively Planned Tourism Center (CIP) in the Tela Bay Region. This is expected to form a comprehensive tourism cluster, which will join sites that have already been consolidated at the international level (the Bay Islands and the Copán Ruins). The CIP is an element that “detonates” tourism development, acting as a distribution center for consolidated tourism development poles and the rest of the country. In this context, initiatives that tend to strengthen micro- and small-scale tourism enterprises and/or

tourism-related activities are being supported, through managing the Sustainable Coastal Tourism Project and activating the Prosperity Fund, placing special emphasis on capital support to this productive sector, employment generation, productive development and business opportunities.

c. Intermediate Indicators

100. The main macroeconomic indicators have shown a certain level of stability. For instance, the Monthly Economic Activity Index (IMAE) rose from 216.9 in 2003 to 221.3 in 2004, which predicts a 4.0% or more increase in the real GDP. The external value of currency has had acceptable variations, with an average 4.7% drop in relation to the dollar in recent years, and a drop of 4.5% in 2004. The cost of money has tended to decrease in recent years, with a decrease in the real active interest rate from 13.4% in 2003 to 11.0% in 2004, for a 2.4% reduction. Public investment had reached 1.8% of the GDP in September of 2004, which makes it likely that the percentage invested in 2003 (2.3%) will be surpassed.
101. The amount of foreign exchange generated by tourism has tended to grow, reaching 12.8% of total exports in 2004 (by September 2004), already surpassing the amount generated by the end of 2003 (12.4% of total exports). Substantial increases were also observed among traditional exports and non-traditional exports, and the promotion of foreign investment also increased the aggregate value of *maquila* industries, accounting for 1 in 12 companies opened during 2003 and 2004.

B. AREA II: REDUCING POVERTY IN RURAL ZONES

a. Policy Measures

102. To reduce rural poverty, the equitable, safe and sustainable access to factors of production is sought, along with the generation of employment and income and access to basic services through participatory mechanisms. Some of the key actions aimed at achieving these goals included:
- Approval of the Law to Strengthen Agricultural Producers (June 2003), which consolidated corresponding benefits into one single legal instrument and restructured and relieved the debts of more than 13,000 producers.
 - Approval of the Property Law on May 28, 2004, which also creates the Property Institute.
 - A total of 25,132 property titles have been issued, benefiting 629 farmers from the agrarian reform sector, especially peasant businesses; 24,482 independent farmers obtained individual titles and some 21 ethnic groups received community titles. Thirty percent of the titles have been issued to women.
 - Between 2001 and September 2004, the National Fund for Production and Housing (FONAPROVI) awarded L.4.09 billion for reactivating agricultural production. Through BANADESA, approximately L.1.027 billion was awarded between 2001 and September 2004, mostly to finance the agriculture sector. Alternative Rural Financing Systems (SIFARs) have been created to benefit small-scale farmers who plant on terraced lands and upper watersheds, and different ethnic groups.
 - With financing from the private finance sector, the Land Access Project (PACTA) has generated profitable business opportunities and developed business skills

among the agriculture sector, through establishing productive enterprises on private lands. A total of 355 families have benefited from setting up 25 productive enterprises in 23 municipalities located in 9 provinces of the country.

- A Gender Equity Policy for Honduran Agro (PEGAH) is being implemented, which crosscuts all levels of this sector. By 2004, the incorporation of rural women under equal conditions had increased by 54% through the coordination and articulation of the public agricultural sector, INAM, local governments/AMHÖN, NGOs and women's organizations linked to development.
- Around 23,000 hectares of land were incorporated into the irrigation system during the 2002-2004 period, which signified 58% of the Government's goal of 40,000 hectares (10,000 hectares per year).
- In June 2004, in the framework of the Agro-Forestry Roundtable, the Agro-Forestry Sector Strategic Plan for 2004-2006 was concluded, which defines priority policy measures for the sector.
- Agricultural diversification was promoted as a production alternative for national producers of grapes, papaya (for vegetable use), oriental vegetables, *pitahaya*, annatto, medicinal plants, stevia and cassava. The program on Lethal Cocotero Yellowing was continued, to help supply plant varieties that are resistant to this pest. The first Map of Potential Agricultural Zones in Honduras was produced using precision techniques.
- The State Policy on Food and Nutritional Security for 2004-2015 is being formulated.

b. Program and Projects

103. Programs and projects financed with approximately L.4.712 billion were implemented during the 2001-2004 period, some 29% of which were financed with national funds and 66% with foreign loans. The most important of these programs included:

- The National Sustainable Development Program (PRONADERS), which has benefited a total of 288,461 rural families during the 2001-2004 period through 21 rural development projects. The resources of these projects mainly target improvements in productivity, natural resource management, crop diversification, and strengthened food security. Approximately 30.3% of the funds earmarked for Reducing Poverty in Rural Zones are used for this project. The main projects implemented by PRONADERS are:
 - Rural Areas Administration Project (PAAR—now called the Honduran Land Administration Program, or PATH), with L.467.8 million (10% of the funds for Reducing Poverty in Rural Zones);
 - Development of Water Resources in the Nacaome Valley, with L 351.8 million;
 - National Reconstruction Master Plan/FHIS, with L.350.8 million. This project has benefited a total of 894,000 inhabitants in rural zones with water and sanitation projects;
 - The Department of Agricultural Science and Technology (DICTA), with L.265.6 million. Technical assistance has been provided for the production of basic grains, vegetables, and fruits, among others.
 - Diverse Communal Support Projects for the Poor, with L.185.0 million;
 - Electricity Social Development Fund, with L.149.5 million; and

- Sustainable Rural Development Project in Ecologically Fragile Zones of the Trifinio Region (PRODERT), with L.26.4 million.
- Rehabilitation of the El Coyolar Dam and improvement of the Irrigation Network of the Flores and Selguapa District, with L.105.3 million.

c. Intermediate Indicators

104. Six agro-food chains that work with dairy products, African palms, vegetables, honey, pork and beef products were set up (benefiting approximately 70,000 farmers nationwide); and the Center for Agro-Business (CDA) was created, to help strengthen skills for negotiating and commercializing products
105. Some 300 forestry agro-businesses are currently operating on an area of 250,000 hectares with the participation of more than 13,000 families. In addition, 50 micro-enterprises have been set up for small-scale production of non-agricultural products, promoted mainly by PRONADERS.

C. AREA III: REDUCING POVERTY IN URBAN ZONES

a. Policy Measures

106. To stimulate development of **Micro, Small and Medium Scale Enterprises (MIPYMEs)**, more actions that support innovative financial services and products have been undertaken to satisfy immediate needs. The Competitiveness Policy has been developed and implemented, to support MIPYMEs and the economy's social sector. Through this, programs and projects that stimulate economic and productive development will be defined, to improve and consolidate the competitiveness of this sector's enterprises and organizations.
107. To **support social interest housing**, a legal and institutional framework was defined to strengthen regulations for this sector and better synchronize the construction of human settlements while reducing ecological vulnerability. These factors are included in the draft framework law for the sector, which is currently being reviewed and will later be presented to the National Congress.
108. To improve **access to basic services in priority areas**, a framework Law for Potable Water and Sanitation was approved. Its objective is promoting an expansion of coverage, assuring quality, and establishing a management framework for protecting and preserving water sources and managing sanitation. It also establishes the criteria for assessing services, setting tariffs and defining compensatory and "social solidarity" mechanisms to guarantee access to these services by the most vulnerable social groups. It is also aimed at better organizing the management of services, giving municipalities preference for making use of surface or underground waters.

b. Program and Projects

109. The total amount invested in this programmatic area during the 2001-September 2004 period was L.2.407 billion. Interventions were mainly financed with reimbursable external resources (47.3%), followed by donations (31.2%) and the rest with national resources.

110. Most of the resources were used for providing access to basic services in priority areas where the potable water and sanitation projects are located. Financial implementation for this area was L.1.616 billion.
111. A total of L.713.0 million was used to finance “social interest” housing. Some of the key projects in this area included the IDB-1037 Post-Hurricane Housing Program, the Solidarity Housing Reconstruction Program, the Minimal Rural Housing Program and Urban Dwelling Improvement Program (PRIMHUR), and finally L.78.5 million for the sub-component to develop intermediate-sized cities.
112. One of the actions supporting the development of social interest housing was the **SOPTRAVI- AMHON Agreement** (Association of Honduran Municipalities), whose objective is assisting families with high poverty levels in urban or rural zones. This agreement has total funding of more than L.30.0 million, and finances both the construction of new homes and improvements to existing homes (as long as they are not in high risk zones), benefiting a total of 1,187 families. The project is located in six of the nation’s poorest provinces. It is expected to conclude in December 2004.
113. One of the main investments related to **access to basic services** is the SANAA projects, some of the most noteworthy of which are: Supplying Water to Developing Neighborhoods, with an accumulated implementation of over 80%; Rehabilitation and Improvement of the Potable Water and Sewage Systems, with 50% implementation; Sewage and Water Systems for Marginal Neighborhoods of Tegucigalpa (PRRAC), which is in the pre-investment stage; and the Water Purification Plant Project, which has concluded its second phase and is beginning its third.
114. The objective of Investing in Potable Water and Sewage Systems is to expand and improve potable water and sanitation coverage through renovating existing infrastructure and building new works. The following related documents have been written: i) Basic Document for Pre-Classifying Construction Works in the Catacamas and Tela Municipalities; ii) Initial Report on the Development of Municipal Policies (Consultancy); iii) Description of the scope of the Siguatepeque Municipality Program; and iv) Strategy for Transferring Potable Water Services from SANAA to the Municipalities.¹²

D. AREA IV: INVESTING IN HUMAN CAPITAL

115. The component on developing human capital receives the largest amount of PRSP resources. When implementation of the PRSP began in 2001, 52% of PRSP spending was earmarked for investments in education and health. In 2004, this percentage is closer to 60%. An average of approximately L.4.8 billion has been invested annually, 68.9% of which has been used to expand the coverage and improve the quality of education, and 31.1% for guaranteeing more and better access to health services.

¹² Actions underway: i) Bidding by consulting firms for the development of feasibility studies and final designs for the Choloma municipality; ii) the Tela municipality signed a contract for purchase of land where the sewage treatment plant will be constructed; iii) a competition was organized for hiring the firm that will review and expand the existing study about the Choluteca water system, which will be financed with a donation from the Swedish Government.

1. EDUCATION

a. Policy Measures

116. The PRSP policy measures for the education area are mainly intended to improve the coverage, quality, efficiency and equity of education, at different levels. The following progress has been made in this respect:

- The Education for All Plan for Honduras for 2003-2015 has been designed, approved and initiated, with resources totaling US\$86 million. The objective is to achieve universal sixth grade graduation for all school-age children by 2015.
- Draft legislative reforms—the General Education Law and the UNAH Organic Law—have been harmonized by the National Congress’s Education Commission.
- The norms that will regulate obligatory preschool attendance by five-year-old children were defined.
- The Deconcentrated Management Model was implemented, which includes the new organic-operational structure for different Education Departments and their corresponding regulations, and the transformation of District Departments to Municipal Departments.
- The twelve teacher training schools were converted into higher education centers for the initial training of already working teachers, and academic and/or vocational training centers (secondary level).
- The national network for educational research and training was created, made up of four schools associated with the INICE, and 2,725 Teacher Education Centers (CADs).
- The national curriculum for preschool and primary education was officialized and is being used in the nation’s 18 provinces.
- Teachers received comprehensive training about the National Primary School Curricula (CNB).
- New school textbooks related to the new CNB were produced.
- The UMCE conducted academic performance tests with students about basic subjects so that corrective measures related to teacher and student performance could be applied.
- 719 primary schools were converted into middle schools (7th-9th grades).
- 4,240 positions were created in the preschool and primary levels in 2002 and 2003, and 812,915 hours/class were assigned for attending to primary and vocational education.
- The National Primary School Curricula was adapted to the Bilingual Inter-Cultural Education model, and educational materials were reviewed and adjusted.
- The Information and Statistics System and the Comprehensive Teacher Administration System (SIARHD) are operating.

b. Financial and Physical Implementation of Programs and Projects

117. Of the total funds implemented in the education sector between 2001 and September 2004, 86.4% were national funds, 6.3% loans, 6.5% HIPC funds, and 0.8% donations.

118. Of the total funds invested during the period, 75.8% were for projects aimed at expanding the coverage of primary, secondary and technical education, 9.3% for

formal preschool education, 6.5% for PROHECO, 2.3% for scholarships, 1.7% for alternative education, and the remainder for school infrastructure and pedagogic and technical support.

119. Although financing for different programs and projects came from national sources, loans, HIPC resources and donations, some 86% of national resources were focused on projects to expand primary, secondary and technical education, while 93% of loans were earmarked for PROHECO, community education, primary and secondary education, and Education for All (EFA). Some 75% of donations were assigned to formal primary schools and alternative education, while 39% of HIPC resources were used for PROHECO, 23% for formal primary education, and 20% for formal primary schools.

120. These projects had the following results:

- 1,697 Central Education Projects (PEC) were implemented.
- 4,000 ADELs were organized, trained and legalized as uni- and bi-teacher schools and primary schools (“basic education centers”). The equivalent of US\$1,000.00 is contributed to 3,023 of these schools annually.
- 1,000 student governments were organized.
- 5,937 PROHECO schools were created, with annual transfers of approximately L95,018 per year per school.
- 603 Preschools (CEPREBs) were organized.
- Educational software was installed in 400 computers of different schools, and teachers from innovative education rooms received training.
- 150,000 young people and adults who were not enrolled in the formal school system were attended annually through alternative service delivery systems.
- 5,818 facilitators were trained in alternative education.
- 18,000 teachers were trained about different themes related to the educational transformation and the CNB.
- An average of 142,000 students has received scholarships and vouchers every year.
- 2,097 projects to build expand and repair schools—preschools, primary, vocational and secondary schools—were implemented.

c. Intermediate Indicators

121. Institutional indicators tended to improve during 2001-2004 (see Appendix B2). The proportion of fiscal spending in the sector with respect to the GDP grew systematically, although not as specified in Appendix D.1 (Appendix C from the First Report). Meanwhile, net coverage goals for the first and second cycle of primary education are consistent with the intermediate indicators for dropouts and grade repetition.

122. On the other hand, although there is no comparative data about dropouts, this rate reached 7% in 2003, which means that 93 out of every 100 children who enroll in school remain there. This result can be explained in part by the expansion of programs aimed at reducing school dropouts, such as the school snack program and other incentives to generate demand.

2. HEALTH SECTOR

a. Policy Measures

123. The PRSP priorities for the health sector are focused on strengthening primary care, mother and child care, and better quality health services all around. During the 2001-2004 period, the main policy measures linked to these goals were:

- Developing the framework for the reform process based on separating functions within the health sector, and strengthening the regulatory role of the Health Secretariat, which includes:
 - Establishment of eighteen Provincial (Departmental) Health Regions and two Metropolitan Health Regions, and implementation of the process.
 - Initiation of licensing, accrediting and certifying public and private health establishments.
 - Initiation of certifying private health service providers that offer basic health service packages.
 - Auditing work posts (underway), to organize and manage personnel linked to the Health Secretariat.
 - Incorporation of the decentralization of 9 hospitals into the general budget allotments for 2005, as an initial experience.
- Initiating implementation of the Maternal-Infant Mortality Initiative, which includes:
 - Implementation of the training program for addressing maternal and infant mortality during the neonatal period.
 - Development of national norms for maternal-neonatal care.
 - Implementation of a program to monitor and analyze maternal and infant deaths.
 - Development of a proposal for expanding Community-AIN.
 - Adaptation of the service network, to strengthen implementation of the Comprehensive Care Strategy for Children (AIEPI).
- Updating graduate level curricula on child and adolescent care, in collaboration with the School of Nursing of the UNAH.
- Strengthening the framework of health policies through formulating the Strategic Health Plan for 2021, the mother-child health policy, and the nutrition policy.

b. Programs and Projects

124. Of the total funds utilized in the health sector through September 2004, 76.3% were national funds, 11.1% were loans, 6.4% were HIPC funds and 6.2% were donations. Approximately 86% of these resources have been invested in programs and projects related to outpatient care, epidemiological control of diseases, and hospital care. An average of L.1.2 billion has been assigned annually to finance these projects.

125. Some 91% of national resources have been earmarked for the hospital network via acquisition of medicines and surgical equipment and strengthening primary care, particularly the sustainability of the expanded program of immunizations and comprehensive community-based care for children (AIN-C).

126. Donated resources complement or strengthen the performance of the primary care network. One outstanding program has been “sustainable improvements to family health,” through which child survival services are provided, along with the use of practices to prevent Sexually Transmitted Diseases and HIV/AIDS, services to control and prevent malaria, tuberculosis and dengue, and reproductive health care. Also, the PRRAC project in health and sanitation provides training to institutional and community personnel, equips health centers, provides communal medication funds, and constructs health care infrastructure.

127. Loan resources are used for the “institutional reorganization and health service expansion” program (PRIESS), and the health sector reform project. The main interventions include:

- Implementing local level strategies, currently covering 64 municipalities, 675 communities, and a population of more than 200,000.
- Extending coverage through new management and financing models for health service provision, through external service providers in Mancorsaric in Copan and el Guante in Francisco Morazan.
- Modernizing (underway) the management, expansion and remodeling of infrastructure, and equipping 18 hospitals that are part of the public health network.
- Beginning the rehabilitation and equipping of 12 maternal-infant clinics.

155. Loan and donation resources have been used mainly for building and equipping the Tela, Danlí and Comayagua Hospitals. Construction of the Maternal-Infant Ward of San Pedro Sula’s Leonardo Martínez Hospital. Through the FHIS, some 168 projects to build, expand and repair Rural Health Centers and Dentist Offices. 1,465 locations for attending to “chagas” disease were set up, and 163 rural basic sanitation projects were implemented.

156. In addition, the Global Fund made the following progress with non-reimbursable resources:

HIV/AIDS

- Strengthening of the national ombudsman network of the national human rights commissioner in addressing the special law on HIV/AIDS.
- Drafting and signing of project implementation agreements to tackle vulnerable populations affected by HIV/AIDS:
- Consolidation of a comprehensive care model and access to antiretroviral therapy at a national level that permits access to antiretroviral therapy to be provided to approximately 3,000 people.

Tuberculosis

- Support to the consolidation of the Health Secretary’s National Program to tackle Tuberculosis
- Signing and initiating the implementation of 25 local management agreements at the municipal government level to tackle tuberculosis.

- Definition of a protocol to tackle multiresistant tuberculosis.
- Support to the consolidation of the Health Secretary's National Program to Tackle Malaria.
- Signing and initiation of the implementation of 44 local management agreements at the municipal government level to tackle malaria.

157. A model that ensures universal and equitable access to quality health services is being promoted through Project ACCESO, based on health promotion and primary or preventive care with the participation of the community and the municipal governments.

158. Congruent with the Millennium Goals related to reducing the incidence of malaria and other serious illnesses, the National Chagas Plan was approved, whose objectives are: i) Control and eliminate vectors, ii) Strengthen the sifting of blood for Chagas diseases at a national level, iii) Diagnose and treat cases of Chagas, iv) Epidemiological monitoring emphasizing community participation, and v) Improve housing in areas with conditions of extreme poverty.

c. Intermediate Indicators

159. The PRSP goals in the health sector related to maternal and infant mortality and nutrition cannot be fully evaluated, since there are no systematic measurement instruments that would demonstrate trends.

160. Available information about maternal mortality—108 deaths per 100,000 live births—dates from 1997. However, it could be expected that maternal mortality has tended to decrease, given both the emphasis on implementing mother-child health policies and the trends found in intermediate indicators for institutional birth coverage, births attended by trained birth attendants (midwives), and the average number of prenatal checkups, which all have improved over the past four years (appendix).

161. Similarly, no recent data is available for infant mortality and malnutrition rates among children younger than 5 years. Actions in this area related to strengthening the community-based AIN strategy, and positive trends in indicators such as immunization coverage, diarrhea and pneumonia incidence and the main causes of infant mortality are generating positive progress in global goals.

E. AREA V: STRENGTHENING PROTECTION FOR SPECIFIC GROUPS

a. Policy Measures

162. With respect to social security networks, actions have been undertaken to develop a conceptual and operational social policy framework for implementing the PRSP. Thus, work has been underway to define a Plan of Attention for the Most Socially Vulnerable Groups: street children, sexually exploited children, children orphaned by HIV/AIDS, gang members, the disabled, the elderly and female victims of violence.

163. In a parallel manner, actions to improve the living conditions of the poorest populations living in rural zones are continuing through the Honduran Social Investment Fund, which finances 104 small social infrastructure projects benefiting

children, adolescents, the disabled and the elderly. Its investment had reached L.85.2 million through September 2004.

164. The National Policy for the Prevention of Disabilities, the Comprehensive Care and Rehabilitation of Disabled Persons, and Protection of their Rights and Duties was approved, and the development of a corresponding National Plan of Action is underway. Cooperation agreements have been signed to support a community-based rehabilitation strategy in the Honduran Mosquitia region.
165. The Permanent Commission on the Protection of Children's Moral and Physical Integrity has continued (through 2004) implementing the Plan of Action for eradicating child labor.
166. The National Policy on Women and an Equal Opportunities Plan were formulated and approved through a nationwide consultative process.
167. The National Commissioner on Human Rights developed the Special Program on Women's Rights, and work is underway to incorporate a gender approach into the formulation of public policies, plans of action and institutional budgets.
168. To improve the socio-economic situation of indigenous groups and Afro-Caribbeans, the Commission to Eliminate All Forms of Racial Discrimination was created. Moreover, the Support Program for Indigenous and Black Populations (PAPIN) is being implemented, whose main component is implementing an ethnic-engineering model in two pilot communities (Belén in Mosquitia and Nueva Esperanza, Lempira) with 34 projects at a cost of L. 21.9 million.
169. The Government and Justice Secretariat is coordinating actions to guarantee compliance with the Law on Special Treatment for the Elderly, Retirees, and Invalid Pensioners, more commonly known as the Elderly Law. Other actions are carried out through the Health Secretariat, under its Elderly Care Program.

b. Programs and Projects

170. From 2001 to September 2004, spending for this program area has fluctuated. The majority of resources have been earmarked for the "Social Security Networks" component, followed by "Development of Ethnic Peoples" and finally the "Gender Equity and Equality" components. The main source of financing was national funds (50% during the entire period), followed by loans (39%).
171. By September 2004, some L.365.9 million had been implemented, which was 11% higher than the previous year. Of L.362.1 million destined for the Social Security Networks component, most of the resources were invested in vouchers for education, health and nutrition, maternal-infant care, school and families. Under the Family Allotment program, the sum of L.638,987.6 was implemented during the 2002-September 2004 period for income compensation vouchers benefiting a total of 394,024 children, young people, women and the elderly. As part of the Development of Ethnic Persons component, L.4.8 million were invested in projects from the Innovative Development and Social Assistance Fund and Our Roots (both from the

FHIS program), the Support Program for Indigenous and Black Populations (PAPIN), and the Ethnic Improvement Program.

172. Most of the resources assigned to the Gender Equity and Equality component were used for the PRAF program, the Women's Comprehensive Development project, and to a lesser extent for the Rural Women's Equal Opportunity Project.

F. GUARANTEEING THE STRATEGY'S SUSTAINABILITY

1. STRENGTHENING PARTICIPATORY DEMOCRACY, JUSTICE, AND CITIZEN SECURITY

a. Policy Measures

173. The following policy reforms have been carried out to consolidate good governance, guarantee "transparent" public management and improve the quality of political representation:

- Legislative Decree 153-2003 eliminated the figure of Presidential Designate, and replaced it with the figure of Vice-President.
- The constitutional reform decree that will separate the National Elections Tribunal (TNE) from the National Registry of Persons (RNP) was ratified.
- The Superior Accounts Tribunal was created with approval of the Tribunal's Organic Law. The Tribunal began operating in January 2003 with the inauguration of the three magistrates, as established by Law.
- A Constitutional Reform was adopted which incorporates plebiscites and referendums as democratic options, ratified on November 24, 2004.
- The New Electoral Political Organizations Laws were approved in April 2004.
- Through Legislative Decree 62-2004, the New Law on the National Registry of Persons was approved and entered into force in May 2004.

174. The project, "Strengthening a State of Law and Respect for Human Rights," was initiated, through which 10,747 case files have been dismissed during the February-August 2004 period alone, and 41,560 expedients have been collected nationwide.

175. Loan agreement 115/SF-HO was signed with the IDB in December 2002, to finance the second stage of the Program to Support Modernization of the Administration of Justice. The program is comprised of two sub-programs: Legal Reform and Efficiency and Accountability.

176. The theme of citizen security has been one of the Government's main priorities. This refers to monitoring not only the conditions set in both the PMRTN and the PRSP, but also other citizen concerns expressed during consultative arenas such as the Great National Dialogue and regional consults about the PRSP. In this context, some of the most important initiatives have included:

- Reduction of the crime rate.
- Implementation of Preventive Education Projects managed by the Gang Prevention Division.
- Approval of the Legislative Decree 117-2003 that reforms Article 332 of the Penal Code and constitutes the Anti-Gang Law, which sets severe penalties for the types of illicit association that give rise to gangs or "*maras*."

- Implementation of the “Safer Community” Program, in which citizens work together with the National Police to insure community safety.
- Implementation of the Strategy to Combat Drug Trafficking in the Gracias a Dios and Colón provinces.
- Reform of the Transit Law and the Law on Firearm Ownership, Registration, and Possession and Control of Munitions, Explosives and Other Similar Devices (published in *La Gaceta* No. 30-224 on November 19, 2003).

b. Programs and Projects

177. A budget of L.5.355 billion was implemented during the 2001-2003 period, used mostly for modernizing public administration and decentralization, as well as for protecting the environment and risk management. Although no budgetary allotment was made to “Strengthening Justice and Citizen Security” during the first two years, HIPC resources were assigned beginning in 2004 to improve special investigation services and strengthen preventive police work.

2. TRANSPARENCY AND ACCOUNTABILITY

a. Policy Measures

178. To reduce the risk of corruption, various processes aimed at increasing public sector accountability have been promoted, key to which has been approval of the new “Money Laundering Law.”

179. With respect to transparency in state procurements, the Government has implemented the Program for Efficiency and Transparency in State Procurements and Hiring. To support the Program, a Consultative Council was set up (CCPET) in February 2003, which was constituted through Executive Agreement 045-2002.

180. The regulations for the Normative Office for State Acquisitions and Hiring were developed and promulgated, and published in *La Gaceta* on May 13, 2004. A web site for the Normative Office for State Hiring and Acquisitions (ONCAE) has also been designed: www.oncae.gob.hn.

181. Another effort related to transparency and accountability that has been taking form is the Social Audit initiative, which creates local citizen oversight networks that manage community resources. This effort has facilitated the appointment of Municipal Commissioners and Citizen Accountability Commissions assigned to the 15 regional and provincial CONADEH delegations, which cover the nation’s 18 provinces.¹³

182. The National Congress approved Legislative Decree 105-2004, a Constitutional Reform that eliminates Article 200 and Section 15 of Article 205 that bestow impunity upon the President of the Republic, the Presidential Designates, magistrates and other high level State functionaries.

¹³ The Municipal Commissioners are citizens designated by the Municipal Corporation, while the Citizen Commissions are structures that involve citizens in evaluating, auditing, overseeing and monitoring the transparent use of the municipality’s public resources.

3. MODERNIZATION OF PUBLIC ADMINISTRATION AND DECENTRALIZATION

a. Policy Measures

183. The Plan of Action of the National Decentralization and Local Development Program (PRODDEL) has been approved, to effectively decentralize the economic sector. In addition, municipal administration in the areas of planning, taxation and municipal civil service are being strengthened.

184. Training was provided to 219 municipalities throughout the country about: budgetary development, implementation and liquidation; municipal legislation, production of arbitration plans; tax administration; and local management. Currently, the municipalities present their budgets, arbitration plans and budgetary liquidations.

185. Development Commissions were created through Decree 21-2002, and a Draft Municipal Finance Law was jointly developed with AMHON to simplify and modernize the tax system, regulate municipal indebtedness, and strengthen financial management and the 5% transfer. It is worth noting that municipal transfers have risen from 1.9% in 2001 to 3.65% in 2004.

b. Programs and Projects

186. The projects with the largest investment implemented during this period included: Municipal Social Investment Plans (L.2.443 billion), transfers to Municipalities (L.1.613 billion), Allotments for Community Development Programs (L.259 million), and Loans to Municipalities (L.241.3 million).

187. The responsibility for different project cycles was transferred to 120 municipalities through the first project. This includes: (i) identification (pre-cycle); (ii) formulation; (iii) implementation; and (iv) maintenance (post-cycle). Training and technical assistance activities were financed for three areas of the Preventive Maintenance pilot program: finances, institutional norms and local works. The results were essential for developing a program budgetary manual and promoting active participation in financing maintenance activities.

188. In addition, municipal finances were strengthened through training about designing municipal debt policies, which included components on accountability and social auditing, and through developing a plan to simplify and modernize municipal tax systems.

4. IMPROVING ENVIRONMENTAL PROTECTION AND RISK MANAGEMENT

a. Policy Measures

189. The National Congress approved the Territorial Planning Law, which emphasizes administrative aspects of organization and creates the Territorial Planning Executive

Council (CEOT). Also, both the Water Law and Forestry Law are close to passage, and restructuring of AFE-COHDEFOR is underway.¹⁴

190. To support the territorial organization process, the National Territorial Information System (SINIT) is being implemented, which creates and maintains a baseline of biophysical and socio-economic information and is the technological instrument used by the Registry of Territorial Organization Norms (RENOT).
191. The National Environmental Information System (SINIA) is operative, with 89 environmental indicators classified into 14 areas. The Climatic Change and Biodiversity nodes were also set up.
192. Efforts have been made to improve water management and planning, including: the development of a National Water Inventory, the development of a hydro-meteorological information database, the rehabilitation of the National Telemetric Network (16 stations), and the operation of 37 hydrometric and 71 climatology stations.
193. The Non-Formal Environmental Education Manual has been updated for the municipal governments; a “National Publicity Campaign on Environmental Awareness” will be developed with coverage all over the country and emphasis on 25 municipalities of 6 provinces, in which environmental strategic plans will be drawn up. In addition, 274 Municipal Environmental Units (UAMs) have been created, of which 192 have been technically strengthened.
194. In the area of energy, the Special Executive Commission for Developing Hydroelectricity Projects was created through Executive Decree 002-2003, to coordinate the actions of governmental agencies involved with this resource. The development of the Renewable Energy, Rural Energy and Energy Efficiency Policy is of particular importance, since it is based on a broad-based social consensus. At the regional level, the Central America Bio-Power Project is being developed to promote the generation of energy from biomass.
195. To prevent and mitigate the risk of disasters in ecologically and socially high risk zones, the National Action Plan for Combating Drought and Desertification was developed with the participation of local populations from the 76 most vulnerable municipalities in Lempira, Intibucá, La Paz, Valle, Choluteca, the southwest region of Paraíso and the southern region of Francisco Morazán.¹⁵
196. Through the Sula Valley Executive Commission (CEVS), La Lima has been effectively and fully protected against regular annual flooding. Protective works have been constructed in high risk zones (Chamelecón to Choloma), most outstanding of which are the construction of the Chotepe, Maya and Chambers water channels, and the recently initiated Calán Channel, at a cost of L.700 million, providing protection to 65,000 hectares.

¹⁴ Responds to the need to regulate productive functions of forest conservation and protection with a sustainable approach, reducing central level personnel and strengthening regional structures in rural areas.

¹⁵ This Plan contains strategic elements related to sustainable agricultural and livestock production; the organization, conservation and reforestation of watersheds; environmental education and awareness; institutional strengthening, and building local capacities.

197. The creation of a National Civil Protection System is underway, which consists of emergency actions in response to natural occurrences, expanding the coverage of COPECO actions. The seismic station network has also been strengthened, and the hydro-meteorological station network has been linked into early warning systems. The “113” call system for emergencies was also introduced, providing immediate responses 24 hours per day.

b. Programs and Projects

198. A total of L.189.6 million was used between 2000 and 2004 for the environmental protection and risk management sub-component. The most important investment project (45.7% of the total) is the Natural Resources Management Program for Priority Watersheds (MARENA), located in the upper basins of 3 priority watersheds: Ulúa, Chamelecón and Nacaome. To date, the project has: i) strengthened and trained the National Watershed Network; ii) developed an informational and documentary database for the Higuito, Mejocote, Yojoa and Mid-Humuya sub-basins; iii) promoted the organization, training and operation of emergency committees in 5 of the mentioned sub-basins; and iv) established the basis for operating early warning systems combined with structural and bio-physical works to mitigate disasters.

199. The Disaster Mitigation Project received around 45% of the sub-component’s total investment. It has fulfilled physical goals such as developing the Plan to Strengthen the National Hydro-Meteorological Network and providing rescue equipment to regional COPECO delegations. The Upper Lempa River Watershed Management Program absorbed some 6.1% of the sub-component’s total financing, with a radius of action in 5 municipalities of the Ocotepeque province (Dolores, Merendón, Concepción, Santa Fe, and Sinuapa), and at this stage 4 potable water systems, 22.5 kilometers of rural roads, sanitary sewage systems and irrigation systems have been developed.

200. The National Land Use Program (PRNOT) concluded its work in Comayagua, leaving concrete land use plans in place for Comayagua, Ajuterique and Lejamaní, and a general land use planning methodology. The Climatic Change project is implementing the Refrigerants Plan, and the Plan to Eliminate Methyl Bromide from melon, tobacco and banana production through which a reduction in the use of gases and substances that damage the ozone layer is expected. The Social Forestry Program has incorporated 80,700 hectares of land into forestry management plans (10%), has maintained the operations of some 300 agro-forestry organizations on 250,000 hectares of land with the direct involvement of 13,000 families, and has contributed to a 21% increase in resin production.

c. Intermediate Indicators

201. Intermediate indicators for the environment reflect efforts undertaken to improve management in this area, especially in the forestry sector. Within this policy framework, the indicator for the number of priority protected areas with management plans has improved significantly, increasing from 5 in 2000, to 12 in 2002, to 15 in 2003 and 23 in 2004. Other indicators such as the number of priority protected areas that have been legally declared as such had also improved between 2000 and 2002, but have since remained static. This can be explained, in part, by the grouping of the

Delgaditos, Jicarito and San Bernardo areas as the “Gulf of Fonseca,” and the Utila and Guanaja Islands as the “Bay Islands.”

202. Despite its lack of change since 2002, the indicator for priority protected areas with community participation shows that more than 75% of priority protected areas are being managed with some form of community participation (including co-management), influenced by decentralization processes underway in the sector and the implementation of projects such as Forest and Water, PROBAP, MAFOR, PROCUENCA, PROMANGLE, and Transforma-CATIE, among others.
203. There has been an annual reduction in the indicator for the number of controlled fires, explained by more active participation of municipalities, communities and civil society organizations in fighting forest fires. Nonetheless, it should be clarified that climatic factors also influenced the reduction of this number in 2004. Despite the fact that the indicator for the number of pests or outbreaks shows annual decreases, the number of outbreaks being controlled has actually dropped, explained by the AFE’s limited operational and financial capacity to support this activity.
204. The indicator for forest coverage is an important one, because it refers to the nation’s most serious environmental problem. Unfortunately, there is no data available after 1995. The AFE estimates that approximately 100,000 hectares of land is deforested every year. An updated forest map needs to be developed to obtain more accurate information about deforestation.
205. Indicators related to creating, promoting, consolidating and strengthening Municipal Environmental Units indicate progress resulting from SERNA’s efforts in decentralizing environmental management and empowering local communities vis-à-vis environmental themes.

VII. MEDIUM- AND LONG-TERM PLANNING

206. This chapter describes progress made in PRSP planning and programming processes, the basis of which is detailed in the **PRSP 2004-2006 Implementation Plan** (see Table 2), which the Honduran Government presented at the Consultative Group Meeting in June 2004, and which will be developed through the so-called Sector Wide Approach Programs (SWAps). Progress in Harmonizing and Aligning Official Development Assistance (ODA), which is fundamental to successful implementation of the PRSP, is also presented in this chapter.

A. MEDIUM- AND LONG-TERM STRATEGIC PLANNING

207. The current framework for planning and programming the nation's development is established by the Public Administration Law. This Law assigns macro level planning functions to the Economic and Social Cabinets: it also creates Management Planning and Evaluation Units (UPEGs) that are responsible for sector planning by line ministries. Finally, it creates the Technical Support Unit of the Presidential Secretariat (UNAT), whose function is to coordinate the process at the sector level and to help the Economic and Social Cabinets to define policies and programs. Currently UNAT is designing an institutional framework that integrates coordination with international cooperation agencies and the public investment process into planning efforts. As part of this effort, it sent a proposal for Reforming the General Public Administration Law to the National Congress, aimed at improving the institutional structure and adapting it to the needs of the PRSP.

Table 2
Achieving the Goals of the Poverty Reduction Strategy
PRSP Implementation Plan, 2004-2006

The document presented to the Consultative Group outlines the Implementation Plan for the Poverty Reduction Strategy during the 2004-2006 period. It proposes a program for transforming the nation, including decisive actions in the areas of good governance, equitable economic growth, and investment aimed at improving the living conditions and opportunities of poor families.

With a foundation of good governance, the Implementation Plan proposes increasing GDP growth rates through a healthy macroeconomic policy, reforms to the financial system, the conclusion of trade negotiations to improve our access to other markets, and actions to strengthen our competitiveness. In this framework, the programming of national resources and donations will be strengthened, to guarantee that Honduras will meet the PRSP's priority goals and the Millennium Decade Goals.

The document is divided into four sections which detail the PRSP's main achievements in 2003, and also proposes key actions for the 2004-2006 period that were defined together with national stakeholders through the PRSP Consultative Council, Sector Roundtables, and consultative campaigns organized in northern and south-central Honduras. Finally, it enumerates the main risks to implementation that could emerge, and strategies for confronting these.

208. To strengthen the programmatic planning process and the definition of the medium and long-term priorities, the new Organic Budgetary Law, which was enforced since January 2005, establishes that the National Budget must be prepared based on the medium-term goals. In order to do this, a Multi-Year Medium Term Plan must be

designed based on Sector Plans, in order to articulate the PRSP goals with their costs presented in the budgetary programming.

209. In addition, the structure of Sector Roundtables was redesigned to make the process of defining Medium Term Programs more participatory, giving them responsibility for planning and monitoring sector programs; these programs are going forward in that way, and are being respectively consulted and validated. Six roundtables with six crosscutting themes were set up for that purpose. Currently, four of them (education, health, water and sanitation, and agro-forestry) have long-term programs that are aligned with PRSP goals. Together with the PRSP Implementation Plan, these plans will serve as the basis for developing the PRSP's Multi-Year Implementation Plan that will later be linked to the national budget.
210. Another important element is the promotion of planning and management work based on demands generated at the local level. To achieve this, the Decentralization and Local Development Program (PRODEL) is being implemented with the support of various donors to assist Municipal Governments in prioritizing and managing their demands in a manner that is consistent with governmental supply. This objective is achieved through the instrument of Municipal Development Strategic Plans (PEDMs). To date, some 83 PEDMs have been developed in low-income municipalities, and another 153 are being designed. It is hoped that in 2005, all programs will be covered by these plans that link local supply with demand.
211. To strengthen the local planning process, work has been done with the CCERP members since 2003 in designing and implementing the regional PRSPs, which seek to provide a holistic vision to the medium- and long-term planning, thus complementing national efforts. A commission made up of members of Civil Society, the Government and G-17 as observers is now discussing how to link the local and regional plan with the sector-wide planning initiated by the Roundtables.
212. Besides the effort of articulating the local demands, the commission appointed within the CCERP has the main objective of prioritizing the debt-relief resources that will be obtained starting with the Completion Point of the HIPC Initiative in 2005. In order to do this a standard methodology was designed to ensure the inclusion of the demands coming from the various sectors of civil society, whether through the PEDMs or any other channel. The idea is that this methodology could be applicable in the future to the total PRSP budget.

B. HARMONIZING COOPERATION

213. The main objective of harmonizing cooperation is to determine the steps to ensure that international cooperation efforts complement national efforts rather than substitute them, thereby achieving sustainable economic and social development and reducing the transaction costs as much as possible. Moreover, the provision of cooperation resources in accordance with the nation's priorities is also sought, along with alignment of the strategies of cooperating agencies and nations with the Poverty Reduction Strategy (PRSP) or the equivalent national frameworks.¹⁶

¹⁶ See: Indicators 3 and 4 of the Monitoring Committee of the OCDE's Development Support Committee (CAD).

214. The Government of Honduras has assumed the challenge of leading this harmonization process. Thus, following the High Level Forum in Rome (2003), the Government organized three workshops with support from the IDB (Zamorano I, II and III), with the goal of adapting international cooperation to national priorities in the framework of the PRSP. Agreements were reached at these workshops that tend to improve the efficiency of cooperation, such as: i) supporting programs rather than projects; ii) linking these programs in the framework of the PRSP; and iii) defining a series of appropriate management indicators. Also, the new proposal for participatory planning via Sector Roundtables was presented, and the progress of the H&A process was reviewed and corresponding recommendations were made.
215. Concrete progress has been made in harmonizing and coordinating donors, and aligning ODA with the nation's programs and priorities. This work also addresses the standardization of the national bidding processes and financial resource management systems through SIAFI and the System of State Purchases and Contracts, respectively. Furthermore, the National Congress approved the Law on Poverty Reduction Management, whose objective is to create a framework that sustains PRSP implementation through 2015. The G-17 has acted as a key coordination structure in this process, not only monitoring the fulfillment of investment programs and policy commitments made in the framework of the PMRTN and the PRSP, but also acting as the main counterpart for the H&A process since it began.
216. Moreover, actions aimed at building the nation's capacity to define coherent development programs have been carried out, making it possible to more effectively visualize the manner in which Honduras will fulfill the PRSP goals. Despite the progress mentioned, there are still a large number of projects—many of them relatively small and unrelated to one another—that tend to overstretch the nation's coordination and management capacities. It is anticipated that the joint efforts of the Government and Cooperation will facilitate the operations through the reduction of transaction costs and the construction of standardized systems for more efficient program and project management.
217. The Government's efforts to design and implement the PRSP, to improve its capacity to manage resources and external cooperation efforts and thereby improve coordination and to promote harmonization and alignment initiatives have had important results. Most cooperation agencies now prioritize PRSP programs as a norm, since its six "pillars" include almost all fields relevant to external aid in Honduras. Nonetheless, not all of these programs have embraced the concept of *Poverty Spending* in the framework of the PRGF Program.

VIII. MONITORING AND EVALUATION

A. THE PRSP INFORMATION SYSTEM

218. During implementation of the PRSP, activities have been carried out to speed up monitoring of the Strategy. Since January 2004, the Technical Support Unit (UNAT) and the National Statistics Bureau (INE)—attached to the Office of the Presidential Secretariat and the Finance Secretariat—took the initiative to begin developing a prototype for a monitoring and evaluation system using available resources and information. On March 31, 2004, the PRSP Information System (SIERP) was presented on the official web site: www.sierp.hn.

219. The SIERP is a general information system that facilitates the monitoring and evaluation of national anti-poverty measures. The system is based on analyzing the progress of global and intermediate indicators linked to the physical and financial advance of PRSP programs and projects. The System also generates impact analyses of the policy measures and the population programs and policies through instruments such as the PSIA.

220. As evidence of the PRSP's monitoring and evaluation system, three PRSP Progress Reports have been generated per quarter using information contained in the SIERP database. This information is also made available to the public through the web site.

221. During this period, an intensive review of the current prototype and the consolidation of links with the national information network has been underway, to establish a solid foundation for the SIERP. The main result of this process has been the design of a **Master Plan for SIERP Implementation**, which is conceived as a tool that will determine the strategic guidelines, main theories and specific activities required for its short, medium- and long-term implementation.

222. In mid-2004, the work of **defining, compiling and discussing indicators** began with all institutions. Model matrices were developed, so that each institution could include the indicators it considers pertinent. The matrices were designed for compiling information from the institution, existing information systems, and the indicators themselves. The attributes of these indicators are differentiated by time, level of breakdown, generation, among others.¹⁷

223. Following this first stage, a workshop was organized in to review and restructure PRSP indicators. The inputs for this workshop were the matrices that had already been analyzed by participating institutions. The workshop began with an explanation of conceptual aspects related to social indicators and the indicators most frequently used internationally. Later, the group was divided into work groups organized according to PRSP pillars.

¹⁷ The indicator's "generation" is determined by the real possibility of obtaining the data at this moment. In other words, first generation indicators are those that exist at this moment, and can be produced with no problems. Second generation indicators are those that are not produced at this moment, but for which mechanisms for producing them in the medium term already exist. Third generation indicators are those that are still not produced, and whose medium-term construction is problematic.

224. Once organized, the work groups were responsible for discussing each of the indicators with the representatives of institutions present. The discussions led to a review and in some cases modification or improvement of each indicator. At the end of the workshop, a better catalogue of indicators was structured, each with its own characteristics and those responsible for oversight were defined.
225. For sectors that still did not have a primary list of indicators, the work of defining these has continued. In such cases, meetings were held and the basis through which responsible institutions and UNAT technical staff would begin the work of defining and refining a minimum number of indicators was established.
226. Defining a “catalogue” of indicators is a process that will take form while the PRSP is being implemented. It is important to see this task as a process, since the indicators can be modified as institutions begin producing more and better quality information.
227. Two of the most important aspects of the work carried out in recent months has been the establishment of an information network that will be responsible for compiling a catalogue of increasingly more accurate and appropriate indicators, and the promotion of continuous updating of SIERP data for use in producing PRSP progress reports.
228. The results of this process may be found in the appendix on intermediate indicators, where all of the information supplied by different institutions taking part in building the national information network is compiled.

B. IMPACT EVALUATION

229. Measuring progress toward the PRSP goals is an essential part of guaranteeing adequate monitoring and evaluation of specific improvements in the population’s living conditions. It is also essential for beginning a learning process that allows both policy proposals and the content of sector programs to be reviewed and corrected in a timely fashion when required. Thus, technical instruments and tools are needed that help design policy recommendations, which in turn facilitate decision-making.

Table 3 What is a PSIA?*
<p>A Poverty and Social Impact Analysis (PSIA) refers to analyzing the distributional impact that policy reforms have on the well being of different groups of stakeholders, with particular interest in the most vulnerable and poorest groups. PSIAs also study the sustainability and risks associated with implementing reforms, helping to monitor poverty and the social impact of policy reforms.</p> <p>Adopting Poverty Reduction Strategies and the Millennium Goals has increased the need for systematic analysis of poverty and the social impact of policy reforms, in order to assist countries in filling analytical gaps and consolidating national strategies with very well designed policies.</p> <p><small>*Source: PSIA Users Manual, World Bank, 2002.</small></p>

230. In Honduras, the PSIAs are the instrument used for analyzing the distributional impact of different policy reforms on the well being of different segments of the population, with a particular focus on the poorest and most vulnerable groups. Well-being is understood as both the income and non-income dimensions of poverty.

231. This tool has become more popular since 2001, when the International Monetary Fund (IMF) and the World Bank (WB) agreed to conduct a PSIA of the macroeconomic and structural policies of the programs they were developing in Honduras.
232. Similarly, the Department for International Development of the United Kingdom (DFID) has joined this agenda, initially supporting a pilot project to develop PSIA in different countries. In Honduras, this took the form of a study about the impact of privatization of the electricity sector.
233. The main findings related to Honduras are that these studies may be carried out using existing data and public knowledge about the reforms. To be effective, a PSIA must inform about policy options through sharing information and through its appropriation by a given society, and must be immersed in the context of the Poverty Reduction Strategy (PRSP).

Table 4
Evaluation of the Distributional Impact of Tax Reform in Honduras

The tax measures approved in 2002 and 2003—the Financial Equilibrium and Social Protection Law, the Tax Equity Law, and the Public Finance Rationalization Law—establish important changes in the Honduran tax system. A corresponding PSIA (Poverty and Social Impact Analysis) was carried out, which evaluated the distributional incidence of these reforms, using the “shifting assumptions” methodology to analyze information obtained from the National Survey of Household Spending and Income and the Permanent Survey of Multi-Purpose Households. This study uses both consumption and income adjusted to demographic factors as the alternative indicators of well being. In addition, the standard shifting assumptions are applied, and the distributional impact of each reform measure is evaluated on the basis of concentration and progressivity curves and indices.

The study concludes that the Honduran Tax Reform measures are slightly progressive in distributional terms. If an effective increase in tax revenues will be achieved through their implementation, then distribution in Honduras will become less unequal than at present. If the revenues generated by the reform are distributed equally, extreme poverty could diminish by 5 percentage points. The study also presents an alternative scenario based on the elimination of tax exemptions to foreign trade and petroleum. The results help demonstrate that many reforms are still needed in order to make the tax system more progressive.

234. Although the PSIA are not new, they are still not regularly employed as part of government reform initiatives. Thus, they must validate findings from a broad spectrum of sources and clearly demonstrate the implications that alternative policy decisions have on reducing poverty. They must also establish the basis for improving national capacities to generate and adopt methodologies for evaluating the impact of policies as well as programs and projects.
235. The essence of PSIA is presenting policy options based on evidence, explicitly demonstrating a specific reform’s impact on poverty and well being, and promoting the appropriation of such reforms through publicly debating the trade-offs of policy decisions.
236. Three PSIA for Honduras have been conducted. The first was an analysis of “The Possible Privatization of Electricity Distribution. A Case Study: Honduras 2002,” while the second entailed an “Evaluation of the Distributional Impact of the Honduran Tax Reform, 2004.” The third is about to conclude, and evaluates “The Impact of Oil Price Hikes on the Poorest Population.”

Table 5
Evaluation of the Impact of the Rise in Oil Prices

The rise in the international prices of oil and fuels, employed as raw materials, has been continuous over the past three years and reached record levels in late October 2004. A combined qualitative and quantitative analysis has been used to analyze the impact of these price hikes on the poor, complementing and validating the findings obtained through different methodologies. With respect to the quantitative analysis, an econometric approach was used to measure the impact of fuel price rises on the activities most sensitive to such increases, such as transportation services, household water and electricity services, and on other prices through measuring the impact on the general price index. In addition, the price elasticity of the demand for different fuels was quantified, as a useful instrument in designing and monitoring the tax policies for petroleum and fuels. In addition, the distributional effect was analyzed on the basis of the 1998 ENIGH (National Household Income and Spending Survey), assessing the average tendency to consume the items most affected by fuel price variations and some important basic foodstuffs that have experienced important price increases and have affected the poorest population (broken down by income level, location and gender). With respect to the qualitative analysis, semi-structured interviews were conducted in urban and rural households in order to obtain perceptions about the impact on household economies. CARE-Honduras and the UNAT played an active role in this methodology.

Both methodologies supported the following conclusions: Oil price variations have an intensive effect on a reduced group of services related to transportation and housing, which are not transmitted with the same speed and intensity to the rest of the economy. This signifies a relatively insignificant—but not less important—effect on the general price index and therefore on the poorest members of society. Another result is that the demand for fuel—for automotive and domestic use—is sensitive to price variations. Fuels used for industrial and public transport purposes are not sensitive to such variations.

The main recommendations are to stimulate competition in the commercialization of fuels, maintaining the current tax policy for fuels given its progressive nature. Similarly, competition needs to be improved in the electricity-generating sector, and road infrastructure needs to be improved to permit long-term expansion of public transport services. The transportation subsidy programs should be continued and framed in the PRSP, and a basic food package containing those foodstuffs whose prices undergo sustained increases due to fuel price rises should be put together and promoted in urban and rural areas.

237. The Government has adopted an agenda for impact evaluations through the Presidential Secretariat's Technical Support Unit (UNAT), where a study division will be set up to coordinate and implement the use of this type of investigative tool. This division will be directly linked to the central SIERP unit, and will be responsible for evaluating and monitoring governmental reforms. In addition, a team led by one main researcher and supported by an inter-institutional and multi-disciplinary technical team will be set up for each study, with the goal of strengthening local capacities through the transfer of methodological tools. Finally, the results will be shared through a process that directly involves civil society organizations and donors in a tripartite effort to disseminate and validate the results.

238. A series of studies are planned in coordination with international cooperation agencies, as outlined in the following schedule. All of these are aimed at developing local capacities to use different methodological tools and share the results nationwide, providing the nation with a technical instrument to support policy decisions.

239. To support this effort, the Government of Honduras will contract a permanent research-analysis unit that will: contribute technical suggestions for decision-makers in the field of policy reform; organize workshops to explain the relationship between reforms and progress in reducing poverty to the general public and the international

community; and finally provide technical tools that help design social policies with a more “pro-poor” character.

Honduras: Schedule for Impact Studies and Evaluations

Study	OCT 2004	NOV 2004	DEC 2004	JAN 2005	FEB 2005	MAR 2005	APR 2005	MAY 2005	JUN 2005	JUN 2006
Tax Reform in Honduras										
Rise in Fuel Prices										
Salary Policy										
CAFTA										
Public Spending										
Subsidies for electricity										
Subsidies for public transportation										

Note: The dates indicate when the study will be concluded and its results publicized.

IX. CHALLENGES FACING PRSP IMPLEMENTATION

240. There is general consensus about the importance of providing continuity to PRSP implementation as the motor force behind the nation's development policy. However, national support must be obtained to guarantee the process's sustainability, in light of the political cycle that will be confronted in late 2005. Thus, the Government has proposed a multi-level publicity plan to generate greater appropriation of the PRSP at a general level.
241. A massive PRSP publicity program must be promoted. It must consider the structuring of popular versions of both the original document and the progress reports. This will allow the population to be duly informed about the progress of the process and will ensure its appropriation by the beneficiaries.
242. National Congress approval of legislation that allows progress in key areas will be needed, such as reforms to the Civil Service Law General, Public Administration Law and General Water Law, so that the nation's institutional framework is adapted to the PRSP's planning requirements.
243. Continued efforts to target spending on the most vulnerable sectors are essential, so that this is reflected in the indicators. It will especially be necessary to expand sustainable income generation programs for households living in relative poverty whose members are working in the informal sector or are unemployed.
244. With respect to harmonizing cooperation, although ODA is generally aligned with the PRSP's programmatic areas, there is still no effective coordination between donors and the Government with respect to expanding the quality and coverage of public services, or expanding other investments needed for achieving the PRSP's goals. The Government considers the previously mentioned proposal for reforming the planning and management of external cooperation key to making progress in this area.
245. Although there has been progress with respect to improving the planning process and harmonizing and aligning cooperation, there is still a great deal to be done. The PRSP needs to remain the key reference point for defining public investment priorities and aligning external cooperation. The reform proposed for rationalizing the "institutionality" of external cooperation planning and management needs to be approved and implemented. In addition, dialogue and involvement in the PRSP's development needs to be strengthened, and coherency between the PRSP and civil society concerns and proposals needs to be assured.
246. Efforts aimed at linking the supply and demand for local level services should continue, in the framework of Municipal Development Strategic Plans. In addition, these demands need to be consistent with the regional proposals that civil society organizations are promoting within the CCERP.
247. It is very important to strengthen the SIERP and impact studies (PSIAs), so that the results of PRSP policies and programs may be effectively and adequately evaluated.
248. The Honduran economy's resource absorption capacity as well as improved efficiency of public investment continues to be one of the main challenges the country

faces to achieve socioeconomic development. It is fundamental that the governmental authorities double their efforts to increase the public sectors investment resource management capacity. The possibility of achieving this is subject to requirements such as development of an adequate legal public career framework, strengthening of the capabilities of government employees, institutional consolidation and transparency of executrices.

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APPENDIX A.1 GROSS DOMESTIC PRODUCT BY TYPE OF ACTIVITY
(Millions of Lempiras)

ITEM	1994	1995	1996	1997	1998	1999	2000p/	2001p/	2002p/	2003p/
CURRENT PRICES										
Agriculture, forestry, hunting and fishing	6,030	7,026	9,188	12,220	11,493	10,501	12,547	12,122	12,895	13,566
Mining and quarry exploitation	454	629	763	920	1,102	1,325	1,497	1,591	1,794	1,998
Manufacturing	4,275	5,818	7,455	9,535	11,186	12,916	15,207	17,540	19,640	21,980
Construction	1,465	1,791	1,900	2,464	3,043	3,863	4,157	4,269	3,966	4,922
Electricity, gas and water	939	1,778	2,540	2,946	3,093	3,208	3,655	3,728	4,263	5,052
Transport, storage and communications	1,309	1,546	1,824	2,464	2,985	3,423	4,232	5,096	5,643	6,354
Commerce, restaurants and hotels	2,555	3,915	4,903	6,264	7,360	8,365	9,633	10,870	12,050	13,412
Financial establishments, insurance and goods										
Real estate and business services	2,205	3,007	3,654	4,971	6,331	7,155	8,328	9,441	10,406	11,450
Housing properties	1,441	1,832	2,317	2,941	3,478	3,990	4,579	5,201	5,840	6,552
Public administration and defense	1,547	1,912	2,440	3,178	3,625	3,875	5,158	6,139	7,095	7,478
Communal, social and personal services	2,550	3,372	4,176	5,207	6,372	7,261	8,529	10,561	12,177	13,577
GROSS DOMESTIC PRODUCT (factor cost)	24,770	32,626	41,160	53,110	60,068	65,882	77,522	86,558	95,769	106,341
Plus: Indirect net taxes from subsidies	4,092	4,881	6,603	8,212	10,370	11,214	11,879	12,474	12,355	13,981
GROSS DOMESTIC PRODUCT (market prices)	28,862	37,507	47,763	61,322	70,438	77,096	89,401	99,032	108,124	120,322
CONSTANT PRICES										
Agriculture, forestry, hunting and fishing	1,416	1,540	1,578	1,646	1,614	1,477	1,650	1,642	1,723	1,755
Mining and quarry exploitation	83	96	103	108	112	118	120	119	124	128
Manufacturing	798	842	881	935	967	992	1,047	1,101	1,143	1,185
Construction	282	264	234	227	239	264	268	254	218	248
Electricity, gas and water	130	149	172	185	194	198	219	215	227	245
Transport, storage and communications	443	477	498	520	534	543	570	600	621	644
Commerce, restaurants and hotels	572	604	631	653	673	678	703	724	745	768
Financial establishments, insurance and goods										
Real estate and business services	479	524	547	605	662	659	674	695	708	720
Housing properties	361	369	384	399	414	426	439	456	475	495
Public administration and defense	281	269	277	300	301	288	345	375	402	394
Communal, social and personal services	449	449	446	460	485	491	516	581	620	642
GROSS DOMESTIC PRODUCT (factor cost)	5,294	5,583	5,751	6,038	6,195	6,134	6,551	6,762	7,006	7,224
Plus: Indirect net taxes from subsidies	613	565	617	648	685	616	587	562	517	543
GROSS DOMESTIC PRODUCT (market prices)	5,907	6,148	6,368	6,686	6,880	6,750	7,138	7,324	7,523	7,767
p/ preliminary e/ estimated BP 19/1/04										
Source: Department of Economic Studies, Central Bank of Honduras										

APPENDIX A.2 GROSS DOMESTIC PRODUCT BY TYPE OF SPENDING
(Millions of Lempiras)

CURRENT PRICES	1994	1995	1996	1997	1998	1999	2000p/	2001p/	2002p/	2003e/
FINAL CONSUMPTION COSTS	20,893	27,314	35,338	45,048	54,047	61,894	74,337	85,992	96,750	107,345
Private sector	18,113	23,819	30,782	39,626	46,930	53,168	63,119	72,200	81,825	91,136
Public sector	2,780	3,495	4,556	5,422	7,117	8,726	11,218	13,792	14,925	16,209
GROSS FIXED CAPITAL FORMATION	8,110	8,994	11,468	15,732	19,874	23,045	23,372	23,525	23,992	28,114
Private sector	4,908	5,237	7,275	11,573	16,078	18,191	18,113	16,833	18,778	21,564
Public sector	3,202	3,757	4,193	4,159	3,796	4,854	5,259	6,692	5,214	6,550
Inventory variation	2,751	2,842	3,400	3,994	1,910	3,687	4,095	5,756	3,710	4,897
Export of goods and services	11,498	16,390	22,378	28,322	32,699	31,627	36,959	37,479	41,137	46,054
Minus: import of goods and services	14,391	18,033	24,821	31,775	38,092	43,157	49,362	53,720	57,466	66,088
GROSS DOMESTIC PRODUCT (market prices)	28,862	37,507	47,763	61,322	70,438	77,096	89,401	99,032	108,124	120,322
Net revenues from factors of production										
Received from the rest of the world	-1,843	-2,532	-3,069	-2,812	-2,845	-2,335	-2,325	-2,811	-3,179	-3,404
Income from factors	202	306	390	586	805	1,141	1,634	1,361	1,098	984
Minus: Payments for factors	2,045	2,838	3,459	3,398	3,650	3,477	3,959	4,172	4,277	4,388
GROSS NATIONAL PRODUCT (market prices)	27,019	34,975	44,694	58,510	67,593	74,761	87,076	96,221	104,945	116,918
Minus: net indirect taxes from subsidies	4,092	4,881	6,603	8,212	10,370	11,214	11,879	12,474	12,355	13,981
Minus: allotments for fixed capital consumption	1,707	2,258	2,845	3,528	4,086	4,645	5,269	5,908	6,507	7,180
NET NATIONAL PRODUCT (at factor cost) = NATIONAL INCOME										
NATIONAL	21,220	27,836	35,246	46,770	53,137	58,902	69,928	77,839	86,083	95,757
CONSTANT PRICES										
FINAL CONSUMPTION COSTS	4,402	4,454	4,687	4,813	5,086	5,105	5,508	5,803	6,066	6,250
Private sector	3,897	3,963	4,170	4,301	4,495	4,456	4,757	4,961	5,220	5,397
Public sector	505	491	517	512	591	649	751	842	846	853
GROSS FORMATION OF FIXED CAPITAL	1,514	1,296	1,378	1,596	1,761	1,876	1,733	1,600	1,506	1,634
Private sector	929	772	891	1,185	1,423	1,467	1,319	1,111	1,149	1,216
Public sector	585	524	487	411	338	409	414	489	357	418
Inventory variation	303	575	386	307	179	221	305	360	355	400
Export of goods and services	1,540	1,749	1,890	1,915	1,945	1,728	1,855	1,915	2,009	2,113
Minus: import of goods and services	1,852	1,926	1,973	1,945	2,091	2,180	2,263	2,354	2,413	2,630
GROSS DOMESTIC PRODUCT (market prices)	5,907	6,148	6,368	6,686	6,880	6,750	7,138	7,324	7,523	7,767
Net revenues from factors of production										
Received from the rest of the world	-236	-270	-242	-168	-152	-113	-100	-113	-126	-129
Income from factors	27	33	33	40	48	62	82	70	54	45
Minus: Payments for factors	263	303	275	208	200	176	182	183	180	175
GROSS NATIONAL PRODUCT a p.m.	5,671	5,878	6,126	6,518	6,728	6,637	7,038	7,211	7,397	7,638
Minus: net indirect taxes from subsidies	613	565	617	648	685	616	587	562	517	543
Minus: allotments for fixed capital consumption	343	353	360	368	374	381	389	398	407	417
NET NATIONAL PRODUCT (at factor cost) = NATIONAL INCOME										
NATIONAL	4,715	4,960	5,149	5,502	5,669	5,640	6,062	6,251	6,473	6,678

p/ preliminary e/ estimated BP19/1/04
Source: Department of Economic Studies, BCH.

APPENDIX A.3 PER-CAPITA GROSS DOMESTIC PRODUCT

(In Millions of 1978 Lempiras)

	1994	1995	1996	1997	1998	1999	2000 /p	2001 /p	2002 /p	2003 /e
Population (in thousands)	5,317.8	5,462.8	5,608.3	5,754.5	5,901.2	6,009.1	6,177.4	6,489.3	6,697.6	6,797.9
GDP	5,907	6,148	6,368	6,686	6,880	6,750	7,138	7,324	7,523	7,767
GNP	5,671	5,878	6,126	6,518	6,728	6,637	7,038	7,211	7,397	7,638
Per Capita GDP	1,111	1,125	1,135	1,162	1,166	1,123	1,156	1,129	1,123	1,143
Per Capita Income	1,066	1,076	1,092	1,133	1,140	1,104	1,139	1,111	1,104	1,124

/p =/p Preliminary

/e =/e Estimated

Source: UNAT, based on information from the Central Bank of Honduras, INE and DGEC.

APPENDIX A.4 HONDURAS BALANCE OF PAYMENTS

(In Millions of US\$)

DESCRIPTION	1994	1995	1996	1997	1998	1999p/	2000p/	2001p/	2002p/	2003p/
CURRENT ACCOUNTS										
Exportation of Merchandise and Services	1389.6	1763.1	1944.3	2223.7	2504.1	2310.9	2600.7	2510.7	2570.6	2711.1
Importation of Merchandise and Services	1952.0	2204.0	2414.9	2705.6	3119.8	3288.7	3593.2	3742.2	3757.9	4060.9
Balance of Goods and Services	-562.4	-440.9	-470.6	-481.9	-615.7	-977.8	-992.5	-	-	-
Transfers	210.9	264.0	276.7	321.0	487.5	736.9	746.9	929.2	968.7	1091.6
Balance of Current Accounts	-351.5	-176.9	-193.9	-160.9	-128.2	-240.9	-245.6	-302.3	-218.6	-258.2
CAPITAL ACCOUNTS										
Long and Medium Term	150.0	141.9	84.9	115.5	179.5	426.3	177.0	252.7	116.6	77.7
Short Term	98.9	72.4	142.3	111.9	-7.7	-90.7	-108.6	-24.0	116.1	-110.2
Total	248.9	214.3	227.2	227.4	171.8	335.6	68.4	228.7	232.7	-32.5
Errors and Omissions	82.1	1.6	68.1	130.9	97.7	121.3	123.6	73.4	49.5	59.6
Global Balance	-20.5	39.0	101.4	197.4	141.3	216.0	-53.6	-0.2	63.6	-231.1
Change in NIR (-) means increase	-17.2	-136.4	-173.0	-296.4	-230.0	-473.9	-118.8	-147.3	-214.0	88.2
Exceptional Financing	3.3	97.4	71.6	33.0	88.7	257.9	173.4	147.5	150.4	142.9

p/ preliminary

e/ estimated

Source: Department of Economic Studies, Central Bank of Honduras

APPENDIX A.5 CENTRAL GOVERNMENT FINANCIAL ACCOUNTS

(Millions of Lempiras)

DESCRIPTION	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003p/
TOTAL INCOME	4707.5	6884.6	7982.7	10367.1	13192.2	14957.9	16753.0	19726.5	21141.1	23562.1
Current Revenues b/	4588.0	6857.4	7954.2	10342.1	13176.3	14841.9	15801.5	17848.9	19776.0	22175.1
Capital Revenues c/	119.5	27.4	28.5	25.0	15.9	18.9	10.5	31.4	0.0	0.0
Accrued Interest						97.1	60.0			
External Transfers							881.0	1657.8	1302.3	1328.1
Current Spending	4289.0	5537.0	7377.1	9233.5	10287.6	12167.9	14690.0	17400.7	19593.3	22823.0
Consumer Spending	2558.7	3263.1	4238.6	5281.2	6275.3	7746.5	10381.0	12680.9	14223.1	15441.1
Wages and Salaries	1872.0	2315.9	2924.3	3453.4	4487.0	5655.0	7302.8	9140.9	10688.0	11564.4
Employer Contributions (Social Security)	155.8	198.1	232.1	285.8	366.9	491.2	640.3	805.9	927.7	1080.5
Goods and Services	530.9	749.1	1082.2	1542.0	1421.4	1600.3	2437.9	2734.1	2607.4	2796.2
Debt Interest	1139.0	1409.1	1649.5	2084.0	1965.1	1716.8	1206.3	1065.6	1126.1	1224.3
Internal	348.1	444.0	695.7	971.5	557.7	580.3	362.4	271.9	282.7	363.2
External	790.9	965.1	953.8	1112.5	1407.4	1136.5	843.9	793.7	843.4	861.1
Transfers	591.3	864.8	1489.0	1868.3	2047.2	2704.6	2871.7	3533.5	4073.2	5912.0
Savings in Current Accts	299.0	1320.4	577.1	1108.6	2888.7	2674.0	1110.9	448.2	182.7	-647.9
Net Capital Spending and Loans	2008.5	2513.4	2266.6	3024.4	4078.4	6047.9	6485.3	7565.7	6695.7	7265.8
Real Investment	1010.6	1305.9	1352.6	1657.5	2264.7	2092.4	2420.2	2824.6	2448.9	2795.0
Financial Investment d/	472.8	570.5	147.9	263.0	-20.8	1502.7	1220.9	821.0	1262.0	671.6
Transfers	525.1	637.0	766.1	1103.9	1834.5	2452.8	2844.2	3920.1	2984.8	3799.2
TOTAL SPENDING	6297.5	8050.4	9643.7	12257.9	14366.0	18215.8	21175.9	24966.4	16289.0	30088.8
Net Deficit	-1590.0	-1165.6	-1661.0	-1890.8	-1173.8	-3257.9	-4422.9	-5239.9	-5147.9	-6526.7
DEFICIT FINANCING										
Internal Credit	52.1	41.0	27.3	-134.1	-781.4	109.2	1010.9	444.7	386.6	548.6
External Financing	1304.9	1728.2	1864.4	1958.4	1750.8	4650.4	1769.0	4000.2	1989.8	2929.4
External Credit	1159.2	1485.5	1691.9	1631.3	1361.5	3026.8	2016.7	3953.2	1983.7	2546.4
External Transfers	145.7	242.7	172.5	327.1	389.3	1623.6	611.8	47.0	166.9	0.0
Reduction of External Obligations f/	-260.1	-420.7	-749.2	-612.1	-646.4	-590.6	0.0	0.0	0.0	0.0
Delays on Debt Payment	67.0	52.3	78.7	138.7	94.2		0.0	0.0	0.0	0.0
External Bonds							-859.5	0.0	0.0	0.0
Resources to Balance							656.4			
Profits from Public Enterprises in Previous Yrs.							1731.6	0.0	2485.1	1810.0
Other Sources of Financing e/	69.1	29.7	18.1	349.5	47.0	202.0	597.8	777.3	288.3	145.2
Variation of Cash Holdings g/	357.0	-264.7)	421.7	190.4	434.3	-1113.1	-736.6	-339.3	-1.9	190.8

Source: SEFIN

a/ Preliminary

b/ Includes Net Assets Tax revenues

c/ Income from sale of assets

d/ Includes net loan conversion

e/ Includes floating debt and reduction in deposits

f/ Corresponds to loan recovery

g/ Positive sign signifies cash surplus

APPENDIX A.6 PUBLIC EXTERNAL DEBT BY SOURCE
(Balance in Millions of Dollars)

DESCRIPTION	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003p/
MULTILATERALS	2,188.50	2,293.30	2,231.10	2,246.30	2,403.30	2,753.20	2,707.20	2791.4	2904.4	3102.8
BCIE	384.5	393.3	409.1	406.7	406.1	391.3	365.7	340.5	329.1	320.7
IDB	971.2	982.6	991.4	988.1	1,035.90	1,091.60	1,093.80	1,136.60	1,184.50	1,288.00
IBRD	353.8	326.8	286.4	248.2	209.9	174.1	836	906.6	1014.4	1143
IDA-WB	294.2	383.5	424.7	498.8	580.3	842.1	835	146.4	124.8	104.3
OPEC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
IDB Savings and Loans	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	na
IFAD	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25	n.a.	n.a.	n.a.
Others	184.8	207.1	119.5	104.5	171.1	254.1	265.3	282.9	272.1	266.1
BILATERALS	1,394.20	1,516.80	1,465.20	1,361.90	1,398.10	1,397.20	1,417.10	1,372.30	1,499.30	1,661.20
Canada	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	17	n.a.	n.a.	n.a.
United States	157.9	158.5	157.6	149.6	143	138.3	140.7	133.6	131.3	130.1
Venezuela	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19	n.a.	n.a.	n.a.
Japan	430.8	430.7	385.4	340.2	374.9	420.9	428.9	393.4	433.9	477.1
Germany	119.4	133.7	125.5	114.9	124.5	103.5	95.6	90.7	107.9	131.2
France	104.8	105.8	98.3	87.5	81.5	54.5	45	42.2	49.6	59.5
Spain	156.1	197.3	197.5	201.1	202.3	209.3	227.1	243	272.5	321.1
Italy	121.8	143.4	134.9	121.7	153.3	138.6	146	153.7	179.2	46.2
Others	303.4	347.4	366	346.9	318.6	332.1	333.8	315.7	324.9	496
PRIVATE	160.9	187	189	178.2	23.3	37.7	23.5	2.5	1.6	2.5
TOTAL	3,743.60	3,997.10	3,885.30	3,786.40	3,824.70	4,188.10	4,147.80	4166.2	4405.3	4766.5

n.a. Not Available

p/ Preliminary

e/ Estimated

SOURCE: Minutes 1985 – 2003. Secretariat of Finances

APPENDIX A.7 AVERAGE CONSUMER PRICE INDEX BY REGIONS AND PRODUCT
(December 1999=100)

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
REGIONS										
Central Metropolitan	45.2	57.6	70.5	78.7	90.7	100.0	106.4	119.2	130.2	141.0
Remaining Central	45.2	57.6	70.5	78.7	90.7	100.0	109.8	120.8	129.7	138.5
North Metropolitan	41.6	53.0	67.9	77.0	89.5	100.0	105.3	114.7	122.5	132.3
Remaining North	41.6	53.0	67.9	77.0	89.5	100.0	104.2	112.0	119.7	127.8
West	42.5	51.9	67.1	78.6	86.9	100.0	107.0	115.8	122.3	130.5
East	45.8	57.2	71.1	81.3	91.4	100.0	106.9	115.8	123.9	133.2
South	43.4	52.4	66.0	75.7	88.3	100.0	105.9	114.3	122.3	131.0
PRODUCTS										
Food	47.6	58.3	73.5	81.6	94.1	100.0	104.9	114.1	118.5	122.8
Beverages and Tobacco	46.5	55.7	70.4	75.9	91.1	100.0	106.0	120.6	130.5	142.5
Health	37.2	46.5	56.2	69.4	81.9	100.0	111.9	137.6	150.5	160.3
Personal Care	42.5	54.8	68.9	80.9	95.8	100.0	107.3	114.8	120.9	127.9
Lodging	41.8	55.2	67.4	74.7	83.9	100.0	105.3	114.4	131.4	148.3
Recreation	38.2	52.7	69.9	78.5	98.2	100.0	104.9	114.7	121.0	125.4
Education	31.7	44.3	52.6	68.0	85.4	100.0	114.4	134.3	156.3	179.0
Transport	29.6	46.1	65.0	67.4	81.7	100.0	108.7	123.6	129.2	144.7
Clothing	40.8	51.5	66.2	79.2	91.3	100.0	105.3	114.5	126.0	135.4
Furniture	55.1	62.5	72.3	81.2	91.8	100.0	104.7	112.4	121.8	131.7
Communications	47.7	66.4	74.8	84.8	89.3	100.0	106.5	108.4	98.0	94.6
AVERAGE ANNUAL INDEX (December 1999 = 100)										
ANNUAL AVERAGE	39	50.5	62.5	75.2	85.5	95.4	106	116.2	125.1	134.7
CPI THROUGH DEC.	43.5	55.2	69.1	77.9	90.1	100	110.1	119.8	129.5	138.3
% VARIATION DEC - DEC	21.9	29.5	23.8	20.3	13.7	11.6	11.1	9.6	7.7	7.7

p/ Projected by UNAT, based on data from the Central Bank of Honduras

Source: Department of Economic Studies, Central Bank of Honduras

APPENDIX B1. GLOBAL PRSP INDICATORS

1. This Appendix explains the methodology used to calculate poverty and inequality indicators contained in Section IV-A “Behavior of Poverty” and Section IV-B “Performance of Global PRSP Indicators.”

Behavior of Poverty

2. With respect to Section IV-A, the databases used are from the Permanent Surveys of Multi-Purpose Households, conducted in the first half of each year by INE (1998-2004).
3. International methods are used for calculating poverty indicators.
4. The rate of poverty incidence, or the “headcount index” (H), measures the proportion of people living below the poverty line, representing the “incidence” or “predominance” of poverty. If we use n to denote the total number of people and q to denote the number of people with income below the poverty line, this measurement is expressed as:

$$H = q / n.$$
5. This measurement has the advantage of being easily interpreted and simple to communicate. However, it has been strongly criticized in academic literature, despite its extensive use. The headcount index is insensitive to essential characteristics of poverty (such as severity and profoundness), and has limited use for purposes of comparisons. This measurement, however, is very useful for poverty profiles, since it is additively separable. Thus, the proportion of poor people in the population is equal to the sum of the proportion of poor people in different sub-groups.
6. A measurement that overcomes some of the deficiencies of the headcount index is the “poverty gap,” or PG. This measures the “profoundness” of poverty and indicates poor people’s average distance from the poverty line, weighted by the incidence of poverty. If z is the poverty line and q the number of individuals with an income (i) below this line, then the income gap index may be defined as:

$$PG = \frac{1}{n} \sum_{i=1}^q \left[\frac{z - y_i}{z} \right]$$

This measurement may be interpreted in another manner if it is written in the following way:

$PG = H * I$ I is the “income gap ratio,” defined as:

$$I = \left[\frac{z - \bar{y}}{z} \right] \text{ where } \bar{y} \text{ denotes the average income of the poor.}$$

7. The “income gap ratio” is not a good indicator of poverty in and of itself, since if an individual with income just slightly below the poverty line is no longer “poor,” “ y ” will drop and the “ I ” (income) will increase despite the fact that there will be one less poor person and the remainder of the poor are still living in the same conditions. This problem is corrected when this indicator is multiplied by the headcount index, and the PG is thereby obtained.
8. A group of measurements that merit special attention are the family of parametric indices proposed by Foster, Greer and Thorbecke (1984). These indices can be interpreted as a poverty gap that assigns greater relative weight to individuals who are furthest away from the poverty line. As illustrated below, the formulation of this index is similar to the poverty gap, except for the presence of the “ α ” exponent that assigns a growing importance to individuals as their income decreases:

$$PG = \frac{1}{n} \sum_{i=1}^q \left[\frac{z - y_i}{z} \right]^\alpha \text{ where } \alpha \geq 0 \text{ and } y \text{ is an indicator of the “aversion to inequality,” and}$$

demonstrates the importance assigned to the poorest rather than those who are close to the poverty line.

9. When $\alpha = 0$, this measurement is equal to the headcount index (H), and when $\alpha = 1$, the poverty gap is obtained— $PG = H \cdot I$ —which is the indicator of the relative income deficit of the poor in relation to the poverty line.

$$FGT1 = PG = \frac{1}{n} \sum_{i=1}^q \left[\frac{z - y_i}{z} \right]$$

10. When $\alpha = 2$ an index that also considers the degree of disparity in income distribution amongst the poor is also obtained. This indicator also measures the distance between the poverty line and the income of each person, but squares this distance to assign greater weight in the final result to those who are furthest from overcoming poverty

$$FGT2 = \frac{1}{n} \sum_{i=1}^q \left[\frac{z - y_i}{z} \right]^2$$

11. The values of the FGT2 index are not as easy to interpret as the H and PG indices. But its “complementariness” makes it preferable for designing and evaluating policies, as well as for comparing the poverty of different geographic units or social groups.
12. The inequality indices were also calculated based on international standards, and with databases used to calculate poverty indicators. This report presents a breakdown of the distribution of household per capita income, by income quintiles, and also synthetic indicators that summarize the general situation, in consideration of the income of the entire population and not only one specific sub-group (either a quintile or decile). These indicators are the Gini, Theil and Atkinson indices.
13. The Gini index is the most frequently used to evaluate income distribution. The Gini index corresponds geometrically to the area between the Lorenz curve and the distributional equilibrium (or equality) line, using values between (0,1) where the value of zero corresponds to absolute equality and one to absolute inequality.

$$G = \frac{1}{2n^2 \mu} \sum_{i=1}^n \sum_{j=1}^n |y_i - y_j|$$

14. The Theil index, also calculated, assigns greater importance to transfers made in the lower part of the distribution and whose minimum value is zero (absolute equity) and maximum value is $\log(n)$ where n is the size of the population.

$$T = \frac{1}{n} \sum_{i=1}^n \frac{y_i}{\mu} \log \left(\frac{y_i}{\mu} \right)$$

15. Finally, the Atkinson index takes values between 0 and 1, using the inequality aversion parameter (ϵ), which indicates the weight assigned to observations of the lower part of the distribution.

$$A\epsilon = 1 - \left[\frac{1}{n} \sum_{i=1}^n \left(\frac{y_i}{\mu} \right)^{1-\epsilon} \right]^{\frac{1}{1-\epsilon}}$$

Performance of Global PRSP Indicators

16. With respect to the performance of the PRSP’s global indicators, the results of the process of validating indicators in line with SIERP implementation—which led to an exhaustive review of global indicators—were: 1) the substitution of one indicator used for the telecommunications sector, and the recalibration of its respective goals; 2) the change of

- the source of information for the energy sector and recalibration of its goals; and 3) the review of indicators for environmental vulnerability.
17. With respect to the telecommunications sector, the PRSP goal has been reformulated as “triple the nation’s telephone density,” since the concept of indicators has been revised and these measure the penetration or density of telephone services rather than the geographic coverage as proposed in the First PRSP Progress Report and Update. In addition, it is worth mentioning that through SIERP implementation and as an outcome of a workshop on sector indicators, a global indicator is being developed (fixed line, cell and Internet service) for geographic coverage, which will be broken down into national, urban and rural coverage. This process will be carried out jointly with CPME, UNAT, CONATEL and HONDUTEL.
 18. As a result, the indicator for the “number of population centers with more than 500 inhabitants without telecommunications” has been substituted by “mobile telephone penetration (users per 100 inhabitants), mostly because: i) the source of the indicator for population studies was a study about the nation’s infrastructure that lacked ongoing follow up; 2) the cell phone market has increased in the country, especially during the past year when the market was opened to a second concession, leading to a 55% increase during 2001-2003. In addition, the growth of Internet and other complementary services that are expanding communications coverage should also be considered in the future.
 19. Through the review process, the goals of the two indicators for telephone coverage described in paragraph 17 were recalibrated. The methodology used to estimate goals is based on three policy measures that the sector will be implementing in the coming years: 1) full implementation of the Telephones for All-Modernization for Honduras program, which is expected to have direct impact beginning next year; 2) approval of the Telecommunications and Technology Investment Fund initiative, which is pending approval and is expected to be operating in the 2005-2006 period; 3) deregulation of the fixed telephone market, which will go into effect on December 31, 2005 and in which many “sub-operators” are expected to be converted into direct operators; and 4) approval of the Framework Law for the Telecommunications Sector.
 20. The goals for the indicator for fixed line density were estimated based on the assumption of an annual 0.2 point increase for the 2002-2005 period, and later estimated based on the historic trend weighted by 1% and the required rate of growth to reach the goal of 99% by 2015, assuming that the significant increase would take place beginning in 2006, and that historical trends could be surpassed. The indicator for cell phone penetration was estimated based on actual growth weighted by 5% and the rate of growth required to reach the goal in 2015, or a 95% weighting for the entire period (2002-2015).
 21. In relation to the energy sector, the decision was made to use ENEE’s administrative registries due to progress observed in the sector’s behavior and statistics. First, the history of electricity coverage between 2000 and September 2004 was obtained. Later, the goals were estimated on the basis actual growth weighted by 5% and by the rate of growth required to reach the goal in 2015 of a 95% weighting. Based on the nation’s efforts to deregulate and modernize this sector, it is expected that past performance will be surpassed and the goals set for 2015 will be achieved.
 22. With respect to the environmental sector, the indicators proposed within the PRSP have been revised in the framework of the SIERP, obtaining better statistics through strengthening the UPEG of SERNA and the COHDEFOR Department of Statistics. Thus, the progress of PRSP indicators can now be more reliably measured.
 23. The evolution of the PRSP’s global indicators during the 2000-2004 period is presented below.

APPENDIX B1. GLOBAL PRSP INDICATORS

GOAL	INDICATOR (baseline year)	Base-line	2001 Rep.	2001 Goal ¹²	Goal met in 2001 ¹⁷	2002 Rep.	2002 Goal ¹²	Goal met 2002? ¹⁷	2003 Rep.	2003 Goal ¹²	Goal met in 2003? ¹⁷	2004 Rep.	2004 Goal ¹²	Goal met in 2004? ¹⁷	2005 Goal	2006 Goal	2010 Goal	2015 Goal
Real GDP growth rate	% real GDP growth (2000) ¹	5.7	2.6	3.5	No	2.7	4.0	No	3.75	3.0	Yes	4.6 ¹⁵	3.75	Yes	4.2	4.5	4.5	4.5
Per capita GDP growth	% per-capita GDP growth (2000) ²	2.6	0.2	1.5	No	0.3	1.6	No	0.8	0.6	Yes	1.9 ¹⁵	1.1	n.a	1.6	2.1	2.4	2.4
Social spending	Poverty spending as % of GDP (2000) ³	7.0	8.8	n.a	n.a	7.5	n.a	n.a	7.8	7.5	Yes	8.4 ¹⁶	8.1	Yes	8.7	9.4	9.7	9.7
Reduce poverty by 24 percentage points	Poverty rate (1999) ⁴	66.0	64.4	63.0	No	63.3	61.5	No	63.5	62.1	No	64.2 ¹³	60.2	No	58.4	57.3	50.0	42.0
Double net preschool coverage through 5 years	Extreme poverty rate (1999) ⁴	49.0	47.4	47.0	Yes	45.2	45.0	Yes	44.7	43.4	No	44.6 ¹³	41.5	No	39.7	38.5	32.2	25.0
95% net coverage for the first 2 cycles of primary education	Preschool education coverage rate (1999) ⁴	32.9	31.9	33.5	No	32.5	36.0	No	37.7	34.9	Yes	36.0 ¹³	35.7	Yes	36.5	38.6	42.0	60.0
70% net coverage for the 3 rd cycle (middle school) of primary education	Net coverage rate (excl. Over-age) for 1 st and 2 nd cycles (1999) ⁴	89.8	91.7	87.0	Yes	88.9	88.0	Yes	88.1	90.7	No	89.3 ¹³	91.2	No	91.7	92.5	93.2	95.0
50% of the emerging population completes secondary education	Coverage rate (excl. over-age) for the 3 rd cycle of primary education (middle school) (1999) ⁴	24.2	31.0	26.0	Yes	30.9	27.9	Yes	31.2	32.9	No	38.2 ¹³	35	Yes	37.3	39.7	51.1	70
Reduce infant and Under 5 mortality rate by half	Net coverage (excl. over-age) of Diversified Secondary cycle (10-12 grade) (1999) ⁴	12.4	12.0	13.6	No	17.5	14.9	Yes	18.9	19.0	Yes	21.3 ¹³	20.6	Yes	22.3	24.2	33.4	50.0
Reduce malnutrition in children Under 5 by half	Infant mortality rate/1,000 live births (1996) ⁵	36.0	34.0	32.0	No	n.a	31.0	n.a	n.a	32.0	n.a	n.a	30.0	n.a	29.0	27.0	22.0	18.0
Achieve 80% coverage of electricity services	Under 5 mortality rate (per 1,000 l.b.) (1996) ⁵	48.0	45.0	44.0	No	n.a	43.0	n.a	n.a	43.0	n.a	n.a	41.0	n.a	39.0	37.0	30.0	24.0
Triple the nation's telephone density	Infant malnutrition rate (1996) ⁵	37.8	32.9	38.0	Yes	n.a	36.0	n.a	n.a	30.9	n.a	n.a	29.9	n.a	28.9	27.0	22.0	18.0
95% access to potable water and sanitation	Maternal mortality rate per 100,000 live births (1996) ⁶	147.0	108.0	143.0	Yes	n.a	138.0	n.a	n.a	102.0	n.a	n.a	98.0	n.a	95.0	93.0	82.0	70.0
Raise human development index among women by 20%	Electricity coverage rate (1999) ⁷	54.9	57.5	n.a	n.a	60.1	n.a	n.a	62.1	61.7	Yes	63.7 ¹³	63.30	Yes	64.9	66.5	72.8	80.0
	Fixed line density x 100 inhabitants (2000) ⁸	4.8	4.8	n.a	n.a	4.8	n.a	n.a	4.9	5.0	Yes	5.18 ¹⁴	5.2	Yes	5.4	6.1	9.7	14.1
	Mobile telephone penetration (users per 100 inhabitants) ⁸	2.5	3.6	n.a	n.a	4.9	n.a	n.a	5.6	5.5	Yes	8.85 ¹⁴	6.4	Yes	7.2	8.1	11.5	15.7
	% of population with access to potable water (1999) ⁴	81	n.a.	82.0	n.a	81.3	84.0	No	81	82.1	No	82.2 ¹³	82.6	Yes	83.4	85.0	90.0	95.0
	% of population with access to excreta elimination systems (1999) ⁴	70.2	69.4	71.0	No	67.6	72.0	No	68.6	70.7	No	76.7 ¹³	71.9	Yes	73.0	76.0	85.0	95.0
	HDI related to gender (1999) ⁹	0.6	0.62	0.65	No	0.6	0.7	No	0.65	0.65	Yes	n.a	0.66	n.a	0.7	0.7	0.7	0.8
	Gender empowerment index (1999) ⁹	0.5	0.45	0.46	No	0.5	0.5	No	0.43	0.47	No	n.a	0.48	n.a	0.5	0.5	0.6	0.6

APPENDIX B1. GLOBAL PRSP INDICATORS

GOAL	INDICATOR (baseline year)	Base-line	2001 Rep.	2001 Goal ¹²	Goal met in 2001? ¹⁷	2002 Rep.	2002 Goal ¹²	Goal met 2002? ¹⁷	2003 Rep.	2003 Goal ¹²	Goal met in 2003? ¹⁷	2004 Rep.	2004 Goal ¹²	Goal met in 2004? ¹⁷	2005 Goal	2006 Goal	2010 Goal	2015 Goal
Reduce the nation's environmental vulnerability	Number of priority protected areas (PPAs) with management plans (2000) ¹⁰	5.0	5.0	n.a	n.a	12.0	n.a	n.a	15.0	15.0	Yes	23 ¹⁴	23.0	Yes	31.0	39.0	39.0	39.0
	% of total surface area covered by priority protected areas (PPAs) with management plans (2000) ¹⁰	12.5	12.5	30.0	No	30.0	40.0	No	37.5	60.0	No	57.5 ¹⁴	75.0	No	79.5	100.0	100.0	100.0
	Air pollution in urban centers (ug/m3 de PTS) (2000) ¹¹	668.7	739.2	618.8	No	n.a	583.9	n.a	708.0	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a

1. BCH; 2. UNAT, with BCH and INE data; 3. SEFIN based on the new definition of poverty spending; 4. Estimates based on EPHPM; 5. ENESF; 6. Secretariat of Health: Research about maternal mortality and women of childbearing age in Honduras, 1997; 7. ENEE registries; 8. HONDUTEL/CONATEL registries; 9. Human Development Report (UNDP); 10. COHDEFOR yearly statistics; 11. SERNA (Center for the Study and Control of Contaminants CESCO); there was no monitoring in 2002 and monitoring for 2004 will be through December; 12. Data for this year are the revised goals, according to the First Progress Report; 13. For 2004, the estimate is based on the May 2004 EPHPM; 14. For 2004, the estimate is through September, according to the registries of the respective Secretariat; 15. The real GDP growth rate is a BCH projection and the per-capita GDP also uses INE population projections; 16. The data observed corresponds to PRSP Spending programmed and approved for 2004. It is worth mentioning that implementation had reached 7.2% of the GDP by September; 17. The goal is considered met if the difference between the value observed and the goal is no greater than 0.5%.

APPENDIX B2. INTERMEDIATE PRSP INDICATORS

No.	Name of Indicator	Description	Responsible	Historical series				
				2000	2001	2002	2003	Sep. 2004
MACROECONOMIC INDICATORS								
1	PRSP spending as percentage of GDP	This is the proportion of PRSP spending in relation to the GDP.	UPEG / SEFIN	-	8.8	7.54	7.8	7.2
2	PRSP spending as percentage of total spending	This is the proportion of PRSP spending in relation to total Government spending.	UPEG / SEFIN	-	34	30.52	30.73	33.29
3	PRSP spending as percentage of central government spending	This is the proportion of PRSP spending in relation to the Central Government's total spending.	UPEG / SEFIN	-	31.98	28.61	28.12	29.35
4	Income/GDP	This is the sum of Tax and Non-Tax Revenues in relation to the GDP.	UPEG / SEFIN	17.7	18.2	18.3	18.4	19.37
5	Tax revenues/GDP	This is the sum of direct and indirect taxes as well as import taxes in relation to the GDP.	UPEG / SEFIN	16.4	16.2	15.9	16.3	17.3
6	Non-tax revenues/GDP	This is the sum of rates, tariffs, duties, royalties, and current transfers to the Central Bank in relation to the GDP.	UPEG / SEFIN	1.4	1.9	2.4	2.1	2.17
7	Current spending/ GDP	This is the sum of wages and salaries, employer contributions, goods and services, interest on the public debt, and current paid transfers including PRSP and non-PRSP spending in relation to the GDP.	UPEG / SEFIN	16.4	17.6	18.1	19	16.8
8	Capital spending/ GDP	This is the sum of gross capital formation spending (real investment), net credit concessions, paid capital transfers including PRSP and non-PRSP spending in relation to the GDP.	UPEG / SEFIN	7.3	7.6	6.2	6	4.92
9	PRSP capital spending	This is the sum of gross capital formation spending (real investment) and paid capital transfers made by different PRSP programs and projects, in relation to the GDP.	UPEG / SEFIN	-	3.9	2.7	2.7	2.54
10	PRSP current spending	This is the sum of spending for wages and salaries, employer contributions, goods and services, and current paid transfers by different PRSP programs and projects, in relation to the GDP.	UPEG / SEFIN	-	4.9	4.8	4.8	4.5
11	Public investment as a percentage of the GDP	This is the sum of gross capital formation spending (real investment) realized by the Central Government, in relation to the GDP.	UPEG / SEFIN	2.7	2.9	2.3	2.3	1.8
12	IMAE	Monthly Economic Activity Index	UPEG / SEFIN	185.9	202.3	211.0	216.9	221.3
13	Net International Reserves (NIR) for the number of months of imports	The number of months for which imports can be financed, with the Net International Reserves available for one year.	BCH	4.6	4.8	5.1	4.4	4.7
14	Current balance as % of GDP	Deficit or surplus resulting from current Balance of Payment transactions.	BCH	4.1	4.9	2.6	5.2	5.8
15	Debt as % of GDP	Public external debt burden on the Gross Domestic Product.	BCH	52.5	50.3	49.6	48.2	45.0
16	Debt service as a % of exports	Burden of public external debt amortizations and financial costs on total exports.	BCH	10.4	7.8	9.6	8.8	7.9
17	% of short term financing	The short-term debt's proportion of the total external debt.	BCH	2.1	2.2	2.6	2.3	2.9
18	Inflation rate	The inflation rate is the percentage change in price levels between two specific periods of time. The rate of variation of the Consumer Price Index (CPI) is used to measure inflation.	BCH	10.1	8.8	8.1	6.8	8.0 - 8.5
19	Nominal exchange rate	The price of the US Dollar in Lempiras, which is officially called the Reference Exchange Rate (RER). The RER is set by the Foreign Currency Auction System, using the Baseline Exchange Rate (BER) as a price-parameter.	BCH	14.84	15.47	16.43	17.35	18.2

APPENDIX B2. INTERMEDIATE PRSP INDICATORS

No.	Name of Indicator	Description	Responsible	Historical series				
				2000	2001	2002	2003	Sep. 2004
20	Real interest rates on deposits	This is the payment received for maintaining deposits, eliminating the effect of inflation.	BCH	2.13	2.96	0.69	1.34	-0.58
21	Real interest rates on loans	This is the financial cost of loans, eliminating the effect of inflation.	BCH	14.47	14.38	13.96	13.44	10.98
22	Real exchange rate index	This is the nominal exchange rate adjusted for internal and external inflation. The approximate trend of the real exchange rate is measured with the variation of the Real Effective Exchange Rate Index (ITCER)	BCH	72.5	72.67	71.12	69.24	69.47
23	Investment as a % of GDP	Corresponds to the importance that public and private investment in machinery, equipment and construction has within the GDP	BCH	26.1	23.8	22.2	23.4	27.0
24	Traditional exports as % of GDP	The sum of the value of exports considered as "traditional," as a percentage of the GDP.	BCH	10.7	8.4	7.7	6.3	6.7
25	Non-traditional agricultural exports as % of total exports	Value of the export of agricultural exports such as fruits and vegetables, as a percentage of the value of Total Exports.	BCH	3.1	3.2	5.1	5.9	6.4
26	Wood and manufacturing exports as % of total exports	Value of wood and manufactured exports as a percentage of the value of total exports.	BCH	3.6	4.3	4.3	4.5	2.2
27	Aggregate value of <i>maquila</i> industries as a % of the total exports of goods and services	Foreign currency revenues to the nation coming from the <i>maquila</i> sector, for costs incurred in the production process, as the percentage of total exports of merchandise and services.	BCH	22.1	22.3	23.8	26.0	26.6
28	Amount of foreign currency generated by tourists, as % of total exports	Foreign currency revenues to the nation from the spending of travelers, as a percentage of total exports.	BCH	10.0	10.2	11.7	12.4	12.8
RURAL DEVELOPMENT INDICATORS								
29	Number of agro-food chains	Number of agro-food production chains created.	SAG/COHDEFOR	-	-	-	-	6
30	Number of agro-food chain producers	Number of producers benefiting from the creation of agro-food chains.	SAG/COHDEFOR	-	-	-	-	60,900
31	Number of agro-business centers	Business centers for commercializing products.	SAG/COHDEFOR	-	-	-	-	1
32	Agro-forestry businesses operating		SAG/COHDEFOR	-	-	-	-	300
33	Units producing non-agricultural non-industrial goods	Number of units producing non-agricultural goods.	SAG/COHDEFOR	-	-	-	-	50
INDUSTRY AND COMMERCE INDICATORS								
34	Number of steps required to open a new business		SAG/COHDEFOR	-	-	12	12	12
35	Number of businesses from the social sector of the economy and second and third degree integration organizations		SAG/COHDEFOR	12.0	38	167	181	100
36	Total number of jobs generated, by category, in free trade zones		SAG/COHDEFOR	-	43,254	49,353	58,289	-
37	Number of certifications issued under preferential trade schemes.		SAG/COHDEFOR	-	18,632	33,495	36,152	35,728

APPENDIX B2. INTERMEDIATE PRSP INDICATORS

No.	Name of Indicator	Description	Responsible	Historical series				
				2000	2001	2002	2003	Sep. 2004
EDUCATION INDICATORS								
38	Net urban preschool coverage	Children 5-6 years of age attending preschool, out of all children 5-6 years of age in the urban sector.	INE	-	43.1	40.2	28.8	42.4
39	Net rural preschool coverage	Children 5-6 years of age attending preschool, out of all children 5-6 years of age in the rural sector.	INE	-	34.7	25.5	19.8	32.1
40	Net urban primary school coverage (1 st and 2 nd cycles)	Children 7-12 years of age attending primary school, out of all children 7-12 years of age in the urban sector.	INE	-	89.3	89.6	81.9	90.2
41	Net rural primary school coverage (1 st and 2 nd cycles)	Children 7-12 years of age attending primary school, out of all children 7-12 years of age in the rural sector.	INE	-	86.5	86.4	80.6	88.6
42	Net urban middle school coverage (3 rd cycle)	Children 13-15 years of age attending middle school (3 rd cycle) out of all children 13-15 years of age in the urban sector.	INE	-	46.3	49.3	53.2	57.6
43	Net rural middle school coverage (3 rd cycle)	Children 13-15 years of age attending middle school (3 rd cycle) out of all children 13-15 years of age in the rural sector.	INE	-	24.8	17.4	19.5	23.4
44	Net urban secondary (diversified) coverage	Children 16-18 years of age attending secondary school, out of all children 16-18 years of age in the urban sector.	INE	-	28.8	26.1	32.6	35.3
45	Net rural secondary (diversified) coverage	Children 16-18 years of age attending secondary school, out of all children 16-18 years of age in the rural sector.	INE	-	8.1	5.4	6.3	8.6
46	1 st grade promotion rate	Total students who have satisfactorily completed the requirements established in study plans and programs, allowing them to graduate to the 2 nd grade.	SE	-	-	-	76.85	-
47	3 rd grade promotion rate	Total students who have satisfactorily completed the requirements established in study plans and programs, allowing them to graduate to the 4 th grade.	SE	-	-	-	83.25	-
48	6 th grade promotion rate	Total students who have satisfactorily completed the requirements established in study plans and programs, allowing them to graduate to the 7 th grade.	SE	-	-	-	92.02	-
49	1 st grade failure rate	The percentage of students who have not obtained the necessary knowledge established in the study programs of any grade, and as a result must repeat the 1 st grade.	SE	-	-	-	14.71	-
50	3 rd grade failure rate	The percentage of students who have not obtained the necessary knowledge established in the study programs of any grade, and as a result must repeat the 3 rd grade.	SE	-	-	-	8.94	-
51	6 th grade failure rate	The percentage of students who have not obtained the necessary knowledge established in the study programs of any grade, and as a result must repeat the 6 th grade.	SE	-	-	-	1.92	-
52	1 st grade dropout rate	Includes all enrolled students who abandon their studies before concluding the school year (1 st grade).	SE	-	-	-	8.44	-
53	3 rd grade dropout rate	Includes all enrolled students who abandon their studies before concluding the school year (3 rd grade).	SE	-	-	-	7.81	-
54	6 th grade dropout rate	Includes all enrolled students who abandon their studies before concluding the school year (6 th grade).	SE	-	-	-	6.06	-
55	3 rd grade academic performance in Spanish	Mean percentage of correct responses in 3 rd grade Spanish.	UMCE	(*)40	-	38.4	-	-
56	6 th grade academic performance in Spanish	Mean percentage of correct responses in 6 th grade Spanish.	UMCE	(*)46	-	43.5	-	-
57	3 rd grade academic performance in Mathematics	Mean percentage of correct responses in 3 rd grade Mathematics.	UMCE	(*)36	-	43.2	-	-
58	6 th grade academic performance in Mathematics	Mean percentage of correct responses in 6 th grade Mathematics.	UMCE	(*)34	-	38.8	-	-
59	3 rd grade academic performance in Natural Sciences	Mean percentage of correct responses in 3 rd grade Natural Sciences.	UMCE	-	-	40.6	-	-
60	6 th grade academic performance in Natural Sciences	Mean percentage of correct responses in 6 th grade Natural Sciences.	UMCE	-	-	42.2	-	-
61	PROHECO Schools	Number of PROHECO schools.	SE	820	1,025	1,081	1,663	2,168
62	Enrollment in PROHECO schools	Enrollment in PROHECO schools.	SE	1,109	1,251	1,468	2,685	3,377

APPENDIX B2. INTERMEDIATE PRSP INDICATORS

No.	Name of Indicator	Description	Responsible	Historical series				
				2000	2001	2002	2003	Sep. 2004
63	Beneficiaries of School Snack	Number of children enrolled in a school benefited by a ration of food	SE	136,000	209,435	390,918	618,083	800,000
64	PRSP spending on education as a percentage of GDP	Percentage of PRSP spending as percentage of GDP	UNAT	-	3.2%	3.1%	3.2%	2.3%
65	PRSP spending on education	Percentage of PRSP spending on education	UNAT	-	36.1%	40.9%	41.2%	41.1%
66	Illiteracy rate	Population older than 15 years that cannot read or write	INE	-	19.4	19.7	19.0	18.5
HEALTH INDICATORS								
67	Birth coverage by trained birth attendants (midwives).	The percentage of births attended by trained birth attendants (midwives).	Secretariat of Health INE	24.97	19.7	21.17	16.64	18.49
68	Institutional birth coverage	The percentage of institutional births attended in maternal-infant clinics or hospitals.	Secretariat of Health INE	51.7%	44.0%	45.4%	47.7%	56.60%
69	Prevalence of contraceptive use	The percentage of sexually active women between 10-49 years of age who currently use any method of contraception, at a specific time, expressed as the percentage of the corresponding population halfway through the year.	Secretariat of Health	7%	8%	9%	9%	8%
70	Average prenatal checkups	The number of first time checkups among pregnant women.	Secretariat of Health	73%	70%	77%	94%	94%
71	Cesarean delivery rate	The relationship between all births attended and the percentage of cesareans, as an indicator of quality.	Secretariat of Health	12.30%	12.00%	12.90%	14.30%	15.20%
72	Average puerperal checkups	The average number of puerperal checkups received during a given period. Care that is "postpartum" takes place during the 42 days following birth. Puerperal care is provided in maternal-infant clinics (CMIs) and hospitals.	Secretariat of Health	47%	39%	44%	43%	51%
73	Diarrhea incidence among children Under 5	The number of new diarrhea cases among children Under 5, during a given period, in relation to the total number of children Under 5 during the same period.	Secretariat of Health	24.0	20.0	22.0	18.0	18.0
74	Pneumonia incidence among children Under 5	The number of new pneumonia cases among children Under 5, during a given period, in relation to the total number of children Under 5 during the same period.	Secretariat of Health	48.08	59.22	51.84	55.21	54.77
75	Malaria incidence rate	The number of new measles cases among children between 12 and 23 months old.	Secretariat of Health INE	0	0	0	0	0
76	DPT immunization coverage	The number of third doses of DPT vaccine given to children younger than 12 months of age.	Secretariat of Health INE	94	96	95	92	95
77	Prevalence of malnutrition in children under 5	The proportion of children under 5 defined as malnourished according to the height/age index at a given moment over the total number of children under 5.	Secretariat of Health INE	18	15	12	10	10
78	Malaria incidence	The number of new malaria cases occurring in a specific place and during a specific period.	Secretariat of Health INE	6.85	4.53	3.21	2.16	2.16
79	Chagas disease incidence	The number of new chagas disease cases occurring in a specific place and during a specific period.	Secretariat of Health INE	0.010	0.010	0.010	0.040	0.040
80	Dengue incidence	The number of new dengue cases occurring in a specific place and during a specific period.	Secretariat of Health INE	2.07	1.5	4.01	1.77	1.73
81	Tuberculosis incidence	The number of new tuberculosis cases occurring in a specific place and during a specific period.	Secretariat of Health INE	65.8	70.8	55.5	48	48
82	AIDS incidence	The number of new AIDS cases occurring in a specific place and during a specific period.	Secretariat of Health INE	0.16	0.16	0.15	0.18	0.17
83	Number of health centers in rural areas	-	FHIS	824	964	989	1033	1033

APPENDIX B2. INTERMEDIATE PRSP INDICATORS

No.	Name of Indicator	Description	Responsible	Historical series					
				2000	2001	2002	2003	Sep. 2004	
84	Number of health centers in urban areas.	-	FHIS	289	249	251	251	251	
85	Hospital bed coverage	The average number of beds available per 1,000 inhabitants of the population, during a given year, in a given country, territory or geographic area.	Secretariat of Health INE	0.64	0.65	0.61	0.64	0.64	
86	Physician coverage	The ratio for a given year between the reference population and the total number of physicians.	Secretariat of Health INE	0.22	0.21	0.26	0.24	0.24	
87	Professional nurse coverage	The ratio for a given year between the reference population and the total number of nurses.	Secretariat of Health INE	0.11	0.11	0.13	0.12	0.12	
INFRASTRUCTURE INDICATORS									
88	Number of electrified dwellings	Number of dwellings that have received a connection to the electricity network.	ENEE	1,206,101	1,235,529	1,263,304	1,299,021	1,322,814	
89	Number of recipients of electricity network services.	Number benefiting from connection to the electricity network.	ENEE	661,973	710,124	759,586	806,563	842,797	
90	Coverage index (%)	Electricity coverage index nationwide.	ENEE	54.9	57.5	60.1	62.1	63.71	
91	Cost of a local telephone call	Average cost of a local call (rate per minute) for commercial and residential services.	HONDUTEL-CONATEL	0.023	0.022	0.021	0.020	0.019	
92	% of road network being maintained	Percentage of kilometers of road network receiving routine maintenance.	Fondo Vial/SOPTRAVI	21.03%	33.72%	42.18%	49.98%	50.49%	
93	% of road network rehabilitated	Percentage of kilometers of the road network rehabilitated.	Fondo Vial/SOPTRAVI	0	4.19%	0.33%	0.84%	0.59%	
94	Number of micro-enterprises working on road maintenance		Fondo Vial	23	36	48	50	50	
95	Kilometers of roadway constructed by the workforce.	Kilometers of roadway built by the workforce that are not part of the official road network.	SOPTRAVI	-	96	148	291	225	
96	% of the road network with category improvements	Percentage of kilometers of the road network with category changes.	Fondo Vial/SOPTRAVI	-	-	-	-	5.80%	
ENVIRONMENT INDICATORS									
97	Number of UMAs created	Number of UMAs created.	SERNA (SGA)	-	225	260	272	274	
98	Number of UMAs promoted	Number of UMAs promoted.	SERNA (SGA)	-	200	217	231	237	
99	Number of UMAs consolidated	Number of UMAs consolidated.	SERNA (SGA)	-	1	3	3	7	
100	Number of UMAs strengthened	Number of UMAs strengthened.	SERNA (SGA)	-	102	163	188	192	
101	Air pollution in urban centers	Total Particles in Suspension (TPS)	SERNA (CESCCO)	668.7	739.2	-	708.0	-	
INDICATORS FOR SUSTAINABILITY AND GOOD GOVERNANCE									
102	Financial equilibrium	Relationship between total municipal income and spending. Allows verification of compliance with Article 178 of the Regulations of the Municipalities Law, which indicates that the spending budget will be based on incoming revenues, and a strict equilibrium will be maintained between these.	SGJ	-	-	102.16	103.84	-	
103	Financial autonomy	Defined as the quotient between the municipality's own income and total income, demonstrating the degree of autonomy achieved.	SGJ	-	-	58.24	63.28	-	

APPENDIX B2. INTERMEDIATE PRSP INDICATORS

No.	Name of Indicator	Description	Responsible	Historical series				
				2000	2001	2002	2003	Sep. 2004
104	Operational costs as a % of current revenues	Calculated as the quotient between operational costs and current income. Helps detect which municipalities are complying with the requirement established in Article 98, reformed by Decree 127-2000, of the Municipalities Law. This article specifies that operational costs must not exceed limits of 40%-65% of the period's current income.	SGJ	-	-	88.54	74.45	-
109	Financial capacity	Defined as the municipality's capacity to face its current costs with resources that it periodically collects within its jurisdiction (own income). If the indicator is very low, dependency is high.	SGJ	-	-	125.20	141.76	-
110	Percentage of revenues from transfers of total municipal income.	Measures the degree of financial dependency upon the central government. The closer to 100%, the greater the financial dependency and lower the degree of autonomy.	SGJ	-	-	16.01	18.47	-
111	Local tax pressure	Defined as the quotient between the local government's consolidated tax revenues and the GDP.	SGJ	-	-	1.18	1.06	-
INDICATORS FOR VULNERABLE GROUPS								
112	Number of reported cases of women who have been the victims of psychological violence within the home.		INAM	5,560	6,675	8,435	10,037	-
113	Number of reported cases of women who have been the victims of sexual violence in the home.		INAM	400	600	560	958	-
114	Number of socially at-risk children attended by the INHFA.		INHFA	-	-	2,589	5,261	2,254
115	Number of public centers providing care to socially at-risk children.		INHFA	-	-	5	5	5
116	Number of ancestral titles legalized.	Titles delivered to ethnic groups	INAM	-	-	4	16	1

(*) Data from the 1997 Study (UMCE). No study was conducted in 2000.

APPENDIX C PROGRESS MATRIX OF THE PRSP POLICY MEASURES

OBJECTIVES	POLICY MEASURES	Original Implementation Date	Current Status
I. ACCELERATING EQUITABLE AND SUSTAINABLE GROWTH			
1.1 MACROECONOMIC FRAMEWORK FOR POVERTY REDUCTION AND GROWTH			
<p>Objective: Create a stable macroeconomic framework that can help make greater sustainably viable public investment in poverty reduction programs and projects and can generate confidence and certainty for private investment.</p>	<p>II. <u>Short-Term Policy Guidelines</u></p> <p>i. <u>Create medium-term fiscal viability that in turn permits greater social spending.</u></p> <p>ii. <u>Make the monetary and credit variables congruent with the economic growth objectives and low inflation rates.</u></p> <p>iii. <u>Continue strengthening the financial system as an essential element for macroeconomic stability and long-term growth.</u></p> <p>iv. <u>Improve the external sector balances and continue managing the foreign debt prudently</u></p> <p>v. <u>Continue making structural reforms.</u></p>	<p>2001</p> <p>2001</p> <p>2001</p> <p>2001</p> <p>2001</p>	<p>The fiscal deficit is showing a downward trend, dropping from 5.9% of the GDP in 2001 to 5.3% in 2002. It is expected that in 2004 the Central Government deficit will be 3.5% of the GDP.</p> <p>The credit interest rates have dropped 2.6 points in real terms, from 14.4% in 2001 to 11.8% in 2004.</p> <p>Similarly, the inflation has been falling in the 2001-2003 period: 8.8%, 8.1% and 6.8%, respectively.</p> <p>Consolidated supervision and capital adjustment norms implemented by the CNBS.</p> <p>Capital adjustment index greater than minimum required: 12.9% in 2001 and 13.0% in 2004</p> <p>In fulfillment of the Public Credit Law</p> <p>Growth is demonstrated in the concessionary debt level relative to the total foreign debt, from 73.3% in 2002 to 74.8% in 2003. It is estimated that the concessionary debt level for 2004 will reach about 75% of the total foreign debt.</p> <p>Application of tax reform laws</p> <p>(A World Bank study confirmed that the tax measures undertaken tend to be progressive, i.e. the tax burden falls primarily on the non-poor).</p>
	<p>III. <u>Medium-Term Policy Guidelines</u></p> <p>i. <u>Strengthen fiscal income.</u></p> <p>ii. <u>Rationalize public spending, with a priority on spending on poverty reduction programs.</u></p> <p>iii. <u>Achieve sustainable levels of external financing, limiting the flows to donations and concessionary loans.</u></p> <p>iv. <u>Maintain inflation at international levels through effective monetary control, improvement of public finances and a reform to the salary policy.</u></p> <p>v. <u>Create a solid and competitive financial system that supports economic growth.</u></p> <p>vi. <u>Create the conditions that stimulate competitiveness based on efficient and productive investment</u></p>	<p>2002 – 2015</p> <p>2002 – 2015</p> <p>2002 - 2015</p> <p>2002 - 2015</p> <p>2002 - 2015</p> <p>2002 - 2015</p>	<p>Application of the FENIX bank collection system; electronic declaration of DET tributes;</p> <p>Application of the Financial Equilibrium and Tax Equity Law</p> <p>Application of the Law on Reordering of the Central Government Salary System and Rationalization of Public Finances.</p> <p>Growing evolution of poverty spending: 7.8% of the GDP in 2003, 8.1% in 2004.</p> <p>Reforms were approved to the Poverty Reduction Fund Law and the Poverty Management Law was approved, as was the Organic Budget Law</p> <p>Current Net Value of the foreign public debt as % of the GDP has shown a tendency to drop, falling from 50.3% in 2001 to 45.0% in 2004.</p> <p>Monetary Policy geared to achieving price stability. Inflation tended to drop in the 2001-2003 period, from 8.8% to 8.1% to 6.8%, respectively. The Government's collection levels have improved, and tax pressure moved from 16.2% of the GDP to 17.5%. The Law to Reorder the Central Government Salary System was approved.</p> <p>The Financial System Law was approved, together with reforms to the Laws of the BCH, CNBS and FOSEDE</p> <p>The National Competitiveness Program is currently being implemented.</p>

APPENDIX C PROGRESS MATRIX OF THE PRSP POLICY MEASURES

OBJECTIVES	POLICY MEASURES	Original Implementation Date	Current Status
1.2. STRENGTHENING INVESTMENT AND EMPLOYMENT GENERATION			
Objective Strengthen investment levels and improve their efficiency level as a basis for increasing job opportunities and improving their quality.	i. <u>Reduce the costs involved in establishing new investments.</u>	2002 - 2015	The Administrative Simplification Law is being implemented
	ii. <u>Create the conditions that permit increased quality in employment, with substantial increases in productivity and increased real income for workers</u>	2002	The National Competitiveness Program is being implemented. Several industrial companies have been certified through COHCIT in ISO 9000 and ISO 14000A quality norms. Reforms were approved to the Labor Code (Decree 32-2003) Labor Intensive programs have been created to foster employment such as: Housing for People, major infrastructure projects, rural road maintenance, etc.
	iii. <u>Promote greater participation by private capital in the provision of public services.</u>	2001 - 2015	The way was opened to the participation of private capital in telephone service provision in the framework of the Telephones for Everyone Modernity for Honduras program. The property law was approved.
	iv. <u>Correct the problems of property and investment insecurity through respect for and application of the law.</u>	2001 - 2015	The property law was approved.
	v. <u>Promote and protect competition in the markets.</u>	2002	Approval is being sought for the Law to Promote and Protect Competition
1.3 IMPROVING COMPETITIVE ACCESS TO INTERNATIONAL MARKETS			
Objective Promote greater access for national products to both new and traditional export markets in competitive conditions.	i. <u>Strengthen Honduras' participation in the Central American integration scheme.</u>	2001 - 2015	The actions needed to unify the customs posts and liberalize migratory movement with bordering neighbor countries are being developed, which implies a significant advance toward the consolidation of the Customs Union, a fundamental factor in the Central American economic integration process. Approximately 80% of the duty fractions contained in the Central American Duty System have been harmonized.
	ii. <u>Implement the Free Trade Agreement with Mexico and the Dominican Republic and culminate the negotiations with Panama, Chile and Canada.</u>	2001 - 2015	A list of products of national interest was presented to the Government of Mexico in order to speed up the duty lowering process. With respect to the Dominican Republic, the agreements for the rules of origin referring to textiles and garments were reaffirmed. Important progress has been made in the free trade agreements with Canada and Chile. The CAFTA negotiations were concluded The National Quality Council was created
	iii. <u>Create the conditions that will permit expanded and competitive participation by Honduras in new export markets.</u>	2001 - 2015	The National Competitiveness Commission was created
1.4 DEVELOPMENT OF SECTORS OF HIGH PRODUCTIVE AND EMPLOYMENT POTENTIAL			
Objective Create the conditions that facilitate the development of sectors with high productive potential, without neglecting	i. <u>Create the National Competitiveness Council with participation by the public and private sectors.</u>	2002	The National Competitiveness Commission was created.
	ii. <u>Define a strategy of productive chains for the development of clusters, including small and medium businesses at both the vertical and horizontal levels.</u>	2001 - 2015	The Policy of Support to the Competitiveness of the MIPYME was approved

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OBJECTIVES	POLICY MEASURES	Original Implementation Date	Current Status	
support to the traditional economic sectors.	iii. <u>Strengthen the development of agribusiness</u>	2001 - 2015	The National Agribusiness Promotion Center was established	
	iv. <u>Promote the development of the forestry cluster.</u>	2001 - 2015	Businesses are being certified in rational forest exploitation.	
	v. <u>Define and implement a strategy to achieve greater development of light assembly</u>	2001 - 2015	Underway	
	vi. <u>Strengthen the development of the tourist sector</u>	2001 - 2015	The actions needed for developing the first integrally Planned Tourist Center (CIP) were carried out in the Bahia de Tela Region, by which it is hoped that a comprehensive tourist cluster will be created. The tourist investment fund was created with participation by the private sector, the government and foreign investment.	

II. REDUCING POVERTY IN THE RURAL ZONES

2.1 IMPROVING EQUITY AND SECURITY IN LAND ACCESS

Objective <u>Guarantee access and security in land tenure to organized and independent peasants and to the ethnic groups.</u>	i. <u>Make effective the application of grounds for affecting idle lands and those above the ceiling.</u>	2002 – 2015	In process
	ii. <u>Strengthen the programs of adjudication, titling and indemification of lands, especially in the reformed sector and with ethnic groups and independent peasants.</u>	2001 – 2015	25,132 property titles have been delivered through 2004, benefiting 629 producers of the reformed sector, 24,482 independents and 21 ethnic groups.
	iii. <u>Develop and implement mechanisms that permit clear delimitation and security of rural property.</u>	2001 – 2015	The Property Law, which includes the creation of the Property Institute, was approved on May 28 of this year.

2.2 SUSTAINABLE DEVELOPMENT IN PRIORITY ZONES

Objective <u>Achieve the integration, coordination and sustainability of the actions geared to reduce poverty in the rural zones.</u>	i. <u>Consolidate and expand the National Sustainable Rural Development Program (PRONADERS).</u>	2001 – 2015	21 projects were implemented under PRONADERS, which primarily attends producers on slopes, high watersheds and ethnic groups. The rural development projects supply plan was prepared.
	ii. <u>Increase the rural development actions and their articulation to the national economy in the country's border zones.</u>	2001 – 2015	The Sustainable Rural Development Project for Ecologically Fragile Zones in the Trifinio Region (PROPERT) is being developed
	iii. <u>Expand the training programs on sustainable development of small agroforestry businesses for the poor population living in forested zones</u>	2001 – 2015	Approximately 300 people have been trained in issues related to agroforestry, community forestry (human development, agro-productive development, forest management), delimitation of areas and participation in management plans.
	iv. <u>Increase the actions on behalf of the development of small-scale activities.</u>	2001 – 2015	50 micro-businesses exist in non-agricultural small-scale processing.

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OBJECTIVES	POLICY MEASURES	Original Implementation Date	Current Status
2.3 IMPROVING THE COMPETITIVENESS OF THE RURAL SMALL ECONOMY			
<p>Objective Increase production and improve the efficiency and competitiveness of small rural producers.</p> <p>Objective Increase production and improve the efficiency and competitiveness of small rural producers.</p>	i. Promote the development of agro-food chains.	2001 – 2015	6 agro-food chains have been established: dairy, African palm, horticulture, apiculture, pig and cattle. The National Agribusiness Promotion Center was established
	ii. Improve the access of small and medium producers to basic support services for the development of their economic activities.	2001 – 2015	Alternative Rural Financial Systems (SIFARs) have been established and strengthened PACTA. Incorporation of around 23,000 ha into the irrigation system, is being developed Epidemiological and animal health monitoring systems have been implemented.
2.4 IMPROVING SOCIAL CONDITIONS IN THE RURAL AREA			
<p>Objective Strengthen the social infrastructure and expand the coverage of poverty alleviation programs in the rural zones with the greatest incidence of poverty.</p>	i. Support the rural housing programs that include the direct participation of the beneficiaries and financial support of the Government, as well as the participation of Local governments and NGOs in the construction of rural housing.	2001 – 2015	Habitations solutions are being provided through the Foundation for Urban and Rural Social Housing. Data on habitation solutions and beneficiaries is pending.
	ii. Expand the coverage of the drinking water and basic sanitation systems.	2001 – 2015	Drinking water and sanitation systems in the amount of L 350.8 million have been built, benefiting 894,000 inhabitants of the rural zone.
	iii. Incorporate the promotion of productive homestead and food conservation activities implemented by peasant women into FHIS and PRAF programs.	2001 – 2015	To date, approximately 5,000 women have benefited from these activities.
	iv. Improve the coordination of food and input donations to support the implementation of small productive projects and community works.	2001 – 2015	The Food Security Plan was drafted, which includes coordination levels for food donations.
III. REDUCING URBAN POVERTY			
3.1 STIMULATING THE DEVELOPMENT OF MICRO, SMALL AND MEDIUM BUSINESS			
<p>Objective Support the growth and competitiveness of micro, small and medium business as employment and income generating sources for poor families.</p>	i. Strengthen the public and private entities that provide assistance to micro, small and medium business.	2001-2015	The Support Program to the Productive Sector and Small Enterprise is being implemented. A business development fund and an impact evaluation system are being designed, all framed in the Competitiveness Policy.
	ii. Support alternative modalities of savings and credit with the participation of the beneficiaries.	2001-2015	Programs and projects in the categories of shoes, metal-mechanics, agroindustry, transformation of lumber, textiles and garments are being implemented, together with production, commercialization and transformation of goods and services. SIC, COHEP, FODESSE, PREFESS II and CODESSES are participating.

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OBJECTIVES	POLICY MEASURES	Original Implementation Date	Current Status
	<ul style="list-style-type: none"> iii. Stimulate the emergence of young businesspeople, incorporating formation in project design and administration in the different educational modalities and levels and providing financing with favorable conditions. iv. Facilitate the opening of zonal markets and other centers for the installation of sales stalls for street vendors within informal commerce planning in the municipal sphere. 	<p>2002-2015</p> <p>2002-2015</p>	<p>The COHCUT Learning Centers are under construction.</p> <p>Underway</p>
3.2 DEVELOPMENT OF INTERMEDIARY CITIES			
<p>Objective Promote the development of intermediary cities, seeking that they be created in regional development poles.</p>	i. Organize joint-liability markets at a regional level, preferably through the association of municipalities, generating currents of mutually beneficial commercial exchange.	2002-2015	A business conference being prepared to be held in San Pedro Sula with the MIPYMEs and the institutions that indirectly support the business sector.
	ii. Promote the organization of incubator businesses, considering the potentialities of the intermediary cities.	2002-2006	That of El Progreso is in the formation stage
	iii. Promote industrial activity in intermediary cities.	2002-2015	The Investment Decentralization Program is currently being negotiated
3.3 SUPPORT TO HOUSING OF SOCIAL INTEREST			
<p>Objective Stimulate the construction of low-cost housing through legal, financial and participatory mechanisms.</p>	i. Approve the Housing Sector Modernization Law and increase the efficiency of the sector's standards entity, without letting it directly implement projects.	2002	The bill is being reviewed before being sent to the National Congress
	ii. Facilitate housing construction or improvements for the low-income population.	2001-2015	Being implemented. Fund-raising mechanisms are being formulated
	iii. Grant judicial land or housing tenure security, with titling modalities that particularly protect women and children.	2001-2015	Approval of the creation of a new Property Law is underway
	iv. Establish norms for the planned development of human settlements, observing risk prevention.	2002	Underway, there are proposed norms
3.4 ACCESS TO BASIC SERVICES IN PRIORITY AREAS			
<p>Objective Improve the access of the inhabitants of marginal urban zones to basic services.</p>	i. Promote Municipal Development Funds for the efficient provision of basic services in the country's main cities.	2002 – 2005	Phase 2 of the Poverty Reduction Program and Local Development is approved for implementation by the Secretary of Government, of Justice and FHIS.
	ii. Promote the municipalization of the water and sanitation systems.	2001	The Water and Sanitation Law is approved.

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OBJECTIVES	POLICY MEASURES	Original Implementation Date	Current Status	
	iii. Advance along the chain of decentralization, creating the conditions that will permit effective local public service provision.	2001-2015	The Decentralization Program and Poverty Reduction and Local Development Program are underway.	
IV. INVESTING IN HUMAN CAPITAL				
4.1 GREATER QUALITY AND COVERAGE IN BASIC AND TECHNICAL-PRODUCTIVE EDUCATION				
<p>Objective <u>Improve the education level of the Honduran population through greater quality, efficiency and equity of education at the different levels, guaranteeing an improved profile of the labor force and greater efficiency in higher education.</u></p>	i. Conclude the formulation and approve the General Education Framework Law.	2001	<ul style="list-style-type: none"> • The bill was formulated and sent to the National Congress in September 2001. 	
	ii. Improve educational quality at the various levels.	2002-2015	<ul style="list-style-type: none"> • Implementation of the CNB in pre-basic and basic in 16 departments of the country and the curricular session. • Implementation of the Comprehensive Teacher Training Plan at the national level. • Definition of guidelines to orient the design of projects to expand the coverage of the pre-basic level and the norms that regulate the obligatory assistance of 5-year-old children at this level. • Implementation of the coordination plan for the teacher advice and accompaniment model, as well as coordination of the Initial Teacher Formation plan. • Application and publicizing of academic performance tests in basic materials. • The EFA Plan (All with Education) will be implemented starting in February 2005. 	
	iii. Expand the educational system's supply, with special emphasis on pre-basic education, third cycle of basic education (7th to 9th grade) and middle-school education for both the student and non-student sector.		2001-2015	<ul style="list-style-type: none"> • Definition of the norms that will regulate the obligatory attendance of 5-year-olds at the pre-basic level. • Organization of 603 Pre-basic Educational Centers (CEPREBS). • Conversion of 719 Basic Education Centers of 7th to 9th grade. • Annual attention to 150,000 youths and adults who are outside the formal system through alternative service-provision systems. • 2,097 projects to construct, expand and repair education centers for pre-basic, basic from 1st to 9th grade and diversified centers.
	iv. Improve mechanisms and programs that raise the demand for education by the population.		2002-2015	<ul style="list-style-type: none"> • Expansion of demand stimulation programs (School bonds, school snack and scholarships)
	v. Strengthen technical-productive, formal and non-formal, middle education.		2002-2015	<ul style="list-style-type: none"> • Negotiation and approval of US\$20.0 million in financing to support middle education.
	iv. Strengthen the management and efficiency of the educational system		2002-2003	<ul style="list-style-type: none"> • Implementation of the Deconcentrated Management Model, which includes the new organic-functional structure of Departmental Education divisions (DDE), and their corresponding regulations.
vi. Improve the efficiency of higher education.		2002 – 2006	<ul style="list-style-type: none"> • Review of the Education bill presented by the SE and the bill of reforms to the Organizational Law of the UNAH by the CN Education Commission in order to harmonize the two projects. 	

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OBJECTIVES	POLICY MEASURES	Original Implementation Date	Current Status
	<p>vii. Foster the creation and dissemination of diverse artistic manifestations at the national level.</p>		<ul style="list-style-type: none"> In the framework of the Pilot Comprehensive Program to Combat Urban Poverty (PPICPU), the exhibit hall of the National Archive was remodeled as were the Mercedesitas Agurcia cultural center and the National Library, where socially at-risk children will receive workshops on drawing, painting, theater, dance and music as an alternative for appropriating the cultural heritage and values of the poorest groups.
4.2 MORE AND BETTER ACCESS TO HEALTH SERVICES			
<p>Objective Ensure access with quality and equity to health services, preferentially in primary care and nutritional monitoring on behalf of the poor population.</p>	i. Strengthen primary and preventive health care	2002-2015	<ul style="list-style-type: none"> Extension of coverage with new management and financing models with providers outside the Health Secretariat.
	ii. Provide greater attention to women's health conditions	2002-2015	<ul style="list-style-type: none"> Initiation of the implementation of the maternal-infant mortality initiative. Formulation of the maternal-infant policy Formulation of the nutrition policy
	iii. Achieve greater efficiency and quality in health service provision	2002-2015	<ul style="list-style-type: none"> Definition of 18 Departmental Sanitary Regions and 2 Metropolitan Sanitary Regions and implementation of the process. Incorporation of the decentralization process of 9 hospitals in the general budget dispositions for 2005 as an initial experience. Modernization of the management, expansion and remodeling of the infrastructure and equipment of 12 hospitals in the public network and the process is being initiated in the rest.
V. STRENGTHENING SOCIAL PROTECTION FOR SPECIFIC GROUPS			
5.1 SOCIAL SECURITY NETS			
<p>Objective Reduce the risk factors in the specific groups of greater vulnerability.</p>	i. Strengthen and improve the impact of the extreme poverty alleviation programs.	2001-2015	Work is being done on a Plan of Attention to people in Extreme Social Vulnerability;
	ii. Support the programs of protection for children and young adolescents.	2001-2015	The Honduran Institute of Children and the Family (IHNFA) is attending 933 children with problems of labor exploitation, begging, vagrancy, etc., and 29 schools for parents have been organized.
	iii. Comprehensively attend individuals with disabilities in a situation of poverty.	2002-2015	Approval of the National Policy for the Prevention of Disabilities, Comprehensive Care and Rehabilitation of People with Disability and the promotion and protection of their rights and duties. Incorporation of a module in the National Institute of Statistics (INE) surveys to measure disability.
	iv. Improve the attention to the elderly.	2002	Underway
5.2 GENDER EQUITY AND EQUALITY			

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OBJECTIVES	POLICY MEASURES	Original Implementation Date	Current Status
<p>Objective Contribute to the comprehensive development of women in conditions of poverty through their full and effective participation</p>	i. Ensure the conditions that permit effectively equal opportunities for women, especially for those who live in a situation of poverty.	2002-2015	Through the Equal Opportunities for Rural Women project (PION RURAL), 16 projects have been approved, benefiting 2,751 rural women. Training has been done on guidelines of the Gender Equity Policy for Honduran agriculture directed to municipalities and associations.
	ii. Review and apply the Law Against Domestic Violence in order to prevent and eliminate the incidence of this problem against women.	2002	The Reform to the Law Against Domestic Violence has been socialized and is being presented to the National Congress.
	iii. Incorporate information more differentiated by sex in the census and surveys in order to be able to see the economic contribution of women and more specific information about them.	2002-2005	In September 2003, a module on domestic violence was incorporated into the Household Survey. In May 2004 information was requested in this same survey differentiated by sex
<p>5.3 DEVELOPMENT OF ETHNIC PEOPLES</p>			
<p>Objective Help strengthen the local capacities of the ethnic and black population of Honduras.</p>	i. Create the National Council of Ethnic groups, with the objective of defining a national agenda and facilitating adequate coordination in the implementation of programs and projects.	2002	The National Commission Against Racial Discrimination, Racism, Xenophobia and Related Forms of Intolerance was created, which seeks to coordinate actions in the national sphere with Civil Society organizations to define policies and actions of the Government of the Republic in the international sphere relating to their rights.
	ii. Incorporate the category "ethnic group of belonging or reference" within the census statistics or as a module of the Household Survey.	2002-2003	A module was incorporated in the Household Survey in May 2002
	iii. Make the national legislation uniform with the ILO Convention 169 with respect to indigenous peoples, of which Honduras is a signatory, for its correspondent application.	2002-2005	The International Convention on the Elimination of All Forms of Racial Discrimination was ratified. The National Commission Against Racial Discrimination, Racism, Xenophobia and Related Forms of Intolerance was created
<p style="text-align: center;">VI. GUARANTEEING THE STRATEGY'S SUSTAINABILITY</p>			
<p>6.1 STRENGTHENING TRANSPARENCY AND PARTICIPATORY DEMOCRACY</p>			
<p>Objective Consolidate good governance, ensuring transparency in public administration and improving the quality of the population's political representation.</p>	i. Ensure transparency in all activities of public administration, and especially in the implementation of social programs and projects	2001-2005	<ul style="list-style-type: none"> • Over 800 inspections were made of state institutions through the Program of efficiency and transparency in purchasing and contracting. • Strengthening of the purchases and contracting administration of 4 State Secretariats, as well as FHIS and SANAA. • Training of approximately 200 officials of 54 institutions in purchasing and contracting. • The Office of State Contracting and Acquisitions Norms (ONCAE) started functioning.

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OBJECTIVES	POLICY MEASURES	Original Implementation Date	Current Status
	<p>ii. Formulate and approve, in consultation with the sectors involved, a legal ordering and prudential supervision that permits the NGOs to function well.</p> <p>iii. Improve the parliamentary process through adequate technical assistance, automating of controls and mechanisms for the definition of legislative priorities.</p>	<p>2002</p> <p>2002-2015</p>	<ul style="list-style-type: none"> • The Superior Court of Accounts began to function as of January 2003. • The new "Law Against the Crime of Assets Laundering" was approved, which among other aspects "will facilitate investigations of even former officials who cannot justify their incomes." • Starting in 2003, through the Secretariat of Governance and Justice, the on-line registry of Nongovernmental Organizations (NGOs) has gotten underway, through which they must also report their financial status. • The National Congress is currently implementing the CNH Modernization Program, financed by the Inter-American Development Bank (IDB) and the Government of the Republic of Honduras, through Contract No. 1070/SF-HO. • The electronic voting system has been put into operation, and the respective testing and training of the deputies for its proper utilization are now underway. • The consultation mechanism of the Mobile Congress has been implemented. • A Center of National Legislative Attention has been put into effect through the Congress' web page, whose objective is to promote the formation of a new culture of civic participation through which the people can have access to the legislative agenda.
	<p>iv. Reach consensus and approve the political reforms in order to improve participatory democracy.</p>	<p>2002</p>	<p>Diverse political reforms pacted by the political parties in 20001 have been approved and ratified, among which the most important are:</p> <ul style="list-style-type: none"> a. The figure of Presidential Designates is eliminated, with its approved substitute the figure of one Vice President. b. Disqualifying of the National Congress (CN) presidents from being candidates to the Presidency of the Republic. c. Separation between the National Elections Tribunal (TNE) and the National Civil Registry (RNP). d. The figures of plebiscite and referendum are incorporated as consultation mechanisms and as means for deepening participatory democracy. e. The new Electoral Law and Political Organizations Laws were approved and put into effect f. A new Law of National Civil Registry was approved and put into effect g. Constitutional reforms and ratification to eliminate the prerogative of immunity for top state officials.

6.2 STRENGTHENING JUSTICE AND PUBLIC SECURITY

<p>Objective: Generate the conditions for the real</p>	<p>1. <u>Strengthen the independence of the actors in the justice system.</u></p>
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OBJECTIVES	POLICY MEASURES	Original Implementation Date	Current Status
effectiveness of a system that ensures the protection of human rights, legal security for investment and peaceful life in society.	i. Judiciary Council and Judicial Career bills	2001-2004	The document is ready for a socialization and review phase with representatives of diverse social sectors before being presented to the National Congress for passage.
	ii. Bill for the Organization of the Judicial Branch	2001-2004	A bill for the Organization of the Judicial branch exists, reviewed by the Coalition for the Strengthening of Justice and ready to be submitted to a final socialization process before being sent to the National Congress.
	iii. Project to Modernize the Judicial Branch – World Bank.	2001-2004	In the medium term, the judicial reform is aimed at a comprehensive reform of the justice system, which on the one hand involves all aspects, even the administrative, and on the other, the legal and organizational aspect is included in each of them. Major activities to be implemented in 2004: Reinitiate the socialization and validation process of the bills drafted to be the Judiciary Council Law and the Judicial Career Law, the Organizational Law of the Judicial Branch. Initiate the organizational design for the setting up of citation and notification centers, automated centers for the reception and distribution of cases. With respect to civil reform, conduct a qualitative and quantitative study of the judicial backlog of civil cases as a base for initiating the Program to Clean Out Civil Cases next year. <i>With respect to control and transparency, support the design of the conceptual framework for the role of the Office of Court Inspector as the basis for the new organizational design. Initiate actions to support decentralization of access to jurisprudence and judicial information</i>
	2. <u>Improve the application of justice and equity in access to justice</u>		
	i. Improvements to the Penal Processing Code (CPP) and make the Penal Code bill compatible with the CPP.	2001-2004	The approval of consultants has been obtained for preparing instructions for improving the application of the Penal Processing Code, an activity planned for October 2004
	ii. Civil Processing Code	2001-2004	A technical review of the Civil Processing Code bill was conducted with support from the Coalition for the Strengthening of Justice, but the document merits more in-depth review and the conducting of a broad program of discussion and revision.
	3. <u>Prevent and sanction crime to ensure social order and the right to life and property.</u>		
	i. Safer Community Program	2002-2004	The Safer Community Program has made very important advances in security in 2004, among which the recovery of 58 stolen vehicles, 12,446 patrols, 276 seizures of marihuana, 320 confiscations of vehicles

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OBJECTIVES	POLICY MEASURES	Original Implementation Date	Current Status
	<p>ii. Programs of Preventive Education, Division of Prevention against Violent Gangs (<i>Maras</i>)</p> <p>iii. Internal Policy Formation Program</p>	<p>2004</p> <p>2004</p>	<p>5 programs are being implemented: Education to Resist and Avoid <i>Maras</i> (E.R.E.M.), Basic Knowledge of <i>Maras</i> (CO.BA.MA), DESAFIOS (CHALLENGES), a program especially created for the adolescent student population.</p> <p>11,121 people were trained in Prevention Against <i>Maras</i> in 2004, including primary, secondary and university students, parents, teachers and community leaders.</p> <p>Designed to combat lack of police knowledge on the issue of <i>Maras</i>, the Honduran penal system, imprisoned <i>Maras</i></p>
6.3 MODERNIZATION OF PUBLIC ADMINISTRATION AND DECENTRALIZATION			
<p>Objective Achieve an effective process of municipal decentralization and development that helps reduce poverty, in the framework of modern and efficient public administration.</p>	i. Continue implementing the Public Administration Modernization Program.	2001	Underway and continuing with the re-tooling of pilot state secretariats (Education, Health, SAG); sectoral reforms (telecommunications, energy, transport and water and sanitation); and the professionalization of human resource management in public administration.
	ii. Simplification	2001	Approved
	iii. Make the decentralization and deconcentration of Central Government functions to the municipalities effective.	2001-2015	There are now decentralization strategies for the education and health services. The Operational decentralization of the FHIS project cycle and environmental undergraduate degree are being promoted.
	iv. Strengthen the role of Local Governments as development promoting entities with broad participation of their communities.	2002	Municipal administration is being strengthened through PRODEL in the areas of planning, tax system and municipal civil career.
6.4 IMPROVING ENVIRONMENTAL PROTECTION AND RISK MANAGEMENT			
<p>Objective Reduce the country's ecological risks and vulnerability by improving environmental management and risk management at the central and decentralized levels.</p>	i. Adjust the legal framework and improve the efficiency and effectiveness of the legal framework to reduce ecological vulnerability.	2002	The Territorial Planning Law and Law of Potable Water and Sanitation were Approved, and the water and forestry laws are in the process of being passed. AFE-COHDEFOR is being restructured.
	ii. Improve the environmental planning and management systems.	2002 – 2003	There is now a Territorial Planning methodology and information system; SINIA is being implemented; instruments have been developed for water planning; the rural electrification policy and policy to fight desertification and drought for municipalities with high ecological and social vulnerability are being drafted.
	iii. Promote the financial sustainability of the environmental protection and management actions.	2002 – 2015	Being negotiated
	iv. Promote civic participation in environmental protection and risk management activities.	2002 – 2015	Training and awareness building actions are being promoted; 710 Municipal Environmental Units have been created, and the environmental management processes are being decentralized.
	v. Prepare and apply a strategy for preventing, mitigating and responding to emergencies that is rooted in a permanent and decentralized structure under the coordination and participation of different actors and entities.	2002 – 2015	Work is being done on the creation of a National Civil Protection System. Regional COPECO offices have started to function, Emergency Operations Centers and Prevention and Emergency Committees are being organized and trained, and Community Early Warning systems are being developed.

APPENDIX D.1 POVERTY SPENDING					
PROGRAM / PROJECT AREA	2001	2002	2003	2004	
1. ACCELERATING EQUITABLE AND SUSTAINABLE ECONOMIC GROWTH	-	-	13.88	21.10	
1.1 Strengthening Investments and Improving their Efficiency	-	-	-	-	
1.2 Improving Competitive Access to International Markets	-	-	-	-	
1.3 Supporting the Development of Sectors with High Productivity and Employment Potential	-	-	13.88	21.10	
Local Self-Managed Development to Reduce Poverty in Northern Copan.	-	-	13.88	21.10	
1.4 Strengthening Investment and Generating Employment	-	-	-	-	
2. REDUCING POVERTY IN RURAL ZONES	1,543.51	1,124.77	1,184.29	879.60	
2.1 Improving Equity and Security in Access to Land	237.01	249.45	131.45	7.70	
Rural Areas Administration Project (PAAR)	180.70	172.10	109.98	27.50	
Action Plan for Land Organization, Conservation and Environmental Management of the Sico and Paulaya Valleys.	1.91	7.75	-	-	
Land Access Pilot Program (PACTA)	54.40	69.60	21.47	22.50	
2.2 Sustainable Development in Priority Zones	290.88	298.32	428.86	321.44	
Higher Management and Coordination of Pronaders (DINADERS)	22.80	14.98	26.33	73.60	
DINADERS - COHASA III Regional Lempira-Intibucá	5.93	-	-	-	
National Local Development Program (PRONADEL)	-	94.40	78.31	56.00	
Rural Development in Southwestern Honduras (PROSOC)	82.30	76.80	71.89	33.60	
Rural Development Project in Central-Eastern Honduras (PRODERCO)	67.40	58.30	38.82	7.70	
Rural Economic Reactivation Project, RERURAL	4.30	16.80	4.53	41.20	
Southern Lempira Comprehensive Development Project	7.00	7.30	10.49	-	
Support to Small and Medium Scale Farmers in the Olancho Province	5.50	2.00	25.68	-	
Rural Development Foundation (FUNDER)	6.75	3.40	11.60	4.64	
Sustainable Rural Development in Ecologically Fragile Zones in Trifinio	2.40	-	7.40	26.40	
Higher Management and Coordination of Pronaders (FONADERS)	86.50	24.34	56.64	71.50	
Rural Economic Reactivation Project, RERURAL	-	-	83.30	6.80	
Sustainable Agriculture and Rural Development	-	-	0.31	-	
Food Security in the Gulf of Fonseca	-	-	3.90	-	
Western Natural Resources Program (PRORENA)	-	-	9.66	-	
2.3 Improving the Competitiveness of the Small Rural Economy	756.49	399.43	367.12	505.13	
Rehabilitation of the Angeles San Juan de Flores Valley	-	-	47.32	-	
Rehabilitation of the Yeguaré River bridge	-	-	6.50	-	
San Juan Gracias Highway	20.26	-	-	-	
Rehabilitation of the Santa Elena Cedeño Highway	-	0.56	2.95	39.20	

APPENDIX D.1 POVERTY SPENDING					
PROGRAM / PROJECT AREA	2001	2002	2003	2004	
Labor Force Construction and Reconstruction of Roads, Nationwide	-	-	41.20	25.30	
Local Roads and Bridges	-	41.49	-	-	
Rehabilitation and Paving of the Lapaera Highway- Las Flores By-Pass, Lempira	15.83	26.62		0.69	
Construction of the Poncaya Bridge on the El Cerro-Patuca River Highway, Olancho	9.99	8.28		-	
Labor Force Construction and Reconstruction of Roads, Nationwide	50.09	31.42		-	
Limonal Morocelf Highway	15.83			-	
Texiguat Bridge Construction	12.01			-	
La Esperanza - Marcala Highway	10.70			-	
Construction of Irrigation Works with National Funds	8.65			-	
Construction of Bridges and Highways in Rural Zones (SEFIN-MITCH)	54.72	11.29		-	
Construction of Bridges and Highways in Rural Zones (Emergency -MITCH IDA 3159-2816)	146.30	16.48		-	
Construction of Wooden Modular Bridges on Different Local Roads Nationwide	-	1.91	37.21	5.79	
Construction and Improvement of Rural Roads in Indigenous Zones	-	-	7.57	4.49	
Road Conservation, Associative Micro-Enterprises	-	-	22.62	24.28	
Quimistán	9.21	37.66	52.60	47.69	
Development of Water Resources in the Nacaome Valley	182.30	40.63	10.56	118.31	
Irrigation Dam, San Juan de Flores	-	-	8.99	0.20	
El Coyolar Dam	52.52	15.03	-	-	
Electricity Social Development Fund	-	1.59	25.00	122.90	
Social Electrification	81.78	53.50	-	-	
Road Conservation, Associative Micro-Enterprise Project (IDA 3432-HO of the IDB and National Funds)	-	-	-	-	
DICTA	74.90	68.00	62.40	60.30	
Jicatuyo River Agro-Enterprise Project	10.00	7.00	20.05	-	
Regional Program to Transfer Post-Harvest Basic Grain Technology	-	1.17	1.05	-	
Special Food Security Project (PESA)	1.40	36.80	17.34	56.00	
Western Component of the National Conservation and Natural Resource Economic Development Program	-	-	2.65	-	
Reinforcement, Research, Systematization and Training for Rural Development Processes in Honduras	-	-	1.09	-	
2.4 Improving Social Conditions in Rural Areas	259.13	177.57	256.87	25.50	
Allotments to Different Community Support Projects for the Poor	-	60.00	100.00	25.00	
Community Development Unit (UDECO)	-	4.50	-	-	
Master Plan for National Reconstruction (FHIS)	194.10	78.90	77.80	-	
Rural Aqueduct Sanitation Project (PROSAR)	2.83	2.42	2.81	0.50	
Regional Reconstruction Project for Central America (PRRAC)	-	6.95	48.77	-	
Basic Water and Sanitation Services for Dispersed Rural Communities (FHIS)	62.20	24.80	24.20	-	

APPENDIX D.1 POVERTY SPENDING

PROGRAM / PROJECT AREA		2001	2002	2003	2004
	Food Security Extension Project (EXTENSA)	-		3.30	
3. REDUCING POVERTY IN URBAN ZONES		486.90	482.07	792.53	646.06
3.1 Developing Micro, Small and Medium Scale Enterprises		-	-	0.10	-
3.2 Developing Intermediate Cities		2.60	14.03	22.40	39.48
	Comprehensive Urban Anti-Poverty Pilot Program	2.60	14.03	22.40	39.48
3.3 Support to Social Interest Housing		200.30	120.90	196.99	194.78
	Solidarity Housing Reconstruction Program (Loan from Gov. of China)	123.30	43.90	77.00	18.95
	Social Housing Program (IDB 1037)	-			
	Foundation for Urban and Rural Housing Development (FUNDEVI)	-	5.00	58.80	3.95
	Housing subsidy	-	60.70	-	-
	Minimal Rural Housing Program	77.00	5.00	57.44	16.03
	Urban Housing Improvement Program (PRIMHUR)	-	6.30	3.27	9.69
	Rural Housing Improvement Program	-		0.49	-
3.4 Access to Basic Services in Priority Areas		284.00	347.14	573.04	411.80
	SANAA	284.00	345.50	564.80	407.50
	Water Quality Solutions PROCAR	-		2.04	-
	Potable Water and Sanitation Investment Program	-	1.64	6.20	4.30
4. INVESTING IN HUMAN CAPITAL		4,519.11	5,014.73	5,640.78	4,116.56
4.1 Better Coverage and Quality in Education		3,161.35	3,336.39	3,811.52	2,982.16
	Expanding Horizons	18.70		9.93	16.00
	All Scholarships and Transportation Bonuses included in Student Benefits	108.49	105.70	95.20	-
	Central Level Activities	295.46	320.90	786.90	443.40
	"Tele-Basic" Program	5.30	5.00	5.00	5.90
	Repair of School Buildings	-		5.70	-
	Pedagogic Services, Curricula, Educational Technology, Training, Continuing Education, and Special Education Programs	12.30	16.10	16.10	10.30
	Provincial Coordination	-	37.90	38.30	22.80
	Transformation of Education with Community Participation	-		3.32	35.91
	Transformation of the 3 rd Cycle (Middle School) and Vocational Education	-	40.54	96.18	59.79
	Honduran Community Education Program PROHECO	198.60	131.08	222.93	316.55
	Development of Education in Marginal Urban Communities of Honduras DECUMH	4.90	6.90	15.14	1.30
	Education Program on Ethical, Moral and Civic Values	-			
	Support to Alternative Primary and Middle School Education Programs	-		40.74	29.20
	Formal Preschool	148.84	189.30	196.33	169.51
	New Construction, Preschools	-		-	-

APPENDIX D.1 POVERTY SPENDING

PROGRAM / PROJECT AREA	2001	2002	2003	2004
Formal Primary Education	1,414.73	1,562.60	1,379.58	1,165.37
New Construction, Primary Schools	6.66	-	-	-
Adult Education	-	9.80	8.90	6.80
PRALEBAH	1.00	-	15.50	12.20
Education for All (EFA)	-	-	-	4.60
EDUCATODOS 1 st -6 th Grade and 7th-9 th Grade	26.52	-	22.59	2.80
Vocational Education (technical)	676.90	766.30	703.00	564.60
New Construction, Technical Schools	-	-	-	-
Construction, Continuing Education	-	-	-	-
Technical Education, Correspondence Courses	9.60	-	19.20	9.30
Formal Primary Schools	213.35	124.27	110.98	88.53
National Commission on Non-Formal/Alternative Education	20.00	20.00	20.00	16.80
4.2 Better and Greater Access to Health Services	1,357.76	1,678.34	1,829.25	1,134.40
Detection and Treatment of Infectious-Contagious Diseases	-	-	57.80	-
Central Level Activities	-	-	36.77	46.41
Outpatient Epidemiological Care, Control of Diseases	741.14	790.14	591.56	367.08
Environmental Sanitation and Promoting Health	57.35	14.79	70.16	53.70
Hospital Care	499.70	727.02	898.18	563.21
Global Fund	-	-	-	-
Construction of Central Laboratory	-	-	-	-
Construction, Building Additions and Improvements	16.71	-	8.49	-
Tela and Danil and Comayagua Hospitals	-	107.65	0.01	-
World Food Program	4.00	4.00	55.32	2.00
Healthy Schools	38.86	34.74	110.96	102.00
4.3 Cultural Wealth and National Identity	-	-	-	-
5. STRENGTHENING SOCIAL PROTECTION FOR SPECIFIC GROUPS	482.94	374.48	406.21	365.91
5.1 Social Security Networks	407.64	330.14	327.18	361.11
Health and Nutrition Voucher	60.20	34.70	39.85	-
Mother-Child Voucher	28.00	41.44	23.55	-
Elderly Voucher Project	15.50	6.70	16.50	-
Educational Voucher	49.70	62.10	54.35	-
School Voucher	35.60	42.48	29.92	-
School "Bag"	2.60	2.00	2.00	-
Family Voucher	-	2.10	28.19	156.05
Helping Hand Voucher	5.20	-	-	-
Institutional Strengthening (PRAF)	42.85	18.80	13.84	104.60
Juana Leclerc Psycho-Pedagogic Institute	0.29	-	2.00	1.50
School for the Blind, Tegucigalpa, MDC	0.59	-	1.00	0.75

APPENDIX D.1 POVERTY SPENDING

PROGRAM / PROJECT AREA	2001	2002	2003	2004
Sanpedrano Special Education Institute	0.10	-	0.26	0.20
Subsidy, Home for the Elderly (Danlí)	-	0.10	0.10	0.10
Honduran Red Cross	-	2.00	2.00	2.80
Honduran Cancer Association	3.00	13.00	6.00	4.80
Rehabilitation Institute for the Handicapped	0.40	0.32	0.10	0.38
Santa Rosa De Copan Home for the Elderly	0.12	0.12	0.12	0.08
Honduran Green Cross	0.20	0.20	0.20	0.16
Subsidy, Rehabilitation Center (Danlí)	0.10	0.10	0.10	0.10
Subsidy, Hogar Del Niño Nutritional Center	0.25	0.25	0.25	0.25
Bencaleth Refuge	0.35	0.44	0.70	0.70
Subsidy, German Mayner Nursing Institute, Tela Atlántida	-	0.15	0.15	0.15
Santa Barbara Home for the Elderly	0.30	0.30	0.30	0.30
Honduras Telethon	0.60	0.60	0.60	1.00
Amigos De Los Niños Society	3.00	3.00	3.50	2.00
Honduran Foundation for Children with Cancer	1.80	2.50	2.50	1.25
Other forms of assistance	55.49	-	-	-
Honduran Institute on Children and the Family	96.40	89.24	92.10	78.34
Honduran Institute for the Prevention and Treatment of Alcoholism	5.00	7.50	7.00	5.60
5.2 Gender Equity and Equality	-	13.13	27.06	-
Comprehensive Development of Women	-	12.02	26.38	-
Project to Help Rural Women Increase Food Production	-	-	-	-
Equal Opportunity Project for Rural Women	-	-	-	-
5.3 Development of Ethnic Groups	75.30	31.21	51.96	4.80
Support Program for Indigenous and Black Populations (PAPIN)	-	0.61	6.48	4.80
Innovative Development and Social Assistance Fund (FHIS)	58.50	23.80	27.00	-
Our Roots (FHIS)	16.80	6.80	11.40	-
Ethnic Improvement	-	-	5.00	-
Improving Garífuna Eco-Tourism	-	-	2.08	-
6. GUARANTEEING THE STRATEGY'S SUSTAINABILITY	1,722.81	1,160.80	1,217.52	1,253.99
6.1 Strengthening Accountability and Participatory Democracy	4.75	52.50	74.77	42.80
Program on Efficient and Transparent State Procurements and Contracts	4.75	52.50	74.77	42.80
6.2 Strengthening Justice and Citizen Security	-	-	-	-
Criminal Investigation Services	-	-	-	12.10
Preventive Police Services	-	-	-	2.60
Special Investigation Services	-	-	-	3.80
	-	-	-	5.70

APPENDIX D.1 POVERTY SPENDING					
PROGRAM / PROJECT AREA	2001	2002	2003	2004	
6.3 Modernizing Public Administration and Decentralization	1,696.05	1,057.47	1,094.16	1,130.89	
Allotments for Community Development Programs	102.40	62.30	78.74	15.60	
Strengthening Local Institutions (FHIS)	95.00	37.80	35.90	-	
Support to Towns, Villages and Councils	57.70	20.00	20.00	31.00	
5% Municipalities Nationwide	350.00	400.00	450.00	413.22	
Loans to Municipalities	-	33.67	46.76	160.84	
Support to Various Municipalities	39.60	47.30	26.86	10.54	
Municipal Social Investment Plans (FHIS)	1,051.35	456.40	435.90	499.70	
	-	-	-	-	
6.4 Improving Environmental Protection and Risk Management	22.01	50.83	48.59	68.20	
Territorial Organization	-	0.73	2.72	0.54	
Climatic changes	0.57	0.22	0.26	0.15	
Social Forestry Program	0.29	0.29		0.29	
Disaster Mitigation Project	21.15	23.80	16.80	23.50	
Natural Resource Management Program in Priority Watersheds (MARENA-DINADER)					
Upper Watershed Management Program, Lempa River					
Natural Resource Management Program in Priority Watersheds (MARENA)					
	-	-	-	-	
PRSP to be FINANCED	8,755.28	8,156.85	9,255.21	7,283.20	

APPENDIX D.2 SPENDING OF HIPC RESOURCES

Millions of Lempiras

Program Area	2001	2002	2003	2004	TOTAL
1. ACCELERATING EQUITABLE AND SUSTAINABLE ECONOMIC GROWTH	-	-	-	-	-
1.1 Strengthening Investments and Improving their Efficiency	-	-	-	-	-
1.2 Improving Competitive Access to International Markets	-	-	-	-	-
1.3 Supporting the Development of Sectors with High Productivity and Employment Potential	-	-	-	-	-
1.4 Strengthening Investment and Generating Employment	-	-	-	-	-
2. REDUCING POVERTY IN RURAL ZONES	3.09	25.64	25.00	-	53.73
2.1 Improving Equity and Security in Access to Land	1.59	-	-	-	1.59
Action Plan for Land Organization, Conservation and Environmental Management of the Sico and Paulaya Valleys.	1.59	-	-	-	1.59
2.2 Sustainable Development in Priority Zones	1.50	0.64	-	-	2.14
Higher Management and Coordination of Pronaders (FONADERS)	1.50	0.64	-	-	2.14
2.3 Improving the Competitiveness of the Small Rural Economy	-	25.00	25.00	-	50.00
Electricity Social Development Fund	-	-	25.00	-	25.00
3. REDUCING POVERTY IN URBAN ZONES	142.00	159.60	84.20	-	385.80
3.1 Development of Micro, Small and Medium Scale Enterprises	-	-	-	-	-
3.2 Development of Intermediate Cities	-	-	-	-	-
Comprehensive Urban Anti-Poverty Pilot Program	-	-	-	-	-
3.3 Support to Social Interest Housing	99.70	60.70	8.30	-	168.70
Solidarity Housing Reconstruction Program (Loan from Gov. of China)	99.70	-	8.30	-	108.00
Housing subsidy	-	60.70	-	-	60.70
3.4 Access to Basic Services in Priority Areas	42.30	98.90	75.90	-	217.10
SANAA	42.30	98.90	75.90	-	217.10
4. INVESTING IN HUMAN CAPITAL	357.61	387.16	491.05	248.03	1,483.85
4.1 Better Coverage and Quality in Education	252.33	229.48	275.25	199.02	956.08
Expanding Horizons	15.00	-	9.93	16.00	40.93
Central Level Activities	18.96	25.40	-	-	44.36
Honduran Community Education Program PROHECO	144.10	104.48	113.03	61.55	423.16
Formal Preschool	8.94	12.00	25.43	22.01	68.38
Formal Primary Education	31.13	41.70	70.08	60.47	203.38
Formal Primary Schools	34.20	45.90	56.78	38.99	175.87
4.2 Better and Greater Access to Health Services	105.28	157.68	215.80	49.01	527.77
Detection and Treatment of Infectious-	-	-	57.80	-	57.80

APPENDIX D.2 SPENDING OF HIPC RESOURCES

Millions of Lempiras

Program Area	2001	2002	2003	2004	TOTAL
Contagious Diseases					
Outpatient Epidemiological Care, Control of Diseases	105.28	-	-	22.40	127.68
Hospital Care	-	132.34	102.60	2.61	237.55
Healthy Schools	-	25.34	55.40	24.00	104.74
4.3 Cultural Wealth and National Identity	-	-	-	-	-
5. STRENGTHENING SOCIAL PROTECTION FOR SPECIFIC GROUPS	207.25	192.04	125.89	11.65	536.83
5.1 Social Security Networks	207.25	181.86	125.89	11.65	526.65
Health and Nutrition Voucher	9.46	-	-	-	9.46
Mother-Child Voucher	27.31	41.44	-	-	68.75
Elderly Voucher Project	15.12	6.70	5.60	-	27.42
Educational Voucher	13.36	-	-	-	13.36
School Voucher	34.73	42.48	-	-	77.21
School "Bag"	2.54	2.00	-	-	4.54
Family Voucher	-	-	28.19	11.65	39.84
Helping Hand Voucher	5.07	-	-	-	5.07
Institutional Strengthening (PRAF)	3.25	-	-	-	3.25
Honduran Institute for Children and the Family	96.40	89.24	92.10	-	277.74
5.2 Gender Equity and Equality	-	10.18	-	-	10.18
Comprehensive Development of Women	-	10.18	-	-	10.18
5.3 Development of Ethnic Groups	-	-	-	-	-
6. GUARANTEEING THE STRATEGY'S SUSTAINABILITY	150.85	175.90	191.20	12.10	530.05
6.1 Strengthening Accountability and Participatory Democracy	-	-	-	-	-
6.2 Strengthening Justice and Citizen Security	-	-	-	12.10	12.10
Criminal Investigation Services	-	-	-	2.60	2.60
Preventive Police Services	-	-	-	3.80	3.80
Special Investigation Services	-	-	-	5.70	5.70
6.3 Modernizing Public Administration and Decentralization	150.85	175.90	191.20	-	517.95
Allotments for Community Development Programs	102.40	62.30	68.50	-	233.20
Strengthening Local Institutions (FHIS)	-	-	1.10	-	1.10
5% Municipalities Nationwide	45.00	50.00	51.60	-	146.60
Municipal Social Investment Plans (FHIS)	3.45	63.60	70.00	-	137.05
6.4 Improving Environmental Protection and Risk Management	-	-	-	-	-
TOTAL PROGRAMS and PROJECTS	860.80	940.34	917.34	271.78	2,990.26

APPENDIX D.3 ADJUSTED PRSP SPENDING

Millions of Lempiras							
Original PRSP Spending							
Year	National Funds	Loans	Donations	HIPC Funds			TOTAL PRSP SPENDING
				Paris Club	Multilaterals / Commercial	Total HIPC	
2001	5,124.8	2,526.7	687.2	0.0	416.5	416.5	8,755.3
2002	5,580.7	1,665.0	443.1	0.0	468.0	468.0	8,156.8
2003	5,850.6	2,026.7	894.2	0.0	483.8	483.8	9,255.2
2004	6,514.6	2,193.8	1,476.8	0.0	538.8	538.8	10,724.0
2004 a/	6,891.6	2,888.9	580.7	0.0	538.8	538.8	10,900.0
Adjusted PRSP Spending							
Year	National Funds	Loans	Donations	HIPC Funds			TOTAL PRSP SPENDING
				Paris Club	Multilaterals / Commercial	Total HIPC	
2001	-444.3	0.0	0.0	0.0	444.3	444.3	0.0
2002	-472.3	0.0	0.0	132.4	339.9	472.3	0.0
2003	-433.6	0.0	0.0	547.0	-113.4	433.6	0.0
2004	-552.4	0.0	0.0	598.8	-46.4	552.4	0.0
2004 a/	-552.4	0.0	0.0	598.8	-46.4	552.4	0.0
Adjusted PRSP Spending							
Year	National Funds	Loans	Donations	HIPC Funds			TOTAL PRSP SPENDING
				Paris Club	Multilaterals / Commercial	Total HIPC	
2001	4,680.5	2,526.7	687.2	0.0	860.8	860.8	8,755.3
2002	5,108.4	1,665.0	443.1	132.4	807.9	940.3	8,156.8
2003	5,417.0	2,026.7	894.2	547.0	370.4	917.3	9,255.2
2004	5,962.3	2,193.8	1,476.8	598.8	492.4	1,091.1	10,724.0
2004 a/	6,339.2	2,888.9	580.7	598.8	492.4	1,091.1	10,900.0

The treatment of Paris Club debt relief in the analysis of Interim HIPC.

After the Paris Club agreement was concluded in April 2004, negotiations began with the IMF and WB regarding the definition and use of HIPC debt relief funds. The product of bilateral debt relief was not originally considered part of the Poverty Reduction Fund, as agreed upon in the Decision Point Document (DPD). However, in practice, the GoH used a large proportion of the fiscal resources released by these agreements to fund spending programs that fall within the scope of the amplified definition of poverty spending adopted in 2004. It was agreed that these resources should be counted as part of HIPC debt relief and should be used to finance social programs under the expanded definition of poverty spending.

To ensure inter temporal consistency in the poverty spending data, this implied a concomitant re-assignment of poverty programs that had been funded during 2000-2004, originally classified as having been paid for with national funds, which were re-classified as having been funded by HIPC. The adjustment does not change the amount spent on poverty, but reassigns part of the total from national funds to HIPC. The Table presented in this annex details the adjustments that were made. Concretely, PRSP spending with national resources in 2001-2004, based on the new definition of spending proposed in 2003,¹ was reduced in each year by 0.4% of the GDP and spending funded by HIPC was increased by the same amount.

¹ See the document, "Poverty Reduction Strategy: First Progress Report and Update," Chapter V, Tables V1 and V2.

At the same time, to permit an undistorted perception of the underlying trends in poverty spending, spending related to post-hurricane reconstruction was also removed from the net poverty spending definition. This reduced total poverty spending by 1.8% of GDP in 2000, 1.9% in 2001 and 1% in 2002. Within these totals, nationally funded poverty spending was adjusted downwards by 0.4% of GDP in 2002, 0.1% in 2001 and 0.2% in 2002.

ADJUSTED PRSP SPENDING							
Percentage of GDP							
Original PRSP Spending							
Year	National Funds	Loans	Donations	HIPC Funds			TOTAL PRSP SPENDING
				Paris Club	Multilaterals / Commercial	Total HIPC	
2001	5.2	2.6	0.7	0.0	0.4	0.4	8.8
2002	5.2	1.5	0.4	0.0	0.4	0.4	7.5
2003	4.9	1.7	0.8	0.0	0.4	0.4	7.8
2004	4.9	1.7	1.1	0.0	0.4	0.4	8.1
2004 a/	5.1	2.1	0.4	0.0	0.4	0.4	8.1
Adjusted PRSP Spending							
Year	National Funds	Loans	Donations	HIPC Funds			TOTAL PRSP SPENDING
				Paris Club	Multilaterals / Commercial	Total HIPC	
2001	-0.4	0.0	0.0	0.0	0.4	0.4	0.0
2002	-0.4	0.0	0.0	0.1	0.3	0.4	0.0
2003	-0.4	0.0	0.0	0.5	-0.1	0.4	0.0
2004	-0.4	0.0	0.0	0.45	-0.04	0.4	0.0
2004 a/	-0.4	0.0	0.0	0.45	-0.03	0.4	0.0
Adjusted PRSP Spending							
Year	National Funds	Loans	Donations	HIPC Funds			TOTAL PRSP SPENDING
				Paris Club	Multilateral / Commercial	Total HIPC	
2001	4.7	2.6	0.7	0.0	0.9	0.9	8.8
2002	4.7	1.5	0.4	0.1	0.7	0.9	7.5
2003	4.6	1.7	0.8	0.5	0.3	0.8	7.8
2004	4.5	1.7	1.1	0.5	0.4	0.8	8.1
2004 a/	4.7	2.1	0.4	0.4	0.4	0.8	8.1
Gross Domestic Product							
2001	99,062.0						
2002	108,175.0						
2003	118,544.0						
2004	132,080.0						
2004 a/	134,511.4						
a/ ; New Projection, August 2004, due to change in the GDP and not in revenues from EFA and Global Fund donations.							

APPENDIX D.4 DEFINITION OF POVERTY SPENDING

The expanded definition of poverty spending in Honduras includes all of the elements that were part of the original version adopted in 2001, and also adds a number of other programs and projects which, during the consultative process carried out in 2003, were identified as relevant to achieving the Poverty Reduction Strategy's (PRSP's) goals. This appendix provides a precise definition of the new elements.

Original Definition

The PRSP's original definition incorporated in the 2001 PRSC was based on an analysis of the portfolio of projects included in the public spending program (financed with donations and loans) that were in some way related to the PRSP's six "pillars."

The emphasis of the original definition was on programs and projects financed with external resources and with national counterpart funds corresponding to these projects. Also, a small number of projects financed solely with national resources were included.

A financing gap was identified, which had to be covered by additional external resources that would be discussed in meetings with the Consultative Group or other similar structures. This financing gap was distributed among the PRSP's six programmatic areas in an indicative manner, but no specific interventions with specified costs or results were assigned.

In the original version of the PRSP, total spending for the 2001-2015 period was estimated at US\$2.665 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 the poverty spending would be earmarked for programs aimed at accelerating sustainable and equitable growth, 21% for rural poverty reduction, 17% for urban poverty reduction, 40% for human capital programs (education and health), 10% for social protection and 8% for promoting social, political and environmental promotion of the strategy.

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 after 2001 (such as EFA and the Global Fund for HIV-AIDS); to exclude some projects that were not related to PRSP goals; and to correct duplications of projects (resulting from the use of different names in the different databases of agencies such as SETCO and SEFIN).

New Definition

This appendix presents the revised PRSP definition adopted in 2003, which follows:

Programs Financed with External Resources

1. The PRSP includes programs and projects financed with external resources that are aimed at achieving specific goals in the program areas identified in the original PRSP document (six programmatic areas and 21 sub-areas). This includes not only investment projects but also projects that finance current spending to help achieve the PRSP goals.
2. Although most of the external financing is earmarked for direct investment, some externally financed programs are primarily earmarked for current spending. These include the Family Allotment Program, technical assistance programs for small-scale farmers that are administered by PRONADERS via the SAG, and PRIESS, which provides basic medical care in remote rural communities.
3. The decision of which projects to include among the externally financed PRSP projects is made by a technical committee with representatives from UNAT and SEFIN. The resulting list has been circulated among the interested parties, including civil society representatives, during the consultative process carried out in 2003. Some adjustments have been made to assure the list's coherency.

Programs Financed with National Funds

4. The national counterpart funds of all PRSP projects that are financed with external resources are automatically included within the PRSP budget.

5. **Capital spending financed by National Funds.** Within the investment budget financed with national resources, the main components that are part of the PRSP include:
 - a. All investments in the Secretariats of Education and Health.
 - b. In SOPTRAVI, investments in low-income housing, the construction and repair of secondary highways and rural roads, and rural bridges.
 - c. All Secretariat of Agriculture 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. **Current spending financed by National Funds.** The expanded definition includes current spending financed by national resources that are relevant to PRSP programmatic areas and fulfillment of its goals.

7. **Secretariat of Education.** The expanded version includes:
 - a. Salaries of teachers (excluding central administrative personnel of the Secretariat who are hired under the Civil Service structure, 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 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) is obtained from the SEFIN budgetary system. It is expected that all of this information will be consolidated in the SIARDH by 2005. Teacher salaries admissible as poverty spending are calculated at 3.5 times the per capita GDP. This figure was agreed upon with technical staff from the World Bank, based on benchmarks from neighboring countries (El Salvador and Nicaragua). To calculate the per capita GDP, information was obtained from official INE projections. The source for GDP information is the Central Bank. Once the admissible salary amount for PRSP purposes is computed, any remaining amount from total salaries is registered as non-PRSP spending for salaries. However, all salaries for personnel hired to improve the coverage and quality of education—and financed with HIPC debt relief funds—are included.
 - b. Current transfers and other spending related to developing and financing community education (PROHECO, AECO and other similar). (Transfers to universities are not included).
 - c. Other programs for developing alternative service delivery systems (including Basic Primary Schools, Educadores, and Telebásico for the primary and secondary levels, and programs for specific groups such as ethnic minorities and residents of marginal neighborhoods and rural communities).
 - d. Economic support programs to promote academic excellence and cover transportation costs, in order to improve access to education.

8. **Secretariat of Health (SS).** The expanded version includes:
 - a. The salaries of personnel providing outpatient medical care, environmental health care and infectious-contagious disease oversight, and those from hospital care programs (excluding central administrative personnel from the Health Secretariat, such as Ministers, Vice-Ministers, administrators and other administrative personnel, not including auxiliary staff from service delivery units). For purposes of the PRSP, the number of medical personnel is calculated using information from the SEFIN budgetary system. The average salary admissible per person is calculated as 5 times the per capita GDP. This figure was agreed upon with technical staff from the World Bank, based on benchmarks from neighboring countries (El Salvador and Nicaragua). To calculate the per capita GDP, information was obtained from official INE projections. The source for GDP information is the Central Bank. Once the admissible salary amount for PRSP purposes is computed, any remaining amount from total SS salaries is registered as non-PRSP spending for salaries. However, all salaries for personnel hired to improve the coverage and quality of health care—and financed with HIPC debt relief funds—are 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 basic health programs (outpatient care, environmental health/infectious-contagious diseases).
- d. Transfers to finance community programs and other third party contracts to expand and improve the coverage of basic health care.

9. **Secretariat of Agriculture (SAG).** The expanded definition includes:

- a. All spending related to rural development and poverty reduction, but none destined for the Secretariat's central administrative costs.
- b. Transfers to COHDEFOR or other agencies for administering protected areas and watershed management programs.

10. **PRAF.** The expanded version includes:

- a. All current transfers to finance programs aimed directly at beneficiaries, but not including the program's central administrative costs.

11. **FHIS.** The expanded definition includes:

- a. All current transfers to finance programs that directly reach beneficiaries, but not including the program's central administrative costs.

12. **Secretariat of the Presidency.** The expanded version includes:

- a. The School Snack program.
- b. The Healthy School program.
- c. The program on Efficient and Transparent State Procurements.

13. **Secretariat of Public Security.**

- a. Salaries financed with debt relief funds for additional personnel hired to improve the security conditions in low-income communities.

A complete and detailed list of programs and projects included in the revised PRSP, organized by financial source and economic classification, is attached. This includes time series for previous expenditures and projected spending for the 2001-2007 period.

APPENDIX E: CONTRIBUTIONS BY CIVIL SOCIETY IN THE REGIONAL CONSULTATIONS: CENTER EAST, SOUTH, WEST, NORTH, ATLANTIC SEABOARD AND AGUÁN

Observations	Proposals	Region
<p>III. Macroeconomic situation There is concern about the impacts that CAFTA will have on national producers.</p>	<ul style="list-style-type: none"> • Seek overall benefit for all sectors (small producers, big business). • Guarantee access to markets in equal conditions and adjust production to the size of the markets. • The capacity of the most vulnerable productive sectors must be strengthened to face the challenges of the FTA 	Center East, South, North, Atlantic Seaboard, West
Family remittances	<ul style="list-style-type: none"> • Train recipient families to make productive capital out of these funds. • Publicize the social cost of the remittances (family disintegration) to create awareness of the problem. 	Center East, South
Reduction of public spending and greater efficiency by the institutions	<ul style="list-style-type: none"> • Get rid of unnecessary things (PARLACEN), reduce National Congress costs, disproportionate salaries, parachuting, unnecessary bureaucracy. • Decentralize the assigning of funds, creating a legal figure for channeling funds to regional projects. 	Center East, South North, West
Honduras has slow growth	The percentage of social spending must be increased.	Atlantic Seaboard
Stability and fiscal equilibrium as permanent state policies	<ul style="list-style-type: none"> • Rationality and efficiency of public spending, better tax collection (avoid tax havens). 	Center East
Financing for production	<ul style="list-style-type: none"> • Timely, sufficient and low interest rates. • Create and strengthen the access mechanisms to soft loans for the MIPYME. 	Center East, South, North, Atlantic Seaboard, West
<p>VI. Progress by Programmatic Areas</p>		
<p>A. Equitable and Sustainable Economic Growth</p>		
The country cannot remain isolated from the world trend.	<ul style="list-style-type: none"> • Create the conditions that stimulate the competitiveness of the businesses, based on efficiency and productivity of investment (Review of the fiscal, monetary and financing policies). 	Center East, South
Financing conditions are not favorable.	Establish a strategy so that resources will have an impact.	South
	<ul style="list-style-type: none"> • Lower interest rates and extend financing deadlines. • Improve the credit conditions for users. • Training of workers in the production of folkloric articles in each zone of the country. • Improve the road infrastructure of zones with tourist potential. • Facilitate access to working capital so that the businesses can become more competitive. • It is necessary to get more donated funds. 	South South South La Ceiba La Ceiba South Center East
	<ul style="list-style-type: none"> • The HIPS resources must be geared to financing social programs and their use should be verified through audits. • Streamlining of resource disbursement processes, elimination of bureaucratic barriers. • Strengthen the financing institutions in support of the productive sectors and housing. (FONAPROVI, BANADESA) • There should be representation of the productive sectors within BANADESA and FONAPROVI. • The destiny of resources must be the productive sector, not the informal one • The Government should directly support the social sector of the economy 	Center East Center East Center East Center East Center Center South
B. Reducing Poverty in Rural Zones	<ul style="list-style-type: none"> • There should be a program in the PRSP that develops the land tenure of the indigenous and black peoples. There should be legal security in the land and territorial tenure contained in the ILO Convention 169 	Center East, South

Observations	Proposals	Region
<p>PRONADERS, PACTA, FUNDER</p> <p>Social projects are reflected only in spending but with no impact.</p> <p>Problem in coordination.</p>	<ul style="list-style-type: none"> Consolidate, expand and strengthen PRONADERS and PACTA Avoid the politicization of PRONADERS FUNDER is not functioning efficiently There should be clear policies to promote development projects. Conduct social audits. 	<p>North - West</p> <p>Center East, San Pedro Sula Center East,</p>
<p>The titling programs are inefficient</p> <p>Agro-food Chains Programs have not been sufficiently socialized with the producers in general.</p>	<ul style="list-style-type: none"> Integrate producers more into project implementation. Strengthen the adjudication, titling and land clean-up projects, and the land titles should be granted in the name of the couple (Agricultural Modernization Law) The state should reduce the purchase price of land, since it is difficult for peasants to compete. Improve the access of small and medium producers to support services for improving their activities. Create social reactivation policies to avoid peasant emigrations to the cities. Greater invitations and participation at all levels of producers. Strengthening and development of commercialization chains, training for producers and information for consumers. Facilitate access by women's groups (agricultural, livestock) to the diverse projects and to property titles. The local market should be ensured to support small producers. Community development projects must be sustainable. 	<p>South North</p> <p>South</p> <p>South North</p> <p>South - North</p> <p>Central North</p> <p>Center East, North South</p> <p>South</p> <p>Central</p>
<p>Support for Rural Housing Programs</p> <p>Access to housing is difficult and inflexible.</p>	<ul style="list-style-type: none"> More flexible conditions (mechanisms and requisites) should be provided to access housing Educate and create awareness in beneficiaries to encourage their participation (learn doing). Strengthen and consolidate the program. The Housing Programs should be adequate and suitable, with basic services. Develop housing programs for people who earn less than or equal to the minimum wage Property titles provided by the state so they can be used as a bank guarantee for housing financing. Expand the support resources for housing and they should be administered by organized sectors of society 	<p>Center East, South North - West</p> <p>Center East,</p> <p>Center East, North</p> <p>Center East, South</p> <p>North - West</p> <p>South</p> <p>North</p>
<p>C. Poverty Reduction in Urban Zones</p> <p>Stimulus and support to MIPYME</p> <p>PRSP is considering support to the MIPYME</p> <p>There was not enough disaggregation of the interventions in the MIPYMEs in the document.</p> <p>The role of people with disabilities is not specified in the MIPYME interventions.</p> <p>The technical assistance is of bad quality.</p>	<ul style="list-style-type: none"> Reflect in the document the actions implemented to strengthen the MIPYMEs. Implement micro-business programs with participation by people with disability. Send specialized technicians to the rural zones, and the projects should arise from the communities themselves and respond to the nature of the productive resources. Adjudication of funds to micro businesses. Social audit of the financial organizations that support the MIPYMEs. Strengthen the national MIPYMEs to make them competitive. Have a country strategy to support the MIPYMEs. 	<p>Center East,</p> <p>Center East, Atlantic Seaboard</p> <p>South</p> <p>Center San Pedro Sula La Ceiba</p>

Observations	Proposals	Region
Training	<ul style="list-style-type: none"> ● Provide training to the peasantry to have access to the MIPYME. ● Give INFOP more support to provide training to the peasantry. ● Assign more economic support to the organizations or institutions dedicated to training. ● Strengthened the organized women's groups. 	North, West, Atlantic Seaboard South
Competitiveness Programs for the MIPYMEs	<ul style="list-style-type: none"> ● Disseminate the opportunities that the National Center of Agribusiness Promotion offers. ● Identify export market niches for the MIPYMEs. ● Reflect in the document the actions implemented to strengthen the MIPYMEs. 	Copan
PRSP considers support to the MIPYME. Not enough disaggregation of the interventions in the MIPYMEs was done in the document.		Center East
Promote the municipalization of the Water and Sanitation Systems		
Lack of socialization of the law.	<ul style="list-style-type: none"> ● Disseminate the law before it expires. 	Center East
The municipalization tendency is toward privatization.	<ul style="list-style-type: none"> ● Water boards must administer their systems. ● Financial support to Water Boards at a national level. 	Center East
Coverage of the systems	<ul style="list-style-type: none"> ● Avoid the privatization of water. ● Improve the coverage and auditing of the cleansing and distribution of water. ● Conduct periodic inspections of the quality processes of the water the people receive. 	West, Atlantic Seaboard South
D. Investment in Human Capital.		
Improve educational quality at the diverse levels		
The role for support to people with disabilities is not reflected	<ul style="list-style-type: none"> ● Approve the General Education Law. ● Give participation to people with disability in the Framework Education Law. ● Support the programs of the ministries of education, health and labor in the sense of including people with disability ● Review of organizations that work with disability so that the Secretariat of Education can give more support and they can be sustainable. 	Center East, Center East, Center East, Center East, South
The educational system is awful	<ul style="list-style-type: none"> ● Implement the school BREAKFAST ● Deepen the reform of the educational system. ● Continue the programs of EDUCATODOS and PROHECO. ● Avoid party politicization in the educational system. ● Increase educational coverage in Choluteca and Valle. ● Expand the literacy projects to parents in the rural zones. ● Increase the resources to expand access to education ● Create new mechanisms for access to educational scholarships. ● Create a differentiated curriculum for intercultural, bilingual education. ● Improve the salary aspect of the teachers who visit the most outlying zones of the country. ● The school snack should be eliminated and school breakfast and lunch implemented in the rural zones. ● English and computer classes should be implemented. ● Greater access to school infrastructure in the more remote zones, especially in the zone of the Mosquita. ● Alleviate the educational burden on parents by having the government assume the responsibility for education that constitutionally corresponds to it. ● Change the educational policies and programs, as they are obsolete. ● The gains of the teachers should be recognized to avoid lost class time. 	Center East, Atlantic Seaboard South, La Ceiba South South Atlantic Seaboard Atlantic Seaboard Atlantic Seaboard Atlantic Seaboard Atlantic Seaboard Atlantic Seaboard Atlantic Seaboard Atlantic Seaboard Atlantic Seaboard Atlantic Seaboard

Observations	Proposals	Region
	<ul style="list-style-type: none"> Graduation costs should be reduced at all educational levels. Improve access to technical education from the primary level. 	Atlantic Seaboard Atlantic Seaboard
Achieve greater efficiency and quality in the health services	<ul style="list-style-type: none"> Create health programs for attention to obesity. 	Center East
Actions to improve the provision of health services need to address both quality and quantity	<ul style="list-style-type: none"> Do an audit of posts to depoliticize areas that deal with health issues. 	Center East, South
The medical team of the Mosquitia isn't functioning.	<ul style="list-style-type: none"> Audit the Global Fund. 	
Bureaucratization of the Service.	<ul style="list-style-type: none"> Exercise strict control over contaminants and products that damage the population's health. 	Center East, South
There are delays in getting the programs underway.	<ul style="list-style-type: none"> Establish truly preventive actions. 	South
	<ul style="list-style-type: none"> The government should efficiently supply all hospitals and health centers of urban zones with medical-hospital equipment and medications. 	Center East, South, Atlantic Seaboard
There is health infrastructure that has neither human resources nor medications.	<ul style="list-style-type: none"> Increase the budget earmarked for preventive medicine. Continue implementing the health projects 	Center East, South
	<ul style="list-style-type: none"> Incorporate the indicators of children and adults affected by HIV-AIDS and their importance to productivity 	Center East, South
	<ul style="list-style-type: none"> Take the health projects to the country's most ignored and vulnerable zones. 	Center East, South
	<ul style="list-style-type: none"> Encourage the use of birth control methods to reduce the high birth rate. 	South
High birth rate	<ul style="list-style-type: none"> Appoint doctors in the country's most remote zones. 	Atlantic Seaboard
	<ul style="list-style-type: none"> Train medical personnel and others in human relations. 	Atlantic Seaboard
	<ul style="list-style-type: none"> Train medical personnel in the indigenous and black zones 	Atlantic Seaboard
	<ul style="list-style-type: none"> Regulate the physicians' professional services to improve attention to the people. 	Atlantic Seaboard
	<ul style="list-style-type: none"> Stimulate and strengthen traditional indigenous and black medicine and others. 	Atlantic Seaboard
E. Strengthening the Protection of Specific Groups (Attention to people with extreme social vulnerability).	<ul style="list-style-type: none"> Promote the use of contraceptive methods. 	South
National policy of Attention to Disability Lack of socialization of the Action Plan. Those interested are not being participants.	<ul style="list-style-type: none"> The sector of people with disabilities must be involved in formulating the Plan. 	Center East
Lack of compliance with the Labor Law referring to the participation of those with disabilities.	<ul style="list-style-type: none"> Approval of the Law of Equity and Comprehensive Development for People with Disability 	Center East, La Ceiba
There is a law to protect the elderly but it is not honored.	<ul style="list-style-type: none"> Write off the fines, interest payments and payments on real estate for the elderly. Create centers of attention for the elderly. 	Center East, La Ceiba
Gender Equity Policy. There has been discrimination in diverse areas (politics, labor and intellectual) Agreement with Action Plan for the Eradication of Child Labor. There has been no genuine implementation of the programs.	<ul style="list-style-type: none"> Gender equal opportunities should be applied. Support the national Action Plan for the eradication of child labor All state institutions should be guided in the policy on women. Commitments should exist in the municipal governments toward the vulnerable sectors. Projects in general should be depoliticized and specifically those implemented by the mayors' offices. Legally regulate access to employment for people over 35 years old. Implement counseling at the municipal level on behalf of women and the family Increase the HIV-AIDS programs for socially at-risk children Create an awareness-building program for private enterprise. 	Center East Center East South South South Atlantic Seaboard Atlantic Seaboard Atlantic Seaboard Atlantic Seaboard

Observations	Proposals	Region
	<ul style="list-style-type: none"> Respect the cultural autonomy and identity of indigenous and black peoples. Design programs to learn about cultural diversity and disseminate them at a national and international level. The basic needs of indigenous and black people must be fulfilled. Greater participation in decision-making Create an institute of Black and Indigenous People 	<ul style="list-style-type: none"> Atlantic Seaboard Atlantic Seaboard Atlantic Seaboard Atlantic Seaboard Atlantic Seaboard
F. Guaranteeing the Strategy's Sustainability		
Participatory Democracy, Justice and Public Security		
Agrees with the security measures adopted	<ul style="list-style-type: none"> Apply justice equitably 	Center East
Much promotion of the image of the authorities involved	<ul style="list-style-type: none"> Anonymity of witnesses 	Center East
White-collar thieves go free	<ul style="list-style-type: none"> Improve the justice system. 	South
Public security programs are inefficient	<ul style="list-style-type: none"> Create adequate mechanisms such as motivation and creating awareness in the population. 	South
The security policy must be preventive and not reactive.	<ul style="list-style-type: none"> Create programs for the reinsertion of delinquents into society. 	South
	<ul style="list-style-type: none"> Change the election system, electing the President, legislators and mayors on different dates. 	
	<ul style="list-style-type: none"> The active political forces of the zone should be the direct representatives in the different sectors and not those who only have businesses in the zone but live in the cities. 	South
	<ul style="list-style-type: none"> Create a civic culture for the democratic process through civic education. 	South
Transparency and Accountability		
Constitution of TSC	<ul style="list-style-type: none"> Guarantee transparency in all Public Administration activities, especially in the implementation of social programs 	Center East
	<ul style="list-style-type: none"> The Superior Accounts Court should fulfill the functions for which it was created. 	South
There has not been enough transparency in management of the resources	<ul style="list-style-type: none"> Democratic participation by the communities in assigning a funds administrator for the projects. Expand civil society's participation to those involved directly. This participation must be reflected in the documents. 	Center East
	<ul style="list-style-type: none"> Create a supervisory entity within the community. 	South
	<ul style="list-style-type: none"> Attack corruption to be able to implement the PRSP in a better manner. 	South
	<ul style="list-style-type: none"> Create an ongoing mechanism for filing charges to eradicate corruption at all levels. 	South
	<ul style="list-style-type: none"> Improve the work of the Municipal Commissioners and assign them a wage to ensure their functioning and see that they submit reports on their work. 	
	<ul style="list-style-type: none"> Expand the transparency commissions to the municipal level. 	South
	<ul style="list-style-type: none"> Name the people who hold public posts based on their capacity and honorability toward society. 	South
	<ul style="list-style-type: none"> The funds earmarked for social programs should not be diverted to other places. 	South
	<ul style="list-style-type: none"> Avoid the payment to people who do not work (parachutists) 	Center East, South
G. Improving Environmental Protection and Risk Management		
Electricity rates are very high.	<ul style="list-style-type: none"> Take advantage of the potential of hydropower generation to replace thermal generation. 	Center East, South
2. Other actions for Fostering Economic and Social Development		
	<ul style="list-style-type: none"> Design a national employment policy and create the conditions that allow the quality of employment to improve. 	Center East, South
	<ul style="list-style-type: none"> Go to the zones and do the studies necessary to learn the conditions in order to generate job opportunities. 	South
	<ul style="list-style-type: none"> Ensure permanent employment and not temporary conditioned employment. 	South
	<ul style="list-style-type: none"> Ratification of international social conventions and treaties. 	Center East
VII. Medium- and Long-Term Planning		
	<ul style="list-style-type: none"> Planning and Programming 	
	<ul style="list-style-type: none"> Urge approval of the reforms to the Public Administration and Civil Service Laws 	Center East, South,
	<ul style="list-style-type: none"> Inform the citizenry about the opportunities and conditions of international cooperation (e.g. Millennium Account) 	West, Atlantic Seaboard

Observations	Proposals	Region
	<ul style="list-style-type: none"> Disaggregate the projects by regions, in the framework of the Regional Strategy The requirements and measures for the projects are annoying and seem to be a strategy to avoid concretizing the disbursement of funds to people 	Center East, South West, North
	<p><u>Decentralization</u></p> <ul style="list-style-type: none"> Greater participation and implementation obligation by the municipal governments in the PRSP implementation Decentralization of resources for local projects that arise out of community needs and respond to the productive nature of the resources (human and other) Greater support to community organizations and construction of operational capacities at the local level for drafting profiles of local projects. <p><u>Demand for Projects</u></p> <ul style="list-style-type: none"> Program planning considering the local demands Participation of the municipalities in the institutional framework of the PRSP Focus programs and projects on the vulnerable groups (disabled and Third Age) Establish a system of Target Priorities for national development, focusing on a Country Plan that considers the needs and available resources. 	Center East, South, North, West
	<p><u>Progress in Follow-up on Indicators</u></p> <ul style="list-style-type: none"> Update the disaggregated indicators (hamlets, villages, communities, municipalities) In-depth review of the indicator classifications (of Input, Process and Impact) Strengthening of the SIAFI to make the use of budget resources transparent 	Center East, West West North
	<p><u>Impact Evaluation</u></p> <p>PSIA studies – Expand the Poverty Measurement instruments and dissemination of results</p> <p>Conduct ex-ante PSIA studies.</p> <p><u>Follow-up and Involvement of Civil Society (SC)</u></p> <p>Link SC planning with PRSP planning and the government's National Plan</p> <p>Expand the participation of the productive sectors</p> <p>Lack of representativeness of CS under an expanded sense</p> <p>Financing for the SC's Socialization Workshops</p> <p>Establish communication channels at the different levels of CS (local, regional and national)</p> <p>Publicize the topic and meaning of Planning and Follow-up in popular language.</p>	Center East, West Center East, South, North, Atlantic Seaboard
<p>VIII. Monitoring and Evaluation</p> <p>Participation levels important for the follow-up to policies and programs.</p> <p>The previous progress reports have not been disseminated enough.</p> <p>Sector-wide roundtables are a good arena for consultation</p> <p>Communication problems with the members in some tables and there isn't the proper convocation.</p> <p>In the case of the agricultural roundtable, the objectives proposed have not been fulfilled.</p> <p>The SIERP is a good instrument for providing follow-up, publicity and socialization of everything related to PRSP.</p> <p>Little coverage due to limited access to computer technology.</p> <p>National Dialogue is a good mechanism for externalizing the public's criteria. It has not given the results expected.</p> <p>Consultation on progress reports is a good informative and consultation mechanism. The background information related</p>	<ul style="list-style-type: none"> Create a more fluid, transparent and public information system for the PRSP progress documents. Improve the communication system, establishing the necessary mechanisms. Fulfill the recommendations of the roundtable Strengthen the SIERP Seek other mechanisms of alternative outreach. Socialize the functions of the SIERP in detail Strengthen the dissemination of Regional Indicators Seek adequate mechanisms so that the results of the dialogue will be fulfilled. Maintain consultation processes about the future PRSP progress reports 	Center East Center East Center East Center East, West, Atlantic Seaboard Center-South Center East, West

Observations	Proposals	Region
<p>to reports I and II was not disseminated.</p> <p>It is recognized that the processes of civil society participation are expanding.</p>	<ul style="list-style-type: none"> • Local educational committees should be formed to report on the PRSP implementation processes, as well as the creation of Technical Units of evaluation and monitoring at the local level to then add it to the national level • The information is not gathered in the places where it is most needed • There should be municipal concertation to learn the true needs of the communities. • There should be coordination among civil society to continue with the consultation spaces so that there is continuity of the PRSP independent of the government in office at the time. • Strengthen the dialogue and consultation processes with training for the SC's grassroots organizations on the Government Plans and technical documents (PRSP). • Greater direct participation by women in the dialogue arenas. • There should be direct participation by the involved sectors for the formulation, implementation and follow-up of the programs and policies framed within the PRSP. • Application of 1% of the project amount for monitoring by CS 	<p>North, South, Atlantic Seaboard</p> <p>South</p> <p>South</p> <p>North, South, Atlantic Seaboard</p> <p>South</p> <p>South, Atlantic Seaboard</p> <p>Center East, South</p>
<p>IX Challenges in the implementation of the PRSP</p> <p>Continuity in implementation of the PRSP.</p>	<ul style="list-style-type: none"> • The National PRSP should be elevated to a state public policy. • Strengthening of the organizational structures of the beneficiary sectors and vulnerable groups of the PRSP. • Prepare a dissemination plan that is done through popular publications • Ensure that the PRSP resources consigned in the General Budget of the Republic are implemented in the programs and projects for which they have been earmarked. • Ensure the continuity of the PRSP through political pacts with presidential pre-candidates. • Encourage greater participation of women as implementers of the PRSP and socialize the information at the local government level. • Ensure that the PRSP resources consigned in the General Budget of the Republic are implemented in the programs and projects for which they have been earmarked. • Train leaders, facilitators and other personnel who can make the PRSP known in their regions. • Include in these regional consultations representatives of the competent policy levels who have decision-making power to be able to provide firm responses, thus avoiding discouragement in the population, since opinions are expressed that are not implemented in these national policies. • Strengthen the CCERP by having the social sectors represented in the decision-making about some government actions • Join the Agricultural Roundtables, the Grand National Dialogue and the PRSP to have a vision of country demanded by civil society. • Strengthen the civil society organizations, especially the boards, for implementation of the PRSP. • Strengthen the indigenous communities, supporting them in the drafting, editing, illustrating, reproducing and distributing of texts in their own language. • Hold later meetings for feedback and follow-up to the Consultation Processes being conducted, ensuring sincere and transparent dialogue between the government and the region consulted. 	<p>Center East, South</p> <p>Center East, South</p> <p>Center East, South</p> <p>Center East, South</p> <p>North – West</p> <p>North – West</p> <p>North – West</p> <p>North – West</p> <p>North – West</p> <p>Center East, South</p> <p>North – West</p> <p>Center East, South</p> <p>North – West</p> <p>Center East, South</p> <p>North – West</p>

Observations	Proposals	Region
<p><u>Approve Basic Laws</u></p>	<ul style="list-style-type: none"> • General Water Law, both make possible the implementation of the strategy of payment for environmental goods and services • Comprehensive Law of Protection for the Elderly • Law of equity and comprehensive development of people with disability • Reforms to the Agricultural Modernization Law • Comprehensive Law for the Elderly • Mining and Agroforestry Law • Simplification of the procedures for obtaining patents, sanitary records, labels and bar codes • Reforms to the Law Against Domestic Violence • Approval of laws through broad consensus among the different sectors of civil society, government and cooperants to avoid favoring particular interests. • Review the CNA Law, incorporating government participation, particularly the executive branch and National Congress • Simplify and depoliticize the Public Administration Law • Reform the Civil Service Law • Legislate regarding the mass media so that it can publicize the PRSP correctly and assume a more informational and educational role. • Create a law to be able to provide follow-up to the PEDM processes that oblige municipal corporations to give them continuation. • Legislation on Social Audits • Create and socialize a Law of Political, Financial and Economic Transparency, to be able to see all government budgets, including that of the President, and NGOS • The Property Law should be fulfilled 	<p>Center East, South</p> <p>Center East, South</p> <p>Center East, South</p> <p>Center East, South</p> <p>Center East, South</p> <p>South</p> <p>Center East</p> <p>West, North</p> <p>West, North</p> <p>West</p> <p>West</p> <p>North</p> <p>North</p> <p>North</p>
<p>Target Spending to Most Vulnerable Sectors</p>	<ul style="list-style-type: none"> • Implementation of the National Disability Policy and make the National Disability Plan available for its consensus. • Provide continuity and support to programs directed to vulnerable sectors, particularly the FIDAS program. • Visualize the importance of quality, not only coverage, in education and health • Civil society should have a considerable percentage of participation in the implementation and evaluation of the PRSP projects. • Simplify administrative procedures that help streamline the formation of businesses dedicated to tourism. • Eliminate high levels of politicization at all its levels. • Target funds for the development of micro business, providing soft credits and easy access conditions. • Target PRSP funds equitably to the different regions of the country, using input for investment in programs and projects within the regional PRSPs. • Seek support for the peasant sector, emphasizing peasant women. • Inspect the financial accounts of the NGOs. • Training of the communities in project formulation and preparation • Genuinely make use of the benefits of the programs and projects being implemented and detailed in the documents. • Directly benefit the homeless with the housing projects 	<p>Center East</p> <p>Center East, South</p> <p>South</p> <p>South</p> <p>South</p> <p>North – West</p> <p>North – West</p> <p>North – West</p> <p>North – West</p> <p>North – West</p> <p>North – West</p> <p>North – West</p> <p>Center East</p> <p>Center East</p> <p>South</p> <p>South</p> <p>South</p> <p>North – West</p> <p>North – West</p> <p>North – West</p>
<p>Align Public Investment and External Cooperation</p>	<ul style="list-style-type: none"> • Provide continuity to the sector-wide roundtables and incorporate regional roundtables • Reactivation of the Departmental Development Councils and their incorporation into the processes of the sector-wide roundtables. • Avoid the International Organizations working without coordinating with the Government, to work on the priorities. • Create local structures for follow-up on programs and projects of external cooperation. • Create an organism for associating all the NGOs and they should coordinate to be accountable for their work. • Align supply at the national level, ordering ourselves internally first to then create order at the international level • The municipalities should present their annual investment plan to the G17 to solicit the percentage they are short. • Improve the capacity to lower the debt • There should be a link between the PRSP and the Millennium Goals proposals 	<p>Center East</p> <p>Center East</p> <p>South</p> <p>South</p> <p>South</p> <p>North – West</p> <p>North – West</p> <p>North – West</p> <p>North – West</p> <p>North – West</p> <p>Center East</p> <p>Center East</p> <p>South</p> <p>South</p> <p>South</p> <p>North – West</p> <p>North – West</p> <p>North – West</p>

Observations	Proposals	Region
<p>Articulate Local Supply and Demand in the Framework of the PEDMs</p>	<ul style="list-style-type: none"> • Reorient national resources so that we do not depend only on foreign resources for project implementation. • Create transparency in resource use by the local government, where Civil Society has to act to verify this through the Civil Society Transparency Commissions at all government levels (local and central), National Congress, customs, etc. • Demand better use of the time paid to public employees, teachers, physicians, etc., and monitoring of it. • Seek an entity, social audit mechanisms and community participation when implementing a project to demonstrate transparency. • Eliminate the publicity campaigns of candidates to popularly elected posts with state money. 	<p>North – West North - West</p> <p>North – West North – West North - West</p>

Prepared based on the contributions of the groups in the Center-East, South, North (San Pedro Sula) and West regions. 18/01/05