

CONTENT

EXECUTIVE SUMMARY	i
INTRODUCTION	1
I. THE PRSP: THE CONCRETE RESULT OF A BROAD PARTICIPATORY PROCESS	3
A. CONSULTATION MODALITIES AND PARTICIPANTS.....	3
B. RESULTS OF THE CONSULTATION PROCESS	4
II. CHARACTERISTICS OF POVERTY	9
A. DIMENSION OF POVERTY	9
B. URBAN – RURAL AND REGIONAL DIFFERENCES	12
C. SOCIO-DEMOGRAPHIC PROFILE OF POVERTY	15
1. ETHNIC GROUPS	15
2. WOMEN.....	15
3. CHILDREN.....	16
4. SENIOR CITIZENS.....	17
5. PERSONS WITH DISABILITIES	18
D. THE EFFECTS OF HURRICANE MITCH ON POVERTY	18
1. HOUSING	18
2. EMPLOYMENT.....	19
3. INCOME	19
4. FACTORS OF PRODUCTION	20
III. DETERMINANTS AND EFFECTS OF POVERTY	21
A. ECONOMIC GROWTH AND PER CAPITA INCOME	21
1. PER CAPITA GDP: LEVEL AND TRENDS	21
2. SAVINGS & INVESTMENT	22
3. EFFICIENCY OF THE FACTORS OF PRODUCTION AND COMPETITIVENESS	23
4. DEMOGRAPHIC DEPENDENCY	25
B. LABOR MARKET, WAGES AND SALARIES	26
1. WAGE AND SALARY LEVELS AND TRENDS	26
2. EMPLOYMENT TRENDS	28
3. WORKING WOMEN	29
4. CHILD LABOR	29
C. ADJUSTMENT AND STABILIZATION MEASURES.....	30
D. INCOME DISTRIBUTION AND ACCESS TO PRODUCTIVE ASSETS	32
1. GINI COEFFICIENT OF INCOME DISTRIBUTION	32
2. ACCESS TO THE FACTORS OF PRODUCTION	33
3. MICRO, SMALL AND MEDIUM SIZE ENTERPRISES	35
E. SOCIAL EXPENDITURES AND HUMAN CAPITAL.....	35
1. SOCIAL EXPENDITURES BY SECTORS.....	35
2. TRENDS IN THE PERFORMANCE OF THE SOCIAL SECTOR	38
F. POPULATION AND ENVIRONMENT.....	43
1. DEMOGRAPHIC TRENDS	43
2. ENVIRONMENTAL DETERIORATION IN URBAN AREAS.....	44
3. USE AND MANAGEMENT OF FOREST RESOURCES.....	45
G. GOVERNANCE AND DEMOCRATIC PARTICIPATION	47
1. TRANSPARENCY IN PUBLIC ADMINISTRATION AND CIVIL SOCIETY	48
2. CULTURE AND MORAL VALUES	48
3. MODERNIZATION OF THE STATE AND DECENTRALIZATION.....	49
IV. COMPONENTS OF THE STRATEGY	51
A. OVERALL VISION.....	51
OVERALL TARGETS	51

B.	STRATEGIC GUIDELINES	55
1.	PRIORITIZE ACTIONS THAT TEND TO REDUCE POVERTY IN A SUSTAINABLE MANNER .	55
2.	PRIORITIZE ACTIONS FAVORING THE LEAST DEVELOPED GROUPS AND AREAS OF THE COUNTRY	56
3.	STRENGTHEN CIVIL SOCIETY PARTICIPATION & DECENTRALIZATION IN THE PRS	56
4.	STRENGTHEN GOVERNANCE AND PARTICIPATORY DEMOCRACY WITHIN THE PRS FRAMEWORK	58
5.	REDUCE ENVIRONMENTAL VULNERABILITY AND ITS IMPACT ON POVERTY	58
C.	PROGRAM AREAS	60
1.	ACCELERATING EQUITABLE AND SUSTAINABLE ECONOMIC GROWTH	60
2.	POVERTY REDUCTION IN RURAL AREAS	69
3.	REDUCING URBAN POVERTY	75
4.	INVESTING IN HUMAN CAPITAL	80
5.	STRENGTHENING SOCIAL PROTECTION FOR SPECIFIC GROUPS	87
6.	GUARANTEEING THE SUSTAINABILITY OF THE STRATEGY.....	93
V.	COST AND FINANCING OF THE STRATEGY.....	101
1.	PROGRAMS AND PROJECTS CURRENTLY BEING IMPLEMENTED	101
2.	NEW PROGRAMS AND PROJECTS.....	101
3.	FINANCING PRS PROGRAMS AND PROJECTS	103
VI.	OPERATIONAL FRAMEWORK OF THE STRATEGY.....	107
A.	INSTITUCIONAL FRAMEWORK OF THE STRATEGY.....	107
1.	ORGANIZATIONAL STRUCTURE.....	108
B.	FOLLOW-UP AND IMPACT EVALUATION OF THE PRS.....	113
1.	MONITORING AND EVALUATION FRAMEWORK AND DATA SOURCES	113
2.	CIVIL-SOCIETY PARTICIPATION IN MONITORING AND EVALUATION OF THE PRS	114
3.	DIFFERENTIATED IMPACT ON TARGET GROUPS	114
VII.	RISKS OF THE STRATEGY	117
A.	NATIONAL CONSENSUS.....	117
B.	IMPLEMENTATION CAPACITY.....	117
C.	FISCAL PRESSURES	118
D.	LACK OF APPROPRIATE EXTERNAL RESOURCES	118
E.	DEVELOPMENTS IN THE WORLD ECONOMY	118
F.	NATURAL DISASTERS.....	119
ANNEXES		
ANNEX A:	PRS POLICY MEASURES AND RESULT INDICATOR MATRIX	
ANNEX A.1:	PRIORITY LEGAL AND INSTITUTIONAL MEASURES MATRIX	
ANNEX B:	POVERTY REDUCTION STRATEGY PROGRAMS AND PROJECTS	
ANNEX C:	CURRENT OR IN ADVANCED PIPELINE, PROGRAMS AND PROJECTS RELATED TO THE POVERTY REDUCTION STRATEGY	
ANNEX D:	STATISTIC TABLES	

GLOSSARY of ACRONYMS USED

AMHON	Municipal Association of Honduras
AFE-COHDEFOR	State Forest Administration
AHIBA	Honduran Banking Institution Association
AHM	Honduran "Maquila" (Assembly) Association
AMADHO	Lumber Association of Honduras
BCH	Central Bank of Honduras
ECLA	Economic Commission for Latin America
CESAMO	Medical-Dental Health Center
CESAR	Rural Health Center
CESCO	Study and Control of Contaminant Center
CGR	General Controller of the Republic
CIDEM	Women's Rights and Information Centers
CN	National Congress
CNBS	National Banking and Insurance Commission
CODEM	Municipal Development Council
CODESE	Development of the Social Sector of the Economy Councils
COHDEFOR	Honduran Forest Development Corporation
COHDESSE	Honduran Development of the Social Sector of the Economy Council
COHEP	Honduran Private Enterprise Council
COSUDE	Swiss Cooperation for Development
CONPAH	Confederacy of Aboriginal Peoples of Honduras
COPECO	Permanent Contingency Commission
CSJ	Supreme Court of Justice
DGEC	General Statistics and Census Directorate
DICTA	Agricultural and Cattle Science and Technology Directorate
ENEE	National Electric Energy Enterprise
ENESF	National Epidemiological and Family Health Survey
PMHS	Permanent Multi-Purpose Housing Survey
ERP	Poverty Reduction Strategy
ESA Consultores	Economy, Society and Environment Consultants
FCM	Community Medicinal Funds
FIDE	Research and Development of Exports Foundation
FRP	Poverty Reduction Fund
FHIS	Honduran Social Investment Fund
FINSA	National Finance for Food Security
FMI	International Monetary Fund
FNUAP	United Nations Population Fund
FONAC	National Convergence Forum
FOPRIDEH	Private Development Organization Federation of Honduras
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GTZ	German Technical Cooperation (German acronym)
HIPC	Highly Indebted Poor Countries Initiative
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HONDUTEL	Honduran Telecommunications Enterprise
ICP	Poverty Composed Index
IDH	Human Development Index
IHAM	Honduran Senior Citizen Assistance Institute
IHNFA	Honduran Children and Family Institute
IHSS	Honduran Social Security Institute

IHT	Honduran Tourism Institute
ILO	International Labor Organization
INCAE	Central American Business Administration Institute
INPREMA	National Teachers Pensions Institute
INPREUNAH	National Autonomous University of Honduras Employee Pension Institute
INA	National Agrarian Institute
INAM	National Women's Institute
INE	National Statistics Institute
INFOP	National Professional Training Institute
INJUPEMP	National Public Employees Retirement and Pension Institute
IPC	Consumer Price Index
IPH	Human Poverty Index
IPEA	Applied Economic Research Institute (Portuguese acronym)
IPM	Military Pension Institute
IPSP	Journalist Social Pension Institute
JICA	Japanese International Cooperation Agency
JNBS	National Social Well-being Board
LMDSA	Modernization and Development of the Agricultural Sector Law
LP	Poverty Line
MIPYME	Micro, Small and Medium Enterprise
MP	Public Ministry
NBI	Basic Unsatisfied Needs
NBS	Basic Satisfied Needs
NGO's	Non Government Organizations
OCDE	Cooperation and Economic Development Organization
OICH	Joint Implementation Office of Honduras
OMC	World Trade Organization
OMS	World Health Organization
PAS	Central Bank of Honduras Social Action Plan
PEA	Economically Active Population
PIB	Gross Domestic Product
PMRTN	National Reconstruction and Transformation Master Plan
PNUD	United Nations Development Program
PP	Political Parties
PPA	Purchasing Power Parity
PRAF	Family Assignment Program
PRAP	Public Administration Reform Program
PRIMHUR	Integral Urban Housing Improvement Plan
PRODEMHN	Municipal Strengthening and Local Development Program in Honduras
PRODEPAH	Agricultural Policy Development Project of Honduras
PROHECO	Honduran Community Education Program
PRONADERS	National Sustainable Development Program
PROVICEP	Housing Complement to Self-Effort Program
PVMR	Minimum Rural Housing Program
RIN	
SAG	Ministry of Agriculture and Livestock
SANAA	National Autonomous Aqueduct and Sewage Service
SCAD	Ministry of Culture, Arts and Sports
SDP	Ministry of the Presidency
SE	Ministry of Education
SECPLAN	Ministry of Planning, Cooperation and Budget
SEFIN	Ministry of Finance
SERNA	Ministry of National Resources and Environment

SGJ	Ministry of Governance and Justice
SIAFI	Integrated Finance Administration System
SIC	Ministry of Industry and Commerce
SINACOIN	National System of International Cooperation
SINASEP	National Public Policy Follow-up System
SINEG	National Management Evaluation System
SINIMUN	National Municipal Information System
SNITTA	National Agro-forest Technology Research System
SISPU	Public Investment System
SOPTRAVI	Ministry of Public Works, Transportation and Housing
SPNF	Non Finance Public Sector
SS	Ministry of Health
ST	Ministry of Tourism
STSS	Ministry of Labor and Social Security
UNAH	National Autonomous University of Honduras
UNAT	Technical Support Unit
UNICEF	United Nations Children Education Fund
UTL	Local Technical Units
UPEG	Planning and Management Evaluation Unit
UPET	Efficiency and Transparency Program Unit
UPNFM	National Teachers University Francisco Morazán
UPS	Service Provider Units
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

THE PARTICIPATORY PROCESS OF THE PRSP

1. The Poverty Reduction Strategy Paper (2001-2015) was developed within a broad framework of participation by Honduran civil society, achieving in this way a sense of ownership that is instrumental to its long-term sustainability. This participatory process took place between January 2000 and May 2001, with the direct participation of 3,500 representatives from civil-society organizations. In many cases, participants brought with them mandates based on grassroots consultations carried out by their organizations with their members.
2. The meetings and the definition of the working methodology for the consultations were jointly programmed with the main actors. These actors were invited through the Social Cabinet and the Civil Society Participation Commission for National Reconstruction and Transformation, which represents the National Convergence Forum, Espacio Interforos, the Association of Municipalities of Honduras, the Honduran Federation of Private Development Organization, and the Chambers of Commerce and Industry of Tegucigalpa and Cortés. Local government authorities and deputies of the National Congress also participated.
3. The results of each meeting and the written proposals put forward by civil-society organizations were sorted, summarized and analyzed to find common issues and evaluate them on the basis of technical criteria in the context of the economic and social viability of the country. Based on these efforts, the final version of the PRSP is fully developed and also includes a series of topics proposed by civil society. Nevertheless, some issues were not included because they would require a broad national debate in order to reach an acceptable level of consensus. In these cases, general objectives and guidelines were set forth to guide future deliberation.

CHARACTERISTICS OF POVERTY

4. Due to the multidimensional nature of poverty, different methods of measurement were considered, each of which shows that the magnitude of poverty in Honduras is high, although there was moderate improvement during the previous decade. In 1999 approximately 66% of households were below the Poverty Line and almost 49% were in the category of extreme poverty, indicating a slight improvement compared to the respective 1991 figures of 75% and 54%. The Unsatisfied Basic Needs methodology reveals a more favorable trend, with the number of households with UBN decreasing from 67% to 47% between 1990 and 1997. Nevertheless, the nutritional status of schoolchildren is of concern, and the level of Human Development in Honduras continues to be one of the lowest in Latin America, mainly due to the low per capita income.
5. In 1999, 57% of urban households were below the poverty line, as were 75% of households in rural areas. Also, conditions of extreme poverty (indigence) affected almost 37% of urban households and 61% of rural households. This means that 59% of poor households and 65% of the indigent are rural. Moreover, the impact of Hurricane Mitch was concentrated in rural areas, causing an increase in the level of indigence of 5.5 percentage points.

6. The departments with the highest percentage of households with UBN are located in the southern and western regions of the country (Copán, Valle, Choluteca, Lempira and Intibucá), although 35% of households with UBN are in Francisco Morazán and Cortés because of their larger populations. Among the groups with a higher risk of falling into poverty are those between 0 and 14 years of age (66% under the poverty line); senior citizens (55% of households with senior citizens as heads of family are poor); and persons with disabilities.

CAUSES AND EFFECTS OF POVERTY

7. Among the causes of poverty in Honduras, particularly important are those linked to slow economic growth and low per capita income; the unequal distribution of income and factors of production; the low level of education; and the low productivity of employment. Poverty is also linked to other factors such as demographic pressure and its effects on natural resources; the low level of democratic participation by the poor; the deterioration of cultural values; and the weakness of local governments.
8. Each percentage point of per capita GDP growth reduces poverty by 0.65 points, while the Latin American average is 0.94 points. This low rate of transformation of GDP growth into poverty reduction reflects the limited access to productive assets, including land, credit and secondary and technical education, as well as the biased structure of income and wealth distribution.
9. Although the proportion of social spending as a percentage of total public expenditures rose from 34% in 1994-96 to close to 42% in 2000, expenditures vary more than real service delivery because they are affected largely by the pattern of adjustments in salaries, which represent a very high proportion of total expenditures. Likewise, the dynamics of social spending has been restricted by the size and growth rate of the Gross Domestic Product, the volume of fiscal revenues and the restrictions imposed by obligations such as payment of the foreign debt.
10. The performance of the social sectors reflects the need to undertake greater reforms, aimed at improving the quality and coverage of services, mainly for the poorest. There has been some progress in the education sector during the last few years, mainly at the primary-education level; nevertheless, coverage is still low at the secondary level, particularly in technical-vocational training, and in higher education, and there is a high incidence of grade repetition and of school desertion. The health sector also displays significant advances, linked to preventive health programs, particularly in maternal-infant health, as well as to greater coverage of basic sanitation services. Despite these gains, problems persist in the form of high rates of undernourished children; high infant mortality in children less than 5 years old; and a high rate of maternal mortality; among others.
11. Likewise, increased potable-water coverage did not take place within a legal and institutional framework that would encourage greater efficiency, coverage and quality. In the housing sector, public funds have been allocated to projects beyond the reach of poor families, resulting in marginal neighborhoods often built on sites unsuitable for habitation, lacking basic urbanization, full of environmental problems and exposed to natural disasters. Social-security coverage is one of the lowest in Latin America, which together with low pensions and lack of equity in the distribution of benefits within the system, contributes to raising the incidence of poverty among senior citizens.

12. Due to the high poverty and unsatisfied basic needs rates prevailing in rural areas, especially in the south, center-south and western areas of the country, these areas have experienced constant population outflows. In recent years the flow of migration has been mainly toward the most important cities of the country, as well as to rural areas that are promising but also ecologically fragile. At the present time, urban-urban migration prevails, with rural-rural migration flows in second place. This migratory phenomenon has been causing accelerated loss of natural resources, increased urban as well as rural environmental deterioration and greater vulnerability to natural disasters.
13. The increasing flow of migrant populations to urban centers, added to the lack of land-use and urban-development planning, has aggravated the problems of environmental deterioration and pollution, with a strong impact on human health. According to the Environmental Profile of Honduras 1990-1997, water resources are the receptacle of the environmental problems of the country, affected by factors such as pollution resulting from insufficient sanitary infrastructure and sedimentation caused by upper-basin degradation. Added to these problems is an increase in chemical contamination caused by the lixiviation of fertilizers and pesticides, wastewaters and domestic and industrial solid wastes, and high levels of air pollution in the major cities.
14. The development of subsistence activities on forest land is directly related to the high poverty levels in rural areas. This cycle begins with the slashing and burning of forests to obtain land for agricultural activities, which due to its natural vocation is not capable of sustaining this type of activity, thus resulting in quick abandonment and a new search for forest lands, restarting the cycle. Given this behavior, it is estimated that forest resources have been disappearing at a rate of more than 80,000 hectares a year.
15. The peculiarities of the country's political institutions may be related to the various factors that have caused poverty to persist, especially those that obstruct the appropriate administration of justice, the efficiency of legislative activity, and the participation by the poor in the definition of policies. There is a generalized perception that the country has suffered deeply from deterioration of moral and cultural values. Also, frequent allegations of corruption lead to a gradual loss of credibility and respect in political decision-making; difficulties in implementing government programs; and the feeling by the population that in order to achieve legitimate goals and adequately safeguard their interests they have to go through irregular channels. Corruption results in high economic costs, such as irregular payments, inefficiencies and delays in bureaucratic processes, which when internalized as business costs can drive away investment and discourage the redistribution of wealth by diverting resources meant for poor sectors.
16. The broad range of needs of the population and a small, not very aggressive and risk-adverse private sector led the public sector to assume innumerable functions, from those traditionally accepted to the most contested, resulting in a bloated state apparatus with low effectiveness and efficiency and little citizen participation in decision-making processes. A Public Administration Reform Program (PRAP) has been undertaken, including improvement in the efficiency of public administration and support for decentralization; but the results so far are not very satisfactory.

STRATEGY COMPONENTS

17. The overall vision of the strategy regards its implementation and follow-up as a historical commitment of Honduran society, through its representative entities, including the various

branches of government as well as political parties and society in general, transforming it into a State policy with a long-term perspective. The fundamental objective of the PRSP is to reduce poverty significantly and sustainably, based on accelerated and sustained economic growth whose benefits are distributed more equitably through greater access by poor people to the factors of production, including the development of human capital, and to social safety nets.

18. The Strategy proposes the following targets for the year 2015: a) reduce by 24 percentage points the incidence of poverty and extreme poverty; b) double the net pre-school educational coverage for 5-year-old children; c) achieve 95% net coverage in access to the first two cycles of basic education; d) achieve 70% net coverage in the third cycle of basic education; e) achieve 50% completion of secondary education for new entrants to the labor force; f) reduce infant and child mortality rates by half; g) decrease malnutrition in children under 5 to 20%; h) reduce maternal mortality rates by half; i) achieve 95% access to potable water and sanitation; j) achieve parity and raise by 20% the Human Development Index related to gender; and h) implement a strategy for sustainable development.
19. The Strategy is based upon five major guidelines: a) prioritize actions that tend to reduce poverty in a sustainable manner; b) prioritize actions that favor the least developed groups and areas of the country; c) strengthen civil-society participation and decentralization; d) strengthen governance and participatory democracy; and e) reduce environmental vulnerability and its impact on poverty.
20. Likewise, the development of the various policy measures, programs and projects are based on the following six strategic areas: a) accelerating equitable and sustainable economic growth; b) reducing poverty in rural areas; c) reducing urban poverty; d) investing in human capital; e) strengthening social protection for specific groups; and f) guaranteeing the sustainability of the strategy.
21. In order to **accelerate equitable and sustainable economic growth** to levels consistent with the poverty-reduction targets, a stable macroeconomic framework will be sought, one that contributes to greater sustainable public investment in programs and projects directed to poverty reduction, and that generates confidence and certainty for private investment. Achieving this framework will require fiscal stability, consistent with favorable interest rates for investment and inflation rates no higher than one digit, and at the same time permitting greater social investment; a monetary and exchange-rate policy that also supports these objectives; a strengthening of the financial system; and an external sector achieving equilibrium through competitiveness in the world economy.
22. The objectives in this area are also geared toward strengthening investment and improving its level of efficiency and equity as a basis for increasing employment opportunities as well as to improve its quality, through lowering costs and simplifying the procedures for the establishment of new enterprises; creating conditions that permit the quality of employment to improve; promoting greater participation of private capital in the provision of public services; correcting problems of property and investment insecurity; and achieving approval of the Law for Promotion and Protection of Competition. Other objectives are to improve competitive access to international markets for national products, and to develop sectors with high productive potential (agribusiness, forest products, light assembly and tourism), without neglecting support to other economic sectors.

23. The **reduction of poverty in rural areas** has the following key objectives: i) improve equity and security in access to land on behalf of organized and independent small farmers (campesinos) and indigenous people, thus allowing income improvement and food security for rural families; ii) promote sustainable development in high-priority areas, under mechanisms that guarantee participation of local governments and communities; iii) improve the competitiveness of the small rural economy, in order to increase production and improve the efficiency and competitiveness of small rural producers, by facilitating access to infrastructure and to support services in markets, technology and financing; and iv) improve social conditions in rural areas, in order to strengthen social infrastructure and increase coverage of poverty-reduction programs in rural areas that are most depressed and have the greatest incidence of poverty.
24. The **reduction of the urban poverty** has the following objectives: i) stimulate the development of micro, small and medium-size enterprises, as a source of generating employment and income for poor families in urban areas; ii) foster the development of intermediate cities, seeking to make them hubs of regional development, which implies strong interrelationships with the productive activities of the nearby rural areas; iii) stimulate the construction of low-cost housing through legal, financial and participatory procedures that allow low-income families to access sustainable solutions to their housing needs; and iv) improve access to basic services of potable water, sanitation, electricity and transport for those living in marginal urban areas.
25. The program area referred to as **investment in human capital** includes the following objectives: i) improve the level of education of the Honduran population through greater coverage, quality, efficiency and equity at the pre-school, basic and secondary levels, thus guaranteeing a better-quality work force and greater efficiency of higher and non-formal education; ii) guarantee equitable access by the poor to quality health services through this sector's reform, and by assuring the timely availability of supplies, equipment and human resources in appropriate quality and quantities, within the network of services; and iii) assign a strategic value to socio-cultural endeavors, as fundamental factors for the development of the country that contribute to the strengthening of civic, ethical, moral and democratic values, and to creating new employment opportunities and sources of income.
26. To **strengthen social protection for specific groups**, the following objectives have been set: i) diminish risk factors in the most vulnerable specific groups, such as children, adolescents, women, senior citizens and persons with disabilities, in order to facilitate their social integration and integral development; ii) assist in the integral development of poor women, through their full and effective participation in society, in politics, and in the culture and economy of the country, empowering their capacities through the exercise of their rights and equality of opportunity; and iii) contribute to empowering the local capacities of the indigenous and black population of Honduras, by strengthening their economic activities and their access to social services.
27. The program area directed to **guaranteeing the sustainability of the strategy** has as its main objectives: i) consolidate governance, guaranteeing the transparency of public administration by strengthening government auditing agencies and social audits, and by improving the quality of the political representation of the people; ii) generate conditions to create a system that truly guarantees protection of human rights, legal security for investment, and peace in society by means of the equitable application of the Constitution and the laws; iii) achieve an effective process of decentralization and municipal development that fosters a reduction of poverty at the local level, within the framework of a modern and

efficient public administration; and iv) reduce the ecological risks and vulnerability of the country through improved processes of environmental and risk management at the national and decentralized levels, and the development of economic and financial tools that foster sustainable natural-resource management and environmental protection.

FINANCING PRSP PROGRAMS AND PROJECTS

28. The Government of Honduras has been carrying out a series of activities directed towards improving the living conditions of the poor. Overall, this effort requires a considerable increase in social spending, in absolute as well as relative amounts, in the General Budget of the Republic. Achieving the target of 50% of total expenditures depends not only on PRSP programs and projects, but also on the normal growth of budget allocations in favor of the social sectors.
29. As the diagnosis was completed and programmatic areas were identified, demands were presented for action, either through policy measures or through programs and projects. The large number of demands were evaluated and prioritized, and their scope was adjusted to time constraints and overall financial viability. The total amount for new programs and projects in the PRSP is US\$1,896.8 million, through the year 2015, including resources for implementation and follow-up of the PRSP. The active participation of the civil society is expected at a later stage of prioritization of programs and projects, both within the framework of the Advisory Council of the PRSP, as well as at the level of decentralized entities.
30. The new projects are not directed at financing the government's normal obligations or the natural growth of their annual demand. In any event, some projects support those types of demands that could not be met through the regular growth of budgetary allocations. In the first five years, 75% of the PRSP programs and projects will be financed by resources liberated by foreign-debt relief, mainly in the framework of the Initiative for Highly Indebted Poor Countries (HIPC). Other financial sources include additional external assistance, either as grants or as loans; fiscal revenues generated through various privatization processes; and additional resources within the General Budget of the Republic, made available through reallocation of public-expenditure priorities.

OPERATIONAL FRAMEWORK OF THE PRSP

31. Implementation of the PRSP requires carrying out a series of promotional actions, particularly among the beneficiary population and the executing entities, as well as facilitating the work of identifying high-priority actions, especially at the local level. The organizational structure for the implementation and follow-up of the PRSP integrates a diversity of public agencies, grass-roots organizations, municipalities, NGOs, the private sector and donors, all with their own operational procedures.
32. Leadership in implementing the Strategy resides in the Executive Branch, through the institutions that comprise the Social Cabinet, coordinated by the President of the Republic, who delegates this role to the Minister of the Presidency. A fundamental element in the implementation and follow-up of the PRSP is the Advisory Council for Poverty Reduction that is to be created through an Executive Decree as a collegial, participatory and advisory body to the Social Cabinet. The Council's membership will include the Social Cabinet Coordinator, who will be its president; the Minister of the Presidency; the Minister of Finance; the Minister of Government and Justice; three representatives of civil-society

organizations; and a representative of the Association of Municipalities of Honduras (AMHON). Also, two representatives from the international financial community, nominated by multilateral organizations and donor countries, will be invited as observers.

33. The organizational structure of the PRSP also envisions the creation, by means of a Congressional Decree, of a Poverty Reduction Fund, as a “virtual” financial instrument to be administered by the Executive Branch through the Ministry of Finance, to coordinate the administration of resources directed at financing the actions of PRSP. Also participating will be technical agencies such as the Technical Support Unit (UNAT) under the Ministry of the Presidency, which in its role as Technical Secretariat of the Social Cabinet will provide the necessary support in aspects related to the implementation, follow-up and evaluation of the Strategy; the National System of Management Evaluation (SINEG); the National Institute of Statistics (INE); and the Operational Unit of the Efficiency and Transparency Program (UPET).
34. The implementation, follow-up and evaluation of the PRSP will involve the participation of various social actors and the coordination of actions at the municipal and departmental level, with the objective of allowing greater popular participation in decision-making. Monitoring and evaluation implies generating and managing information at four interrelated levels or stages: i) financing, organizational structure and systems of coordination; ii) physical-financial progress and performance indicators of effort; iii) quality and impact of the PRSP programs and projects; and iv) poverty indicators showing prevailing living conditions when implementation of the PRSP begins, as well as trends over time.

RISKS OF THE STRATEGY

35. Several internal and external factors present risks to the success of the Strategy. Some can be influenced by governments or other forces in society; others are exogenous to domestic influence. The main factors in the first group are: a) the national consensus related to the sustainability of the Strategy; b) the capacity of the country to implement efficiently, and within a framework of transparent and democratic participation, the full range of broad programs of the Strategy; and c) strong pressures on the public finances, from both the expenditure and income sides of the budget. The main risks related to exogenous factors are: d) lack of sufficient external resources; e) the behavior of the world economy; and f) natural disasters.

INTRODUCTION

The Poverty Reduction Strategy Paper (PRSP) is a shared commitment and effort between the Government, in its various spheres of activity, and Honduran society, encompassing its formulation, implementation, follow-up and evaluation. This commitment began when it was incorporated as one of the main elements of the Master Plan for National Reconstruction and Transformation (MPNRT). It is expected to be sustained in the long term, as a State policy, within a framework of broad participation by civil society and the support of the international donor community.

The preparation of this Strategy, in the framework of a broad participatory process, and the initial implementation of its policies, programs and projects, constitute fundamental elements that focus on the objective of significantly reducing the incidence of poverty in Honduras. In the short term, the operational and institutional mechanisms that guarantee an appropriate implementation and follow-up of the Strategy will be defined and established.

The PRSP is the framework that will now guide the allocation of public resources, including those originating externally. Thus, it will go beyond allocating resources necessary to continue reconstruction projects in productive, social and road infrastructure in the context of the MPNRT. In other words, the PRSP comprises national reconstruction and transformation, macroeconomics, educational reform, sustainable rural development, justice-system reform, environment, and risk management, among others areas. The integrated and systematized vision of these elements constitutes the fundamental basis for defining the long-term national strategy demanded by Honduran society as a whole.

The first chapter of the document begins with a brief description of the participatory process that was carried out to formulate the strategy and to encourage Honduran society to identify with it. It establishes areas of consultation and the main participating actors, at the level of umbrella organizations and grassroots civil-society groups. It also outlines the operational aspects of the process of preparing the document as well as its results, including issues that lacked sufficient consensus but are important for certain sectors of society.

The second chapter highlights the magnitude and dimensions of poverty in Honduras, using several methods, such as the Poverty Line, Unsatisfied Basic Needs, the nutritional status of school children, and the Human Development Index (HDI). The profile of poverty in Honduras is disaggregated according to factors such as geographic distribution and its incidence among the more vulnerable population groups, such as ethnic groups, women, children and senior citizens. Additionally, the effects of Hurricane Mitch on poverty are estimated, using data from the household survey of March 1999 and the damage estimates made by the Economic Commission for Latin America and the Caribbean (ECLAC).

In the third chapter the complexity of poverty is recognized and the multiple dimensions that determine it as well as some of its effects, are analyzed. This analysis highlights factors such as slow economic growth and its relationship to insufficient per capita income, and the uneven distribution of income and productive assets. Economic growth is closely linked to investment and savings, as well as to the competitiveness and productivity of the economy. Additionally, some of the effects of structural adjustment and macroeconomic stabilization are examined, along with trends in social expenditures and their links to human-capital development and access to basic social services. The analysis of the performance of social sectors indicates the

presence of weaknesses in areas such as coverage and quality of services. Also noted is the importance of other factors related to poverty, such as population, the environment, transparency, culture and values, modernization of the State and decentralization.

In the fourth chapter, long and intermediate-term goals and targets are established, based upon national aspirations and international development objectives, as well as strategic guidelines that define the broad priorities of the PRSP and, based upon it, orient the development of policy measures, programs and projects whose primary purpose is poverty reduction, complemented by social protection for specific high-risk groups in Honduran society.

In this context, the PRSP outlines a policy framework that would allow for rapid, equitable and sustainable growth, consistent with poverty-reduction objectives, as manifested in the policy document presented to the IMF under the Poverty Reduction and Growth Facility (PRGF). Also, specific actions are set forth to reduce the high incidence of poverty in rural areas and marginal urban areas; to strengthen investment in human capital; to strengthen social-security safety nets; and to support the sustainability of the Strategy in areas such as transparency, justice, decentralization and the environment.

The fifth chapter deals with the financing of programs and projects identified within the PRSP framework, both new as well as those already being implemented. Financing is regarded as being very closely linked, although not limited, to external-debt relief, especially under the Initiative for Highly Indebted Poor Countries (HIPC), as well as to additional resources from grants and soft loans and those generated by reallocating public expenditures. PRSP financing should be compatible with a consistent and sustainable macroeconomic framework that takes into account economic growth and fiscal viability.

In the sixth chapter the operational framework of the Strategy is defined, with mechanisms that take into account the active participation of civil society and transparency in the processes of implementation, follow-up and evaluation. The structure of the operational framework is based on the utilization and strengthening of existing institutions, as well as the creation, through specific laws, of new mechanisms, such as the Advisory Council and the Poverty Reduction Fund. In addition, indicators will be identified for each stage of the PRSP, with clearly identified responsible entities.

The last chapter weighs possible risks involved in implementing the Strategy, as well as appropriate measures to neutralize these risks. Finally, annexes are presented that include: a matrix of policy measures and targets for each area and sector; two matrices of programs and projects by programmatic area; and statistical tables showing trends in the main economic and social indicators.

I. THE PRSP: THE CONCRETE RESULT OF A BROAD PARTICIPATORY PROCESS¹

Guided by the principle that the Poverty Reduction Strategy Paper (PRSP) should be a proposal with a broad sense of national ownership and grounded in the country's reality, its formulation was developed within a framework of broad participation by actors both at the Government level as well as from civil society, international organizations and donor countries. These same sectors will be involved in the implementation and follow-up of the strategy, the main guarantee that it will be sustainable in the long term, independent of changes in Government.

A. CONSULTATION MODALITIES AND PARTICIPANTS

The organization of the participatory process in the PRSP framework was coordinated by the Social Cabinet, which established a National Technical Team to support the preparation of the document. Representatives from the institutions integrating the Social Cabinet² and other centralized and decentralized institutions related to the Strategy's basic areas formed this team³. The Technical Team undertook a highly collaborative effort with the various Government institutions, being active in each stage of preparing the Strategy, as well as in the joint definition of priorities, intersectoral coordination activities and preparation of cost estimates for programs and projects, among other tasks.

Consultation with civil society was jointly defined in each phase by the Social Cabinet and the Commission for Civil Society Participation in National Reconstruction and Transformation. This Commission includes representatives of the National Convergence Forum (FONAC), Espacio Interforos, the Association of Honduras Municipalities (AMHON), the Federation of Private Development Organizations of Honduras (FOPRIDEH), and the Chambers of Commerce and Industry of Tegucigalpa and Cortés. In addition, regional consultations were based on the support and active participation of organizations with recognized leadership at the local level, as well as that of municipal and departmental authorities. Each phase of the process produced better results than the previous phases, thus consolidating and improving it.

The consultation was conducted between January 2000 and May 2001, with 11 work activities in Tegucigalpa and 19 at the regional level. To carry out the consultation, an intensive working methodology was adopted, permitting greater and more effective participation by the full range of stakeholders involved. Within this process, the following activities are notable:

- Joint programming of meetings and definition of working methodology.
- Meetings on the format of the PRSP and inputs for its development.
- Regional consultations on the diagnostic sections in 7 cities⁴.
- Consultations on the completed PRSP, which included meetings with civil-society technical groups; meetings held in 13 cities⁵; and meeting with NGOs.

¹ More detail is provided in the document, Documentation of the PRSP Consultation Process.

² Ministry of the Presidency; Ministry of Health; Ministry of Labor and Social Security; Ministry of Agriculture and Livestock; Ministry of Culture, Arts and Sports; Ministry of Technical Affairs and International Cooperation; National Agrarian Institute; and Honduran Social Investment Fund.

³ Ministry of Finance; Central Bank of Honduras; Ministry of Natural Resources and the Environment; Family Allowance Program; Honduran Institute for Children and Families; National Women's Institute; and the Housing Unit of the Ministry of Public Works, Transportation and Housing.

⁴ Tegucigalpa, La Ceiba, San Pedro Sula, Santa Rosa de Copán, Juticalpa, Choluteca and Danlí.

⁵ La Ceiba, San Pedro Sula, Santa Rosa de Copán, Gracias, La Esperanza, Comayagua, Juticalpa, Choluteca, Nacaome, Danlí, Ocotepeque, Puerto Lempira and Trujillo.

- Meeting on the operational framework of the strategy.
- Discussions in the sectoral working groups monitoring the principles of the Stockholm Declaration, which include representatives of the Government, civil society and donors.
- Presentations to plenary sessions of the National Congress.
- Presentation of the final version of the PRSP to civil-society representatives from the various regions of the country.
- Presentation of the final PRSP document to government authorities and the presidential candidates of the various political parties.
- Final review of the PRSP by the Technical Political Commission, which includes representatives of the Government, civil society and political parties.
- Public access to the PRSP via the Internet (web page of the Ministry of the Presidency).

A total of about 3,500 people participated in the direct consultation process through civil-society organizations. This figure includes representatives of various types of organizations at the local, regional and national level, such as: small farmers, blue-collar workers, market and ambulatory salespeople, teachers, media representatives, businessmen and women, farmers and ranchers, ethnic groups and women's organizations. Also participating were representatives of professional and employers associations, community organizations, service clubs, cooperatives, churches, NGOs and universities, among others groups. In addition, some participants carried mandates emerging from consultations with their affiliates.

This progress also reached political representatives of Honduras society through presentations at plenary sessions of the National Congress; the participation of congressmen and women from various political parties; regional meetings; and a special meeting with government officials and candidates for the Presidency of the Republic from the five legally registered political parties. Likewise, there was high-level representation of municipal authorities at each event. In addition, the PRSP was presented at specific events to various sectors of society, notably small-farmer groups from the agrarian reform sector, NGOs and other groups implementing projects, ethnic groups, women's organizations, professional groups, student groups, departmental education directors, mayors, and technical and financial-assistance organizations, among others.

It should be noted that the international community as a group demonstrated great interest in the development of actions leading to poverty reduction in the country; it also played an important role in the participatory development of the Strategy. Representatives of the international community were present at all technical meetings to discuss the document and in most consultation meetings at the national and regional levels. These representatives, from both multilateral agencies and donor countries, acted as observers of the process and also had opportunities to exchange experiences and to hear suggestions and opinions about its development. Moreover, the international community participated in the sectoral working groups monitoring the progress of the national reconstruction and transformation process, and provided comments and suggestions for consideration by the Government's Technical Team in charge of preparing the document.

B. RESULTS OF THE CONSULTATION PROCESS

The results of each working group in the various cities where consultation meetings were held were organized into matrices according to the topics discussed. The same procedure was followed with information obtained from the written proposals submitted by civil-society organizations. Afterwards, a synthesis of the issues raised was prepared, highlighting points of agreement and evaluating them according to technical criteria related to economic and social viability, for later consideration for incorporation into the PRSP.

Likewise, during the consultation process various local communities and organizations submitted proposals, among which the following are notable:

- Proposal for Eradicating Misery and Reducing Poverty, from the Departmental Development Commission of Copán (CODECOPAN).
- Views of the Organized Civil Society of Olancho (SOCIO) with respect to the PRSP.
- Analysis and alternative suggestions regarding the PRSP in the department of Ocotepeque, prepared by Sustainable Integral Development Consultants (CODEISO).
- Combatting Poverty in Ocotepeque, comments on the PRSP from a civil-society perspective.
- Proposal of the organized civil society of the Aguán and the Garifuna Coast to the National Reconstruction Cabinet.
- Observations on the PRSP submitted by civil society in Tocoa, Colón.

From the beginning, it was recognized that the consultation process could not achieve complete consensus. What was important was to identify among the various opinions presented the broadest possible accord, taking into account not only the interests of specific groups and individuals but above all the national interest. Consequently, incorporation of civil-society observations, comments, and recommendations should depend on their compliance with the following technical criteria:

- Have a clear focus or impact on the poor population.
- Promote a more equitable access to basic public services.
- Strengthen or clarify policy measures, programs and projects.
- Develop important activities not included in previous versions.
- Strengthen non-economic dimensions related to the well-being of the population.
- Demonstrate that the activities suggested have a favorable cost-benefit relationship.

Given these considerations, the final version of the PRSP reflects a strengthening of various activities as well as the incorporation of a series of themes proposed by civil society:

- Poverty estimates at the Departmental and municipal level were included, based on the human-development indicators of the United Nations Development Programme (UNDP).
- Specific groups with a high incidence of poverty, such as ethnic groups, women, children, senior citizens, and persons with disabilities, were clearly identified.
- Determinants of poverty related to adjustment and stabilization measures, social expenditures and human capital were discussed in greater detail.
- For the education sector, policy measures were adjusted to reflect the proposal for educational transformation for which consensus was reached under the coordination of FONAC.
- For rural development, access to the means of production and to marketing were emphasized.
- The list of specific groups to be targeted was expanded to include persons with disabilities.
- To strengthen the sustainability of the strategy, emphasis was given to citizen participation and to the financial sustainability of activities related to the management of natural resources and environmental protection.
- Higher education, culture and values, and personal security, among others, were added to programmatic areas.
- In the institutional framework, the role of the Poverty Reduction Fund was clarified.

It should be made clear that some proposals were not considered because they dealt with issues clearly requiring a broad national discussion to achieve an acceptable level of consensus, such as agrarian reform, agricultural insurance, electoral reforms, etc. In these cases, it was decided to present only general objectives with the purpose of defining guidelines to orient future agreements in these areas.

Likewise, the following types of proposals were not taken into consideration: i) subsidies that do not necessarily benefit the poorest, or that for other reasons result in an inefficient allocation of productive resources, with negative effects on long-term sustainable growth and therefore on poverty reduction; ii) policies, programs and projects for which both national and international experience has clearly demonstrated their inefficacy and inefficiency as poverty-reduction measures, such as massive subsidized-credit programs, price controls and artificial stimuli; and iii) programs and projects specific to local areas. However, these latter will be considered within the framework of regional strategies.

PRSP dissemination activities are important for exchanging opinions and for supporting the strategy itself. Therefore, prior to each PRSP consultation meeting, the document to be discussed and the methodology to be used for discussing it were sent to the participants in advance. Likewise, at the national PRSP presentation held in April 2001, the document was widely distributed to approximately 700 participants, many of whom came as representative of organizations composed of grassroots groups. This event was also attended by numerous representatives of government agencies and the international community.

In order to reach the population in general, efforts have been made to have adequate coverage of PRSP consultation events both on radio and in print media. Additionally, the latest version of the PRSP has been placed on the Ministry of the Presidency's webpage⁶, and in the short term the possibility of making use of other mass communications media is being examined. In the future the PRSP itself provides for a highly participatory implementation and follow-up process by incorporating experiences demonstrated to be effective and creating new entities such as the PRSP Advisory Council and mechanisms at the municipal level.

In general, this process has been a continuous learning experience for the Government, as well as for civil society and the international community. However, although the participatory process constitutes an important value added to the PRSP, it can be strengthened in several ways for each of the sectors involved. In conclusion, it is clear that the participatory process for preparing the PRSP has laid the groundwork that will institutionalize participation in the formulation and monitoring of public policies.

⁶ www.sdp.gob.hn.

SUMMARY OF THE MAIN CONTRIBUTIONS OF CIVIL SOCIETY TO THE PRSP CONSULTATIONS PROCESS⁷
<p>Diagnosis Deeper analysis or incorporation of the following topics: quality of education and its relationship to local conditions; loss of cultural heritage, values and national identity; ethnic groups, women, children and senior citizens; land tenure and distribution of land holdings; impact of structural-adjustment programs; environmental degradation; corruption and bureaucracy; disaggregation of data by regions, departments, and municipalities.</p>
<p>Global Vision</p> <ul style="list-style-type: none"> • Guarantee the continuity of the PRSP through various Government administrations. • Consider the PRSP as a State policy, with a long-term vision. • Focus interventions on the most neglected sectors and zones.
<p>Poverty in Rural Zones</p> <ul style="list-style-type: none"> • Promote a comprehensive agrarian reform and sustainable agriculture programs. • Guarantee access to credit and technical assistance through village banks or other mechanisms. • Support basic rural infrastructure (roads, irrigation systems, electrification, etc). • Promote training in marketing and non-traditional activities. • Establish agricultural and livestock insurance programs.
<p>Poverty in Urban Zones</p> <ul style="list-style-type: none"> • Strengthen micro, small and medium-size enterprises with credit, technical assistance and training, under favorable conditions. • Promote housing programs with beneficiary participation. • Satisfy infrastructure needs in potable water and basic sanitation.
<p>Education</p> <ul style="list-style-type: none"> • Improve the quality and efficiency of education at all levels, including higher education. • Orient education, including non-formal education, to productive technical training, according to regional needs. • Strengthen decentralization, deconcentration and community participation in managing education. • Offer scholarships based on merit and economic needs. • Assure greater supervision of teacher performance and support programs to improve teacher training. • Promote PROHECO and bilingual intercultural education. • Extend university educational opportunities at the regional or departmental level.
<p>Health</p> <ul style="list-style-type: none"> • Provide health centers with medicines, equipment and better trained and specialized human resources. • Expand health services, especially in poor areas. • Provide preventive health programs with community participation, and encourage natural medicine.
<p>Culture</p> <ul style="list-style-type: none"> • Promote programs on ethical-moral values, national identity and preservation of cultural heritage. • Provide incentives for artisan production and ethnic ecological projects. • Construct cultural and sports centers and public libraries.
<p>Social Protection for Specific Groups</p> <ul style="list-style-type: none"> • Reorient the activities of FHIS and PRAF so they do not generate dependence and contribute to the reduction of poverty. • Assure transparency, depoliticization and equity in the delivery of social assistance and in the quality of FHIS projects. • Strengthen productive programs targeted to women and ethnic groups. • Strengthen programs dealing with drug addiction and alcoholism. • Provide services to persons with disabilities and senior citizens. • Undertake programs to prevent domestic violence and child labor.
<p>Equitable and Sustainable Economic Growth</p> <ul style="list-style-type: none"> • Promote employment generation through agricultural, forestry, assembly industrial park and tourism activities. • Develop the infrastructure necessary to stimulate domestic and foreign investment. • Modernize the Labor Code and eliminate administrative obstacles limiting investment.
<p>Sustainability of the Strategy</p> <ul style="list-style-type: none"> • Promote social auditing and other surveillance mechanisms guaranteeing transparency. • Strengthen the various municipal and departmental organizational structures. • Strengthen local capacities for project identification, implementation and follow-up. • Incorporate regional representation in the PRSP Monitoring Council. • Support the decentralization and deconcentration of public services. • Make effective the transfer of 5% of tax revenues to the municipalities. • Approve the land-use planning law, the water law and the forestry law. • Reform the electoral system, the justice system and the structure and operations of the National Congress.

⁷ Contributions considered in at least 50%, of the consultation events.

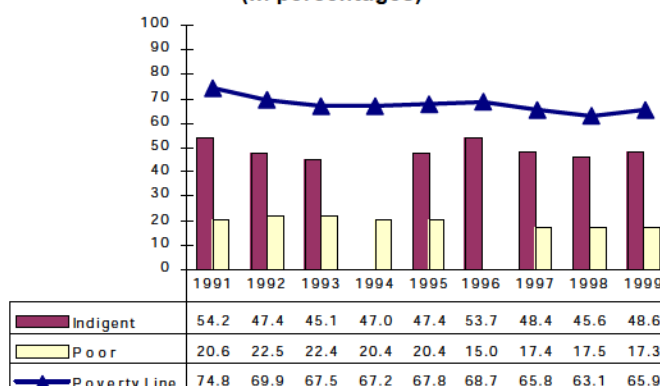
II. CHARACTERISTICS OF POVERTY

A. DIMENSION OF POVERTY

Poverty is an economic and social condition with multiple causes and expressions. Although the most common and simplest way to present it is as the lack of sufficient of income to reach a certain minimum standard of living, the concept of poverty also includes the degree to which a series of basic human needs are met. The multidimensional character of poverty requires that several different methods of measurement be considered, each of which demonstrates that the degree of poverty in Honduras is high.

Based upon the *Poverty Line* methodology, the incidence of poverty in Honduras in 1999 was approximately 66% of the households in the country (almost 747,000), which indicates a slight improvement of 9 percentage points over the decade, as the figure in 1991 was 75%. This figure is troubling enough, but more so is the fact that nearly 49% of households are in the extreme-poverty or indigence category, although this subgroup has also shown a moderate improvement compared with the 54% figure in 1991.

POVERTY ACCORDING TO INCOME, 1991-99
(In percentages)



Analyzing the situation by years or sub-periods, it can be seen that in 1992 the percentage of poor households experienced a significant decrease, and that during the following four years the changes became more moderate. Then between 1996 and 1998 there was another reduction of a little more than 5 percentage points; but Hurricane Mitch halted this trend, and the incidence of poverty increased by almost 3 percentage points.

MEASUREMENT OF POVERTY

Since 1988, Honduras has measured poverty through complementary methodologies suggested by the United Nations, such as the Poverty Line (PL), Unsatisfied Basic Needs (UBN) and the Integrated Methodology. The principal statistical base for the methodologies is the Permanent Multipurpose Household Survey (PMHS), carried out twice a year by the General Directorate of Statistics and Census (GDSC). Other types of measures were also considered, such as the Human Development Index (HDI) and nutritional status.

In spite of a relative decrease in poverty levels during the nineties, there are reasons to believe that the reduction was less, in real terms, than what was reported. Estimates by the World Bank show that the rate of underestimation of income decreased during the decade; therefore, part of the income increases reported in the household surveys is due to better and more complete measurement of income, rather than to a real increase. In fact, according to adjustments made by the World Bank, per capita income grew hardly at all during the period, and therefore there was no reduction in the incidence of poverty. According to these calculations, in order to equilibrate per capita income reported in the PMHS with per capita consumption in the national accounts, the adjustment declines from 1.43 in 1991 to 1.07 in 1998.

It should nevertheless be taken into account that both the level of GDP as well as its increase have been underestimated, in part because the national accounts do not fully capture the rapid growth of the maquila (assembly) sector. In summary, it is likely that poverty has decreased only slightly since 1991.

Using the *Unsatisfied Basic Needs* (UBN) methodology, we see a much more pronounced and rapid reduction of poverty between 1990 and 1997¹. The incidence of poor households at the national level, according to this methodology, was 67% in 1990, while by 1997 it had fallen to 47%. Such a large reduction meant that the incidence of poverty fell not only in percentage terms, but also in absolute terms, from 564,000 households in 1990 to 533,000 households in 1997. Nevertheless, during 1999, similar to the case with the poverty-line methodology, the percentage of households with UBN increased, particularly in urban areas, because of the destruction caused by Hurricane Mitch to potable water systems, latrines, homes and schools.

INCIDENCE OF UBN				
Total	% of Householders			
	1990	1993	1997	1999
National				
Total with UBN	67	53	47	48
1 UBN	25	28	26	26
2 UBN	20	15	13	14
> 2 UBN	22	10	8	8
Urban¹				
Total con UBN	50	43	35	37
1 UBN	24	23	22	23
2 UBN	13	11	8	9
> 2 UBN	13	9	5	5
Rural¹				
Total con UBN	80	62	58	58
1 UBN	26	32	29	30
2 UBN	26	19	18	18
> 2 UBN	28	11	11	10

Source: PMHS, GDSC.

It is encouraging that the percentage of households with two or more unsatisfied basic needs was considerably less in 1999 (22%) than in 1990 (42%), which indicates that the improvement indicated above has had a much larger impact if we consider these households as the extreme-poverty stratum. With respect to satisfied basic needs, the greatest progress in the decade occurred in education, while housing indicators showed the least progress. By March 1999, only 5.6% of households lacked access to primary education, while 26.2% lived in crowded quarters. The second least satisfied need is that related to sanitation, with 17.8% of households lacking these services.

BASIC NEEDS CONSIDERED IN THE CASE OF HONDURAS	
<u>Water</u>	<ul style="list-style-type: none"> • Access to potable water within the property (urban housing) • Access to water from a piped system or well (rural housing)
<u>Hygiene</u>	<ul style="list-style-type: none"> • Have a toilet, other than a simple pit latrine (urban housing) • Have at least a simple pit latrine (rural housing)
<u>Primary education</u>	<ul style="list-style-type: none"> • Children of primary-school age are enrolled in school (urban and rural housing)
<u>Subsistence capacity</u>	<ul style="list-style-type: none"> • Head of family has more than three years of primary education and is employed; if not, at least one employed person for each three members of the household (urban and rural)
<u>Crowded quarters</u>	<ul style="list-style-type: none"> • No more than three persons per room, excluding bathrooms (urban and rural housing)
<u>Housing status</u>	<ul style="list-style-type: none"> • Not improvised or built from scrap materials, and does not have an earth floor (urban housing) • Not improvised or built from scrap materials (rural housing).

Poverty as viewed through the *nutritional status* of the population estimated on the basis of the Census of Height of First-Grade Schoolchildren (between the ages of 6 years and 9 years, 11 months), shows that the prevalence of height deficiency or undernourishment in 1986 was 39.8%. This percentage tended to improve in 1991 and 1993, but then it rose again in 1997,

¹ These data are based on definitions close to those in the "Honduras, Q Book" document prepared under the SECPLAN/OIT/FNUAP-HON/90/PO3 Project in 1994, according to which access to potable water is considered to be satisfied when there is piped water within 100 meters of the house, and overcrowding is based on the total amount of rooms excluding the bathroom and kitchen.

reaching a slightly higher percentage than in 1986. In urban areas the prevalence of undernourishment in 1997 was less than in the rural sector (28.5% and 47.6%, respectively). Trends in both sectors are similar to those at national level.

The total school population with undernourishment problems in 1997 was 40.6%, of which 26% presented moderate undernourishment and 14% severe undernourishment. It is important to note that results of this census are not entirely clear, since it is based on a population at least six years old, while undernourishment affects children from their first years of life. In other words, trends in nutritional status in the second half of the nineties are really not established.

CENSUS OF FIRSTGRADE SCHOOL CHILDREN PREVALENCE (%) OF UNDER NOURISHMENT BY AREA OF RESIDENCE 1986 – 1997							
Residence Area	1986	1990	1993	1994	1995	1996	1997
Total	39.8	34.1	35.5	38.1	38.6	38.0	40.6
Urban	-	24.4	26.0	27.2	27.6	26.1	28.5
Rural	-	40.8	40.6	44.1	44.7	44.7	47.6

Source: PRAF, Height Census in Honduras: A Review of the Experience (Tegucigalpa, 1998).

Another way of measuring poverty is through the Human Development Index (HDI) of the United Nations Development Program (UNDP), which allows poverty to be considered not only as a lack of income, but also as a lack of options and opportunities to achieve a more dignified life. The HDI allows a comparative vision of the country within a worldwide context, and also allows for separation and comparison of achievements and shortcomings at the level of departments and municipalities, showing inequalities at the regional level regarding achievements in health, education and income. This index is complemented by the Human Poverty Index (HPI), which concentrates on measuring the privations of the poorest.

According to the Human Development Report, 2000 published by the UNDP, Honduras ranks 113th among 174 countries in the world. Within the Latin American and Caribbean region, only 4 countries show an HDI slightly below that of Honduras (Bolivia, Nicaragua, Guatemala and Haiti). All Central American countries are in the medium-HDI range, although two sub-groups with significant differences between them can be clearly established: countries that almost have a high HDI (Costa Rica, Panama and Belize) and those that barely pass the medium-HDI threshold. In the particular case of Honduras, the indices for all components, with the exception of life-expectancy achievement, are below the Central American average; nevertheless, the greatest gap occurs in per capita income, which amounts to only 61% of the regional average.

HUMAN DEVELOPMENT INDEX FOR SELECTED COUNTRIES, 1998						
Country	Life Expectancy (years)	Literacy Rate (%)	Gross School Enrollment Rate (%)	Real GDP Per Capita (PPP \$)	HDI	World Ranking
Costa Rica	76.2	95.3	66	5,987	0.797	48
Belize	74.9	92.7	73	4,566	0.777	58
Panama	73.8	91.4	73	5,249	0.776	59
El Salvador	69.4	77.8	64	4,036	0.696	104
Honduras	69.6	73.4	58	2,433	0.653	113
Guatemala	64.4	67.3	47	3,505	0.619	120
Nicaragua	68.1	67.9	63	2,142	0.631	116
<u>Central America</u>	<u>70.9</u>	<u>80.8</u>	<u>63</u>	<u>3,988</u>	<u>0.707</u>	
Bolivia	61.8	84.4	70	2,269	0.643	114
Haiti	54.0	47.8	24	1,383	0.440	150

Source: UNDP, Human Development Report, 2000.

The poverty trends indicated above, mainly with the poverty-line methodology, are closely associated with the economic cycle. Indeed, after a decade-long stagnation, GDP grew at an annual rate of 3.8% in the first four years of the 1990's, which was higher than the rate of population growth (2.9%) and therefore allowed a moderate increase in per capita income. Something similar occurred from 1995 to 1997, when GDP again grew at a faster pace than population growth, a trend that was interrupted at the end of 1998 with the destruction caused by Hurricane Mitch.

The slower reduction of poverty levels that followed between 1993 and 1996, despite a strong increase in social spending during those years, could be explained by the fiscal imbalances of 1992-93 that aggravated inflationary pressures and forced a macroeconomic adjustment program in 1994. During this year the country also experienced a fall in the prices of its export products, as well as a shortage of electric-power generation that affected production and reduced public and private investment, all of which combined to produce a drop in GDP of 1.3% and a 4% decrease in per capita GDP.

On the other hand, improved levels of satisfied basic needs are closely related to the level of social spending. This is best observed in the community facilities resulting from investments such as those carried out by the Honduran Social Investment Fund (FHIS). An evaluation of this entity² for the 1995-98 period shows that UBNs addressed by this Fund tended to decrease more rapidly than those that were not. This study finds that 58% of new schools, 72% of rural health centers (RHCs) and 56% of Medical-Dental Health Centers (MDHCs) can be attributed to the FHIS. Furthermore, it is estimated that this institution financed 23% of the latrines built in rural areas and 15% of those built in urban areas during the period 1994-97, and contributed to improving 5% of national water connections nationwide in 1997.

Achievements regarding households' access to basic needs satisfaction can be virtually translated into an increase in the stock of assets of the poor, which in the majority of cases comes from public transfers of funds for infrastructure construction. This is equivalent to non-monetary income that contributes to reducing poverty in its dimensions of living conditions and opportunities, and compensates for the absence of high monetary income when national per capita income is falling or barely increasing.

B. URBAN-RURAL AND REGIONAL DIFFERENCES

In 1999, 57% of urban households (310,000) were below the poverty line, while in rural areas this percentage reached almost 75% (442,000). Likewise, extreme-poverty conditions (indigence) affected close to 37% of urban homes and 61% of rural homes. This means that 59% of poor households and 65% of indigent households are rural. Moreover the impact of Hurricane Mitch was concentrated in rural areas, leading to an increase in the level of indigence by 5.5 percentage points.

According to the poverty-line methodology, the decline in the percentage of households in poverty or indigence during the decade has been faster in urban areas, thus widening the differences with the rural sector. Nevertheless, this is not as evident using the UBN methodology, since the share of households with UBN was reduced by 22 percentage points in rural areas, compared with 13 points urban areas. A similar trend can be seen in the declining percentage of households with more than 2 UBNs (12 points in rural areas and 8 points in urban areas), even though relative differences are almost the same.

² ESA Consultants, Ex Post Evaluation of "FHIS" 2: Final Report (Tegucigalpa, May 1999).

DISTRIBUTION OF POVERTY BY GEOGRAPHIC AREA

	HOUSEHOLDS ACCORDING TO POVERTY STRATA AT THE URBAN LEVEL								
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Indigent	46.7	39.2	31.6	39.8	40.6	38.7	35.2	35.7	36.5
Poor	21.7	22.4	23.9	22.8	22.2	22.3	23.8	21.3	20.8
Below the Poverty Line	68.4	61.6	55.5	62.6	62.8	61.0	59.0	57.0	57.3
	HOUSEHOLDS ACCORDING TO POVERTY STRATA AT THE RURAL LEVEL								
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Indigent	59.9	53.9	55.8	52.9	53.1	66.4	60.0	55.4	60.9
Poor	19.7	22.6	21.3	18.2	18.8	8.9	11.7	13.8	13.7
Below the Poverty Line	79.6	76.5	77.1	71.1	71.9	75.3	71.7	69.2	74.6

Sources: SECPLAN (1991-94); PRODEPAH, internal use (1995-99). Based upon the first survey of each year, except in 1994, when only one survey was carried in October.

Regional breakdowns³ show that the departments with the largest percentage of households with UBNs are located in the southern and western regions of the country (Copán, Valle, Choluteca, Lempira and Intibucá). Poor households in these regions also show the highest number of unsatisfied basic needs, mainly a lack of sanitation systems and overcrowding. It is also important to note that the western part of the country (Copán, Lempira and Ocotepeque) has the greatest problems of access to primary education. On the other hand, the departments of Francisco Morazán and Cortés show a lower percentage of households with UBNs, with 38.2% in the former and 38.5% in the latter; and they only have 4.3% and 3% of households respectively, with more than two UBNs. Nevertheless, it is in these departments where the largest numbers of households with UBNs are found (84,949 and 67,705 each), given their larger population concentrations.

HOUSEHOLDS WITH UBN, BY DEPARTMENT, 1999			
Department	Householders	With UBN's	> 2 UBN's
Copán	55,058	66.2	17.7
Ocotepeque	19,356	49.9	15.4
Valle	29,193	65.8	14.7
Lempira	42,096	59.5	14.4
La Paz	27,193	49.2	12.1
Choluteca	71,210	59.8	10.6
El Paraíso	65,440	46.2	10.2
Comayagua	61,347	54.9	9.2
Olancho	69,894	49.4	8.6
Colón	42,277	53.6	8.3
Yoro	83,837	52.3	7.7
Atlántida	65,719	40.4	6.8
Intibucá	27,310	57.1	6.7
Santa Bárbara	75,042	48.4	6.7
Francisco Morazán	222,380	38.2	4.3
Cortés	175,857	38.5	3.0
Total	1,133,209	47.9	7.8

Source: ESA Consultants, based on PMHS, GDSC 1999. Data are not available for Gracias a Dios and the Bay Islands.

In addition to the above breakdown, it is also necessary to make rural-urban distinctions within each department, so as to more accurately identify the principal poverty zones. This exercise produces interesting results, such as the fact that according to PMHS figures for March 1999, the urban area with the highest percentage of satisfied basic needs was in Ocotepeque (81.7%), which ranked considerably higher than Francisco Morazán (64%) and Cortés (67.7%).

Applying the Human Development Index to departments and municipalities, we can see that although the country has made important gains in life expectancy and education, in recent decades these have not been evenly distributed throughout the country.

Nevertheless, poverty differences at the department level, based on the HDI, do not show major variations from the results of the UBN methodology, specially for the departments in the western part of the country. The major differences occur the southern (Choluteca and Valle) and eastern

³ It is important to consider that PMHS results are statistically more significant at national, urban, rural, Central District and San Pedro Sula levels; therefore analysis by department may not have a sufficiently solid statistical basis.

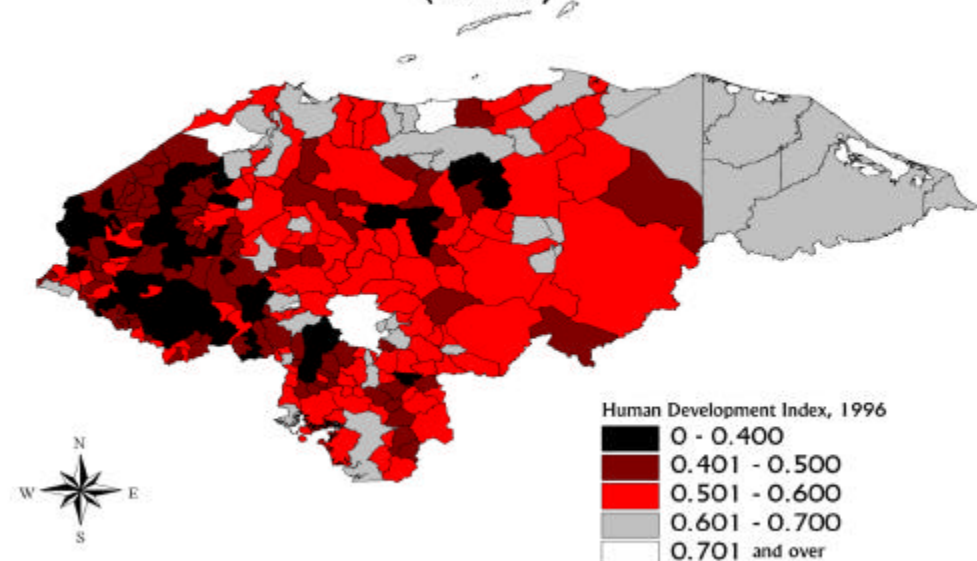
(Olancho and El Paraíso) departments. The former show a relatively better situation, compared with the UBN methodology, while the latter are closer to those countries with a lower HDI⁴.

The department with the highest HDI is the Bay Islands (0.787) followed by Francisco Morazán (0.705) and Cortés (0.658), while at the other extreme are departments such as Lempira (0.368), Intibucá (0.416) and Copán (0.432). If we disaggregate this data by municipalities, the differences are more evident: 49% of all municipalities in the country show a lower than average HDI, and these are mainly concentrated in the departments with a higher incidence of poverty. The departments with the least inequalities are the Bay Islands, Cortés and Colon, which have no municipalities with low HDI. Notable is the case of Francisco Morazán, where despite a high HDI, 29% of the municipalities have a low HDI, possibly because of the concentration of basic services in the Central District.

HDI BY DEPARTMENT & NUMBER OF MUNICIPALITIES				
Department	Total	With low HDI		General HDI
		No.	%	
Lempira	27	24	88.9	0.368
Intibucá	16	12	75.0	0.416
Copán	23	20	87.0	0.430
Santa Barbara	27	24	88.9	0.432
La Paz	19	13	68.4	0.465
Ocotepeque	16	11	68.8	0.482
El Paraíso	19	7	36.8	0.520
Olancho	22	9	40.9	0.539
Choluteca	16	4	25.0	0.548
Comayagua	21	3	14.3	0.556
Valle	9	2	22.2	0.564
Yoro	11	4	36.4	0.573
Colon	10			0.598
Atlántida	8	1	12.5	0.635
Gracias a Dios	2			0.637
Cortés	12			0.658
Francisco Morazán	28	8	28.6	0.705
Bay Islands	4			0.787
Totals	290	142	49.0	0.575

Source: UNDP, INDI, 1998.

Human Development Index by Municipality (1996)



⁴ Due to methodological reasons, nationwide HDI calculations decreases the relative weight of income, which to a certain degree may influence geographical differences. According to household surveys, San Pedro Sula had real average incomes 30% higher than the Central District; however, according to the HDI its GDP achievement was lower (0.41 versus 0.45). No doubt these results will have to be progressively adjusted.

C. SOCIO-DEMOGRAPHIC PROFILE OF POVERTY

1. ETHNIC GROUPS

No precise data is currently available to allow comparisons to be made among ethnic groups: nevertheless, several studies indicate that belonging to some of these groups increases the risk of becoming part of the most vulnerable groups in the country.

The major factors related to the incidence of poverty among ethnic groups are lack of secure land tenure; little or deficient coverage of basic services such as health, education, potable water, sanitation, electricity and roads; high levels of contagious diseases (AIDS is a serious problem for the Garífuna population); and little support for productive employment programs and for preserving these groups' cultural heritage. Additionally, some ethnic groups are faced with increasing threats to their traditional living conditions, due to the rapid advance of the agricultural frontier or to uncontrolled forest activities. Furthermore, the efforts indigenous people make to increase their participation in the modernization process carry the risk of losing their cultural identity, particularly their languages and cultural values.

Most indigenous groups live in the poorer departments, such as La Paz, Lempira, Intibucá and Gracias a Dios. Nevertheless, the largest groups, such as the Garífunas and Islanders (57% of the ethnic groups in the country), are concentrated in departments with the least incidence of poverty and better human development indices, such the Bay Islands, Cortés, Atlántida and Colón.

ETHNIC GROUPS IN HONDURAS

According to a study by the Confederation of Indigenous Peoples of Honduras (CONPAH), in April 1999, there are nine ethnic groups in the country: Garífuna, Islanders (Blacks from the Bay Islands), Lenca, Miskito, Tolupan, Chortí, Pech, Tawahka and Nahoá. This groups together total approximately half a million people (490,553), equivalent to a little more than 8% of the national population. Similarly, another study done in 1993 calculates that indigenous and afro-Antillean ethnic groups represent approximately 7% of the national population.

The studies have different figures for ethnic groups, mainly those related to Lencas and Garífunas, which together represent more than 60% of the ethnic population. According to the CONPAH study, the Garífuna is the largest with 200,000 persons (41% of the total), followed by Lencas 110,000 (22%), Islanders (16%), Miskitos (13%) and five other smaller groups with 36,500 (8%). Nevertheless, according to the IDB study, "Ethnic Poverty in Honduras", the Lencas are the largest populaion group, followed by the Garífunas.

The 2001 Population and Housing Census will reveal more precisely the number of people per ethnic group, as well as the main characteristics of ethnic population, since it includes specific questions regarding this information.

2. WOMEN

Several analyses of household surveys show that poverty tends to affect women proportionally more than men, especially where a woman without a partner is the head of household. The March 1999 survey shows that households headed by men have average incomes 4.6% higher than those headed by women, which appears to be related to a higher percentage of poverty among the latter (66% versus 58%). Also, poverty trends to be slightly higher for households with children headed by women than for those headed by a man (57% versus 54%)⁵. These differences are greater in rural area.

Another very important source of data is the HDI disaggregated by gender, which shows women in a better position compared to men in most of the indicators used for this calculation,

⁵ Ricardo Paes de Barros et al., Honduras: A Social Diagnosis, draft version (IPEA, January 2000). This study uses a different poverty line than the one used in the ERP.

with the exception of the above-mentioned disparity regarding income. Indeed, life expectancy for women is 71.5 years and for men 63.1; the rate of combined school enrollment (primary, secondary and higher) is 57.8% for women and 53.3% for men; and the literacy rate is 69.4% for the former and 68.9% for the latter.

Nevertheless, when other variables are analyzed, related to the index of gender empowerment, there are some considerable disparities, mainly in the composition of the National Congress, where women's representation is only 9.8%, compared to 90.2% for men. The difference in the percentages of directors and managers is smaller (36.4% and 63.6%, respectively); and the numbers are reversed in the case of professionals and technicians (50.8% and 49.2%, respectively). This index has improved between 1990 and 1999, from 0.384 to 0.450, with the greatest progress in women's participation occurring in access to positions as professionals, technicians, directors and managers. Today, there are 9 women in Cabinet positions in the Government.

Another facet of the problem is the high birth rate in Honduras, which not only contributes to increased vulnerability among poor women, but also puts at risk their human capital, particularly in health and education. This lessens the effective time in which this human capital can be mobilized for the employment market or work in general, and consequently, for income-generating opportunities. Although the fertility rate, according to the Ministry of Health data, has fallen from 5.4 children per woman in 1988 to 4.1 in 1998, it is still very high even for Central America.

The Birth rate is also related to insufficient access to family planning services. According to the 1996 National Epidemiological and Family Health Survey, 35% of live births were not planned; additionally, prenatal care and childbirth assistance was also insufficient and of poor quality. This situation contributes to the persistent high rates of maternal mortality (147 per 100,000 live births), another characteristic peculiar to women, especially the poorest.

Fertility rates in adolescent women (between 14 and 18 years of age) are of particular concern, reaching levels of 2.2 children per woman in rural areas, which contributes to the fact that around 15% of all births nationwide are accounted for by adolescent mothers. Maternity in adolescent women is also linked to an increase in women as heads of the household, which seems to relate significantly to income level. This happens both in urban areas (due to marginalization processes and family disintegration) and in rural areas (due to differences in migration patterns and destinations between men and women).

3. CHILDREN

Honduras, like most Latin American countries, has a significant generational imbalance in poverty distribution. While adults can support their well-being and mitigate their vulnerability in

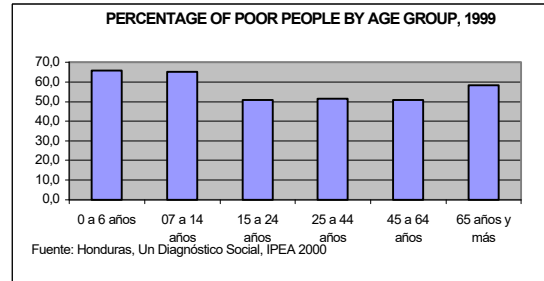
VIOLENCE AGAINST WOMEN

The Woman's Special Prosecutor registered 1,657 accusations of violence against women between February and July 1998. Also, in the ECLAC Report on Honduras: Social Policies, Macroeconomics and Productive Base, it is reported that every month three women are murdered by male family members and at least five are assaulted by family members. Of these, 47% are young people between 16 and 30 years of age. Sexual violence is another form of violence against women; the most prevalent forms are rape, harassment, sexual exploitation and trafficking of women, including that of girls and children.

At the present time there is a lack of data providing reliable and timely information on the various issues regarding violence toward women, especially those who are poor. On the other hand, the magnitude of the problem is being underestimated, due to cultural patterns that prevail in Honduran homes, which tend not to report these events thereby contributing indirectly to continued reproduction of the vicious circle of violence, due to the high probability of impunity generated by the situation described above.

three spheres of activity (State, community and market), children especially the youngest, depend for their well-being on only two spheres of integration and protection the family and the State. Families in turn depend on their insertion into the market and access to goods and public services to provide their children with minimum well-being and access to other social assets.

The IPEA study estimates that in 1999 about 66% of the population between 0 and 14 years of age was below the poverty line⁶. This proportion declines markedly (to approximately 50% of the population) in later age brackets, especially in the active years (15 to 64 years of age), and then rises for senior citizens, but less than for children. Keeping in mind that approximately 43% of the population is between the ages of 0 to 14, in absolute numbers about 1,700,000 children suffer from poverty. These figures portend a high intergenerational transmission of poverty, which would translate into a slow human and social development of the country for several decades if corrective action were not taken. This phenomenon is aggravated for educational achievement by the concentration of dropouts, grade repetition and older student within the poorest sectors⁷.



Also, various studies carried out during 1993 and 1995, by institutions linked to child welfare, have it is estimated that between 5000 and 6,000 children between the ages of 7 and 14 are living on the streets, 70% of whom are males. They do not attend school, and many of them have to contribute to household income and are from broken families. In the Evaluation Report of the Children's Rights Program, the situation of street children is associated with marginality, migration, the accelerated growth of cities, scarce employment opportunities and deteriorating social relations⁸.

CHILD LABOR

A study of the General Employment Panorama in Honduras states that child labor is largely a reflection of insufficient household income, as older family members force children to work. It also indicates that there are new forms of survival among the poor: begging, child labor, abandonment, and informal economic activity in the streets and in areas where people and income are concentrated.

According to the Report on Child Labor in Honduras, in 1998 there were 97,845 working minors between the ages of 10 and 14 and 261,032 working adolescents between the ages of 14 and 18. In rural areas children said to "prefer" working to going to school are involved in various activities, mainly related to agriculture (melon and coffee farms, sugar cane plantations, etc.). In urban areas, windshield cleaning, fruit and car-part vending near traffic lights, prostitution of minors and other illegal activities are doors open to poor and indigent children

4. SENIOR CITIZENS

The problems of senior citizens have not been clearly evident because of various historical, social, economic and organizational factors, haven been given to priority the younger population. The population pyramid of Honduras, it can be seem that children and youth make up the majority of the population, while only 5% are over 60 years old. Nevertheless, in analyzing the relationship between income and the age of the head of household, Household Survey data show that 55% of households headed by senior citizens are in poverty, while for those headed by persons under 20 the percentage is 43%.

This segment of the population will require greater attention in the next few decades. The "demographic transition" will cause the number of senior citizen to increase to almost one million

⁶ Ibid.

⁷ Taken from the Analysis Situation of the Children, Women and Youth of Honduras (1998).

⁸ Ibid.

in 2025. There will also be greater life expectancy at birth, and mortality and birth rates will have decreased. Likewise, the productive age group (from 15 to 64 years of age) will gradually become smaller in relative terms. Consequently, this group has a growing need for services, including an adequate retirement system that would allow retirees to live in dignity and comfort.

5. PERSONS WITH DISABILITIES

The World Health Organization (WHO) estimates that, worldwide, an average of 10.5% of a country's population suffers from some kind of physical, mental, sensory and/or multiple disabilities. Based on this estimate and the total population of the country, there could be more than 620,000 people with some kind of disability.

Of this total, the Honduran Institute for the Children and Family (IHNFA) estimates that around 225,000 children in the country have some degree of disability, 80% of whom live in rural areas. This is a high figure considering that most are from households living in extreme poverty. The main causes of disability are under-nutrition, recurring diseases and traumas during birth.

D. THE EFFECTS OF HURRICANE MITCH ON POVERTY

Hurricane Mitch had a strong impact on the living conditions of the Honduran people, increasing poverty nationally. According to the Permanent Multipurpose Household Survey (PMHS), the percentage of poor households increased from 63.1% in March 1998 to 65.9% in March 1999, or 2.8 percentage points. In absolute numbers this means an increase of approximately 165,000 poor people.

The real impact of Hurricane Mitch is probably greater than reflected by those figures, first, because the PMHS does not fully account for the crop losses of small farmers. Second, even though many households kept their income flows from wage work, they suffered physical-asset losses, which implies a decrease in their capacities to generate future income. Thirdly, the PMHS does not completely account for some vulnerable population groups, such as street children and residents of illegal settlements.

The damages caused by the hurricane affected in one way or another the entire Honduran population. Notable among the direct effects on the incidence of poverty are the loss of family dwellings and household belongings, as well as the behavior of variables that directly affect poverty such as employment, sources of income and factors of production.

1. HOUSING

It is estimated that 35,000 houses were destroyed, and 50,000 partially damaged (10-50%) as a result of Hurricane Mitch. The majority of houses affected were located on alluvial river terraces, since small farmers want to have their homes near their productive plots (in spite of the risks in doing so) and the high cost of safer lands in cities like Tegucigalpa. The result is that 441,150 persons lost or suffered damage to their dwellings.

A survey conducted by the Family Assistance Program (PRAF) in 1999 found that in the poorest half of the country's municipalities (measured by the Undernutrition Index) approximately 10% of the houses suffered damages, which is higher than the general average for the country.

According to ECLAC, the total damage to the housing sector was L.4,646 million (US\$344

million); this figure includes L.2,984 million (US\$221 million) in direct and indirect damages, of which L.1,662 million (US\$123 million) are related to costs for refugee camps and resettlement. Damage to furniture and furnishings in this sector is estimated by the same source at L.399 million (US\$30 million). On the other hand, cost of reconstruction and rehabilitation is estimated at no less than L.6,545 million (US\$485 million).

2. EMPLOYMENT

According to ECLAC, the hurricane’s initial effects were to increase unemployment and to displace workers from formal to informal employment. Towards the middle of November 1998, requests for terminating work contracts of 18,174 people were presented to the Ministry of Labor. At the same time, due to low productive activity, it was expected that more unemployment and underemployment would be created in agriculture, commerce, transport and banking; on the other hand, because of reconstruction activities more employment in construction was expected.

The decline in agricultural and livestock production and the subsequent fall in its contribution to the GDP during 1998-99 was expected to intensify employment problems in the country, since this sector account for approximately 34% of the economically active population. This figure is important, given that poverty is greater in the rural sector, where 61% of the population was in a state of indigence in 1999. However, Hurricane Mitch seemed to stimulate, rather than inhibit the creation of new jobs, although with a negative effect on the quality of these jobs.

UNEMPLOYMENT AND UNDEREMPLOYMENT RATES, MARCH 1998 AND 1999. Population of Working Age 15 +				
	Urban		Rural	
	1998	1999	1998	1999
Open Unemployment	4.7	5.3	1.6	1.6
Visible Underemployment	2.0	2.2	1.5	2.7
Invisible Underemployment	13.5	14.9	33.4	33.0

Source: GDSC.

Without a doubt, one of the greatest effects of Mitch on employment was the sharp increase in child labor in the job market. According to available data, the economically active population grew faster than the working-age population, thus demanding a substantial capacity in the economy to generate employment. The percentage of children between the ages of 10 to 14 in the labor market is quite high. In 1999, 17% of children between 10 and 14 were employed or looking for work, compared with 12.5% in 1998, a percentage that had been relatively stable since the beginning of the decade. In fact, underage employment before Mitch was persistently high compared to that of other Latin American countries.

Comparing the PMHS results of March 1998 and March 1999, the impact of Mitch on open unemployment was small; in fact, the rates were stable or fell slightly. Nevertheless, an increase was registered in open underemployment, that is, in the percentage of people who had jobs but wanted to work more hours. This increase seems to have occurred to compensate for the reduction in real wages.

3. INCOME

The increase in the incidence of poverty during 1999 was due mainly to a decline in average household income. Comparing the March 1998 household survey with March 1999, monthly income fell from L.758 to L.693. The surveys also reveal that the increase of poverty in 1999 was extremely concentrated in rural areas, which accounted for two-thirds of the increase in the number of poor people.

Nevertheless, the increase in the incidence of poverty was limited because the average income of the poorest households declined less (it almost remained constant) than the average income of the richest, which fell 15% compared to a growth of 2% before this period, according to the analysis based on these surveys.

A survey made by PRAF in 1999, applied to 80 municipalities with the worst nutritional profile, found that 35% of households had crop losses, with a higher incidence among the households with medium to high incomes (40%-50%) than among poor households (30%). Approximately 10% of households reported losses of income, with very little difference by income strata, and 5% had income reductions stemming from self-employment and small businesses.

4. FACTORS OF PRODUCTION

The damage caused by hurricane Mitch to the country's productive assets and production was very high, affecting the performance of the principal economic variables and the level of poverty. According to ECLAC, the total damage to Honduras was US\$3,800 million, which is roughly 70% of GDP. Likewise, replacement costs are estimated at more than US\$5,000 million (almost 100% of GDP). Of the total damage, US\$2,005 million was to productive assets, and US\$1,789 million represented indirect effects on production. ECLAC states that the effects of damage will be felt for a period of at least four years. The Central Bank Honduras (BCH) estimates that damage to production caused real GDP growth to fall from 5.2% to 3% in 1998 and from 5.5% to -1.9% in 1999. The process of recovery is now under way, and it resulted in real GDP growth of close to 5% in 2000.

III. DETERMINANTS AND EFFECTS OF POVERTY

Poverty in Honduras, as in other countries, has deep historical and structural roots in economic, political, social and cultural characteristics, that have not favored the development of productive factors and that have also created exclusionary or unequal conditions for wide sectors of the population. Other contributing factors include international economic relations that limit the development of small economies, the share increase in the foreign debt, and the lack of rational and transparent use of scarce domestic resources.

Given the complexity and the multiple dimensions implied by an analysis of the causes of poverty, it is useful to emphasize the most directly related factors and that can be influenced in some way. In the case of Honduras, particularly important causes of poverty are those related to per capita income, employment and wage conditions, the distribution of income and productive factors, public social expenditures, and the macroeconomic framework. Likewise, it is necessary to establish linkages between poverty and issues such as population and natural resources, participation by the poor, cultural values, modernization of the state and decentralization. It is always possible to find new linkages not included in this strategy, but these can be dealt with specifically through new legislation, regulations or sector agendas.

A. ECONOMIC GROWTH AND PER CAPITA INCOME ¹

Poverty defined as insufficient income to satisfy the basic needs of the population, is closely related to the level of gross domestic product, as well as to its rate of growth. Society looks for growth to be generated from a larger number of sources and at the same time for its benefits to overflow and be shared widely with more strata of society.

1. PER CAPITA GDP: LEVEL AND TRENDS

During the nineties in Honduras, each percentage point increase in the per capita GDP growth rate reduced the incidence of poverty by 0.65 points, compared to an average of 0.94 points for all Latin American countries. This low transformation of GDP growth into poverty reduction (poverty-income elasticity) reflects the biased structure of income distribution and wealth, as well as the limited access to productive assets, as discussed below.

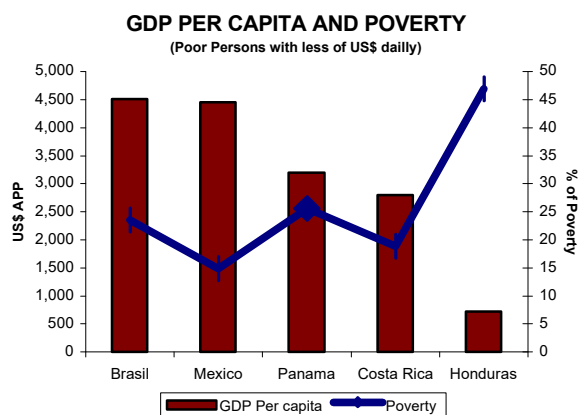
Furthermore, per capita GDP growth has been very slow and erratic; the high was 3.3% in 1993, while in 1994 and 1999 per capita GDP fell by 4% and 4.3% respectively. During this period the average rate of per capita GDP growth was barely 0.5%, the result of an annual Gross Domestic Product growth rate of just 3.2% during the period 1991-2000, only slightly above the average population growth rate of 2.7%.

GDP, POPULATION & PER CAPITA GDP EVOLUTION (in %)			
Year	Population	GDP	Per capita GDP
1991	3.0	3.3	0.3
1992	2.9	5.6	2.6
1993	2.9	6.2	3.3
1994	2.8	-1.3	-4.0
1995	2.7	4.1	1.3
1996	2.7	3.6	0.9
1997	2.6	5.0	2.3
1998	2.5	2.9	0.3
1999	2.5	-1.9	-4.3
2000	2.4	5.0	2.5
Average	2.7	3.2	0.5

Source: UNAT based on SECPLAN/FNUAP/DGEC figures

¹ For international comparison purposes, the poverty line is equal to 1US\$ daily (PPP in 1985 US\$). The data are taken from the 1999 Human Development Report of the UNDP. The year is different for each country.

In comparing Honduras to other countries, the UNDP 2000 Human Development Report (whose figures do not necessarily equal those of the BCH) shows that Honduras had a per capita GDP in 1998 of US\$722, higher only than Nicaragua (US\$452) and Haiti (US\$370) in the Latin American region. The Honduran per capita GDP is equal to half the average of the five Central American countries and to 38% if Panama and Belize are included as part of the sub-region. Other countries with a per capita GDP close to Honduras are Guyana (US\$875) and Bolivia (US\$964).



To establish the importance of per capita GDP as a determinant of poverty, the study carried out by IPEA concludes that, considering only the level of per capita GDP (assuming a similar wealth-distribution pattern in all countries), poverty in Honduras would decline in the following ways: 10 percentage points if it had the same per capita GDP as El Salvador; 22 points if it were equal to that of the Dominican Republic; 34 points if equal to that of Costa Rica; and 41 points if equal to that of Mexico. The comparison just with El Salvador reveals that Honduras would need at least to double its per capita GDP to reduce poverty by 10 points. On the other hand, as shown below, poverty is also related to a skewed distribution of income, indicating that countries with similar per capita GDP have different levels of poverty.

Achieving an accelerated and sustained economic growth and translating it into a satisfactory reduction in the number of households below the poverty line is closely related to factors such as savings and investment, productivity and competitiveness, labor-market characteristics and demographic dependency ratios, among others.

2. SAVINGS & INVESTMENT

Gross Domestic Investment (excluding inventory variations) reached 30% of GDP in 1999 a high ratio compared to the Latin American average (22%). The upward trend during the decade resulted from a contraction in public investment being more than offset by a rapid growth in private investment. Private investment growth has taken place largely in construction and not in machinery and equipment or in the introduction of new technology or more efficient production processes.

The financing investment has relied increasingly on national savings, with 21% of GDP in 1990 to 31% in 1999, and a very small margin of external savings. In many cases the savings mobilized by financial intermediaries are channelled preferentially toward commerce and consumption, and not into medium- to long-term profitable activities. Overcoming the political instability of the Central American region in the eighties, together with achievement of a better macroeconomic framework, have eliminated the financial risk that national investors once perceived. Instead of sending their resources abroad, unleashing a strong currency flight, they are investing more and more in the country.

TRENDS IN INVESTMENT AND ITS FINANCING (As a % of GDP)				
	1990	1994	1998	1999 ^a
Fixed Capital Formation	20.2	28.1	28.2	29.8
Public	6.6	11.1	6.4	6.5
Private	13.6	17.0	21.8	23.3
National Savings	18.3	17.9	25.4	26.1
Public	1.5	4.1	6.6	5.2
Private	16.9	13.7	18.8	20.9

Source: Central Bank of Honduras figures.

^a Preliminary figures.

The figures above show that the levels of national investment and savings, in relation to GDP, should be sufficient to guarantee a more dynamic economy, capable of facing internal social challenges and the demands of the current globalization process. Therefore, the problem resides in a very low efficiency of investment, so that achieving high GDP growth rates requires an even-higher investment/GDP ratio. The coefficient of investment to GDP growth (ICOR) in 1996 was 7.0, while this ratio should not have been higher than 4.0.

3. EFFICIENCY OF THE FACTORS OF PRODUCTION AND COMPETITIVENESS

The inefficiency of high levels of investment in generating a higher per capita GDP in the country is closely related to the economy's low productivity, which in turn reflects the use of inappropriate technology and the limited capacities of the Honduran worker. This situation is generally found in both large- and small-scale producing units, and in the agricultural sector as well as in manufacturing and services.

It is evident that the poor rarely use fertilizers, pesticides or improved seeds, despite some progress in increasing the supply and quality of technical assistance services, especially for small and medium-size producers. The system of permanent public extension was abandoned in the agricultural sector, and in hope to hopes of achieving better service delivery a new model was adopted based on contracting technical assistance through private agencies such as foundations, NGOs and for-profit companies.

The productivity of the Honduran agricultural worker is the lowest in the Central America region. This is the result of the limited use of irrigation and mechanization in land suitable for crop production, where Honduras is also below the regional mean. A similar situation can be found in infrastructure support for productive activities, such as electric-energy consumption and telephone lines (the data in the table below do not include mobile phones).

CENTRAL AMERICAN PRODUCTIVITY AND TECHNOLOGY INDICATORS						
Central American average = 1.00						
Indicator	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Central America
Agriculture productivity per worker	2.17	0.80	0.89	0.48	0.66	1.00
Tractors per 1,000 workers	2.61	0.57	0.23	0.80	0.80	1.00
% of land under irrigation	2.32	1.38	0.63	0.35	0.32	1.00
Annual deforestation	1.15	1.26	0.76	0.88	0.95	1.00
Per capita electric energy consumption	2.38	0.91	0.64	0.62	0.45	1.00
Telephone lines per 1,000 inhabitants	2.55	0.84	0.62	0.56	0.44	1.00

Source: World Bank, 1999-2000 World Development Report; data for 1996-97.

Competitiveness in Honduras is also affected by another series of factors, notably the vulnerability of macroeconomic stability; a restrictive legal, administrative and political framework; the low quality of human resources; deficiencies in the quality of natural-resource management and environmental control; and market inefficiencies. A combined analysis of these factors, in a competitiveness framework, stresses the need for Honduras to make further efforts to qualify as a country with an adequate competitive climate; by addressing its insufficient openness to the international market and unfavorable structural and macroeconomic conditions.²

² Based on ESA Consultants, Honduras in the XXI Century: An Agenda for Competitiveness and Sustainable Development (1999).

STRUCTURAL AND MACROECONOMIC CONDITIONS AFFECTING INVESTMENT

- Weak application of the legal and administrative framework to achieve transparency, lower transaction cost and improve legal security; mainly in relation to simplifying customs procedures; eliminating delays in the issuance of licences and permits; simplifying investment procedures; modernizing registration systems; and reforming procedures that may lead to corruption or extortion.
- The lack of a uniform and efficient land registry with geographic reference does not guarantee secure land tenure or facilitate the development of markets for purchasing, selling and leasing land.
- The current labor norms need improvement in areas such as flexibility for businesses and workers to negotiate mutual agreements, on work hours and time schedules, especially to benefit female workers; temporary and part-time contracts; mechanisms to assure worker representation in businesses; favorable severance-pay terms for both businesses and workers; and appropriate retirement plans.
- There is a lack of infrastructure to support productive investment, because the public sector lacks the capacity to obtain new loans that would finance expansion and improvement in areas such as roads, electric power, telecommunications, ports, airports and water systems. There is still a lack of wide spread private-sector participation.
- The financial sector is not sufficiently flexible and competitive as a development instrument to mobilize savings and channel resources towards production in an efficient and timely manner, due to factors such as restrictions on loan interest rates and credit to related business. Greater progress in the modernization of the financial system is also required, on a par with international norms, to strengthen supervision and guarantee stability.
- The potential of Honduran trade with the rest of the Central American region has not been fully exploited. More trade takes place with countries outside the Latin American region more than with neighboring countries such as Nicaragua or El Salvador. The lack of deeper economic integration is due in part to the inadequate attention given to reducing transport time and custom procedures, and to eliminating nonessential permits for the exchange of goods and services across borders.
- Despite progress in modernization of the state and decentralization, there is still evidence of an over-dimensioned public administration and limited transfer of functions and resources to regional and/or local levels. Likewise, the public-sector structure is inefficient in responding to the facilities required by new investments; and the degree of participation of private enterprise in providing public services is low.
- A disturbing trend in the last few years has been a real effective appreciation of the exchange rate, which has offset most of the stimulus to investment provided by the exchange rate adjustments at the beginning of the 1990s.

Taking as a reference to the country with the greatest openness (Luxemburg =100%), Honduras can be seen as a semi-open (46%) country, that limits the ability of its producers of goods and services to compete internationally in quantity and quality. Likewise, Honduras scores low on other structural factors that encourage investment, such as technology, institutional and governmental efficiency, infrastructure and finance.

COMPETITIVE ELEMENTS: RELATIVE POSITION OF HONDURAS				
	Technology	Quality of Institutions	Infrastructure	Finance
Country with 100%	Finland	Singapore	Singapore	United Kingdom
Honduras	5%	15%	22%	22%

Source: INCAE-ESA, Honduras in the XXI Century: An Agenda for Competitiveness and Sustainable Development (Tegucigalpa, 1999).

Nevertheless, Honduras is in a better situation than other countries in the region regarding other key elements of competitiveness, with advantages such as a better strategic position in relation to the most important markets; an extraordinary ecological diversity; and a substantial agricultural and forestry potential. Furthermore, it should be stressed that the country has a considerably lower cost of shipping to the United States market than the rest of the Central American countries, with the exception of Costa Rica, due fundamentally to a shorter distance and to its competitive port infrastructure.³

³ ESA Consultores, op. cit.

With respect to human resources in the framework of competitiveness, Honduras has an underutilized work force with improving skills, especially among young people entering the labor market for the first time. However, at present Honduran workers productivity is relatively low (about 40% of the Latin American average), due not only to their skill level but also to the quality of jobs.

The major employment problems are thus related more to quality than quantity. In fact, the breakdown of employed persons in 1999 shows the following characteristics:

- 51% were non-salaried workers, of whom one quarter were non-salaried family workers;
- 66% worked in establishments with an average of 1 to 4 employees;
- 35% were engaged in primary activities (agriculture, forestry, hunting and fishing).

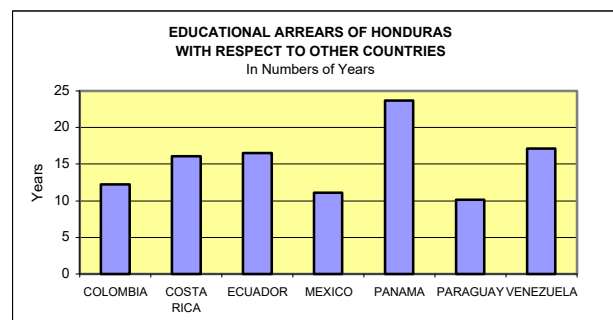
Although some changes have occurred during the decade, these have been minor and suggest a trend towards deterioration in the quality of jobs. For example, even though there was a decline in primary employment, the increase in manufacturing and commercial jobs was not substantial; therefore more people are going into the informal sector, resulting in increased underemployment, especially invisible, which negatively affects income and productivity.

Regarding the quality of the work force, the IPEA study states that the average years of schooling for a Honduran worker over 25 years old 5.3 years in 1999. In Mexico it was 6.2 (1994); Colombia, 6.4 (1995); Costa Rica, 7.0 (1995); and Panama, 8.4 (1995). Illiteracy (for those 15 years old and above) in Honduras was also high (21%) compared to the above countries, among which the highest figures was 15.3% (Mexico).

EMPLOYMENT BY ACTIVITY AND FIRM SIZE. 1991-99

	1991	1999
Total Employment Population (Thousands)	1,523.1	2,274.1
Salaried (%)	49.0	46.1
Non salaried (%)	51.0	53.9
<u>Occupational Category</u>		
Public employee	10.0	6.6
Private employee	32.4	36.0
Domestic service	4.2	3.6
Cooperative member	0.7	0.2
Non salaried family worker	11.9	13.0
Employer or partner	1.0	4.6
Self employed	39.8	36.0
<u>By Firm Size</u>		
From 1 to 4 employees	62.9	66.2
From 5 to 9 employees	7.2	6.9
More than 10 employees	29.9	26.9

Fuente: GDSC.



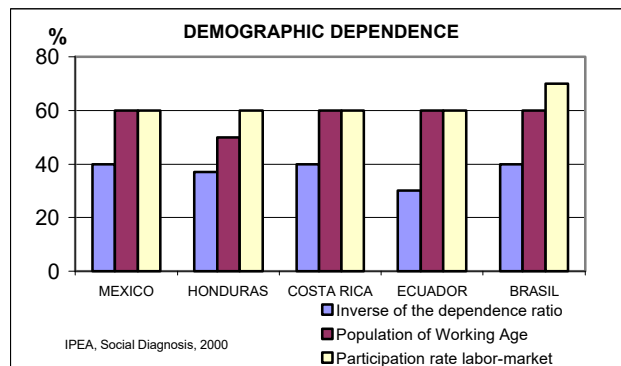
Educational backwardness with respect to the other countries of the region is such that 15 years would be required at current growth rates to catch up with the present educational level of Costa Rica, and close to 25 years to reach the level of Panama. One of the important effects of having a better-trained labor force is that it induces a higher participation in the labor market, particularly by women, as well as placement in productive sectors with higher earnings. Estimates are that an additional year of secondary education raises salaries by 15%, while for primary education the effect is 10%.

4. DEMOGRAPHIC DEPENDENCY

Per capita GDP insufficiency also is closely related to demographic dependency. This refers to factors such as the percentage of the population of labor-force age in the total population, and to the socioeconomic characteristics of the labor market that determine the degree to which the

economically active population is taken advantage of for productive purposes.

In Honduras, the working population (15 years or more) amounts to 57% of the total, slightly higher than the 55% in 1990, but far from the Latin American average and that of the industrialized countries, which is approximately 70%. This percentage of the population of labor-force age, combined with the rate of participation in the labor market of this population group (64.4%), results in the inverse of the dependency ratio being 37%, compared to 40% in Latin America as a whole and approximately 50% in the industrialized countries.



The dependency ratio in Honduras, determined by a relatively low percentage of the working-age population and its insufficient economic use, can be interpreted in the sense that each working person's income has to be sufficient to cover the livelihood needs of 2.25 people. Despite this, according to the IPEA study, only 22% of the per capita income difference between Honduras and the Latin American region can be explained by the low percentage of the economically active-age population. Therefore, the dependency ratio does not appear to be very significant compared to other more important variables in determining the level of economic growth.

DEMOGRAPHIC AND LABOR INDICATORS, 1999 In thousands of people and %	
	1999
A. Total population	6,009
B. Active age population (15 or more years)	3,436
C. Economically active population. (EAP) (15 or more years)	2,212
D. % of population from 15 to 64 years of age	57.2
E. Level of EAP participation	64.4
F. Inverse of the dependency ratio (D *E)	36.8

Source: UNAT, based on PMHS, GDSC.

B. LABOR MARKET, WAGES AND SALARIES

Labor-market characteristics and access to it are very important for the majority of households, since 80% of the income received by working persons derives from labor activities. Therefore the possibility of obtaining income through employment and the level of wages or salaries earned has a great influence on poverty incidence.

1. WAGE AND SALARY LEVELS AND TRENDS

Hourly average income (wages and salaries) of the active-age salaried population (15 or more years of age) in 1999 was L.12.2 (US\$0.81)⁴, reflecting real growth of 13% during the decade. Nevertheless, when workers are disaggregated by income quartile, the majority receive less than half the average income. Likewise, there is a strong income disparity among different economic activities. Wage earners in primary activities receive approximately 50% of the average income, while those of the tertiary sector (financial establishments and community services) receive above-average income. Furthermore, in some activities, such as commerce, construction and financial establishments, wages and salaries in 1999 were below those at the beginning of the decade.

⁴ Exchange rate as of October, 2000 (US\$1.00= L. 15.00).

RELATIONSHIP BETWEEN POPULATION CHARACTERISTICS, PER CAPITA INCOME AND POVERTY**Demographic Variables**

Per capita income has an inverse relationship with the number of children in the household, and appears to increase with the age of the head of household and for single-spouse household in rural areas. Female heads of households have per capita income levels that are between 15% and 30% lower than those of male heads of households.

Education

A head of household with a university degree has almost double the income of his or her peer without education. The increase 70-80% for those who have finished high school, while those who finish primary education have an additional 30-40%. The benefits of education are indeed positive, but they are lower for spouses of heads of households, because the participation rates of women in the labor market, even though they have grown rapidly, are still lower. Another problem is discrimination against women (according to the Dedi and Born, 1995 study cited by the World Bank).

Employment patterns

Income loss related to unemployment of the head of household is around 65% compared to the income of employed household heads. The employment impact is less in the case of the spouse of the household head, and at times coefficients are not significant even at the 10% level. Severe underemployment (less than 20 working hours per week), for both heads of households and spouses, and in both rural areas and urban centers, reduces income by approximately 30%.

With respect to economic sectors, households whose head works in construction, commerce and transport receive a per capita income approximately 30% higher than those in agriculture. The type of employment also affects the level of income. For heads of households, self-employment is more productive than salaried employment in urban centers, but lower in the rural areas. There are no significant differences between the public and private sectors. Heads of households who are employers generate average per capita income 70% higher than income for those who are wage earners.

Geographic Location

Controlling for other household characteristics geographic location, also affects per capita income. For example, per capita income of households in Intibucá, compared to those in the department of reference (Atlántida), is 70% lower in rural areas and 25% lower in urban centers. These differences are due to a series of factors, including differences in the quality of natural resources and provision of infrastructure.

Migration

Controlling for geographic location and various household characteristics, per capita income is 5-15% higher in homes whose head of household has moved from his or her birthplace.

Source: World Bank analysis of the impacts of various characteristics of the population on per capita household income, based on household surveys.

Data from the PMHS show that total monthly income of salaried urban sector workers from their main employment in 1999 was L.2,807, while in the rural sector it was only L.1,424 (51%). Wages do not appear to differ much by gender, although in the rural sector they seem to favor women, which indicates that when women decide to work they do so in better quality jobs, although the majority of employed women are non-salaried. Wages vary significantly by age, with the higher wages earned by those 20 to 34 year olds, and the lowest by people less than 20 years of age. This latter figure appears to be explained by the tendency for young people, much more than other labor-force groups, to be non-salaried family workers.

**REAL HOURLY INCOME OF WAGE EARNERS¹
BY ECONOMIC ACTIVITY, 1990-99
1999 Lempiras**

Activity	1990	1999
Agriculture, Forestry, Hunting & Fishing	5.6	6.2
Mining and Quarrying	7.1	6.1
Manufacturing	10.3	11.5
Electricity, Gas and Water	17.7	17.3
Construction	8.4	11.2
Commerce	9.2	10.5
Transport, Storage & Communications	11.8	12.7
Financial Establishments	20.5	19.4
Community Services	18.2	18.2
Average	10.8	12.2

¹ Wage earners of 15 or more years. Does not include domestic-service/ workers.

Source: UNAT, based on PMHS.

In addition to these factors, the salary structure for both the public and private sectors is influenced by the lack of a clear wage and salary policy. Normally, wage and salary adjustments are the result of continuous pressure from different labor sectors, which often become a threat to macroeconomic stability or cause cutbacks in social programs. Wage and salary adjustment

mechanisms based on recent trends in the consumer price indice (CPI) complicate other policy efforts (for example fiscal discipline) to reduce inflation rates to international levels, and inflation particularly affects poor groups.

2. EMPLOYMENT TRENDS

According to household survey data, the Economically Active Population (EAP) grew significantly during the decade of the 90s. While the working-age population 15 years of age and above⁵, increased by almost 37%, the EAP increased 50.6%. This behavior is due entirely to a higher participation rate by women, which rose from 32% in 1990 to 44% in 1999, with a greater increase in rural areas.

CHARACTERISTICS AND TRENDS OF THE LABOR MARKET IN HONDURAS, 1990-1999										
Thousands of people 15 years of age and above										
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Active-Age Population	2,509	2,662	2,801	2,859	2,962	3,021	3,150	3,247	3,372	3,436
EAP	1,469	1,553	1,657	1,690	1,746	1,792	1,977	2,053	2,084	2,212
Urban	675	697	759	784	810	866	956	1,008	1,030	1,100
Rural	794	836	898	906	936	926	1,022	1,045	1,054	1,113
Total Employment	1,407	1,465	1,606	1,609	1,696	1,717	1,893	1,985	2,020	2,137
Male	1,006	1,027	1,096	1,104	1,177	1,195	1,258	1,301	1,345	1,360
Female	401	438	510	505	519	522	634	684	674	778
Rate of participation (%)	58.5	57.6	59.2	59.1	58.9	59.3	62.8	63.2	61.8	64.4
Male	87.2	85.7	85.0	85.0	85.7	86.4	87.8	87.6	86.9	87.1
Female	32.3	32.5	35.8	35.5	34.6	34.6	40.1	41.3	39.2	44.2
Unemployment Rate (%)	4.2	4.4	3.2	4.8	2.8	4.2	4.3	3.3	3.1	3.4
Underemployment Rate (%)	35.4	36.6	31.0	30.7	26.6	26.3	24.8	26.2	25.3	26.4
Visible	3.0	1.9	1.7	2.5	1.7	1.8	2.6	2.5	1.8	2.4
Invisible	32.4	34.7	29.3	28.2	24.9	24.5	22.2	23.7	23.5	24.0

Source: UNAT, based on PHSM, GDSC. For most years, data are the month of September/October of each year, except for 1993, when the data are for March.

The heavy migration from the countryside to the cities resulted in a 63% urban EAP growth during the 1990s, while the rural grew by only 40%. The exodus to urban areas seems to be dominated by men, which could be related to the fact that a growing number of women have had to join the rural labor force. Thus the female EAP in rural areas doubled, whereas the male EAP grew only 25%.

Within the urban context, the EAP grew faster in the city of San Pedro Sula (approximately 75%) than in the Central District (approximately 50%). This indicates that migration has been directed towards better employment opportunities generated throughout the decade by the rapid growth of activities such as the maquila (assembly) operations in San Pedro Sula and nearby areas. This situation has also resulted in more job opportunities for women (approximately 70% of total maquila employment), and therefore a larger participation rate for women in the urban labor market.

The trends described above resulted in the creation of 730,000 new jobs between 1990 and 1999, a relatively high growth rate of almost 5% a year. The unemployment rate, even considering the impact of Hurricane Mitch, fell from 4.2% in 1990 to 3.4% in 1999; and invisible underemployment fell from 32.4% in 1990 to 24% in 1999. Nevertheless, almost 600,000 people are jobless, or the jobs they have generate insufficient income to meet their basic needs. The principal characteristics of employment trends in the country include the following:

Job-search time is relatively short and has improved during the decade. Just over 40% of the unemployed sought work for less than a month, and another 35% sought work for one to three months.

⁵ The definition of the EAP in Honduras, includes children between the ages of 10 and 14. Nevertheless, the present document excludes this segment, because it composes a very small proportion of the labor force who for the most part are unpaid family workers, thus distorting the overall picture of the EAP. The analysis is thus based on the working-age population at least 15 years old.

- People with different levels of education shared the same job-search experience, which indicates that there was no lack of jobs for people with different skills.
- Open unemployment rates are higher in urban areas (5.3%) than in rural (1.6%); the opposite occurs with underemployment. This is related to the fact that small farmers are considered to be employed even during inactive periods within the same production cycle.

UNEMPLOYMENT RATE BY SECTOR, 1999 Working Age Population, 15 years old and above			
	National	Urban	Rural
Open unemployment	3.4	5.3	1.6
Underemployment Rate			
Visible	2.4	2.2	2.7
Invisible	24.0	14.9	33.0

Source: UNAT, based on data from the PMHS.

- Unemployment is concentrated among persons less than 30 years of age. This is related either to the fact that they have no work experience or to their expectations for better-quality employment. Since many do not have responsibilities as heads of households, they can be more selective in the type of job they choose. This tendency becomes stronger as the level of education increases.

3. WORKING WOMEN

In addition to the characteristics of working women noted above, it is important to add some details. The relatively higher increase in women's participation in the labor market not only respond to demand-side factors, but also is linked to supply-side elements, such as better access to education and, to a lesser degree in the case of Honduras, a decline in fertility rates.

Nevertheless, the rate of growth in the participation of women was slow until 1995, at a rate of participation of between 32.3% and 34.6%. It then rose quickly to 40.1% in 1996 and 44.2% in 1999. This drastic change could be due to different causes, that still not sufficiently explained, including demand from the maquila sector and the need for many women to seek work in order to replace lost income or repair damages caused by Hurricane Mitch. On the other hand, these increases could be linked to changes in the quality of jobs, if a considerable share of them originated in the informal sector, due more to the need to increase incomes than to the demand for new jobs.

The increased participation of women in economic activities took place despite their having to face worse social conditions than men, such as lower income and the need to take care of daily household chores. Moreover women tend to have lower-quality jobs; indeed, only 35% of female EAP are wage earners in the public or private sector or in domestic service, while a high percentage are either self-employed or serving as unpaid family workers.

4. CHILD LABOR

In most countries, especially those that are less developed, child labor, that is employment of children between 10 and 14 years olds, is a pervasive characteristic of the labor market. In Honduras this problem appears to have reached relatively high levels.

The level of participation of children in the labor market during a large part of the period was around 12%, which appears to be high in comparison to other Latin American countries. In rural areas this rate reaches almost 15% and could be even higher in the poorest regions of the country. Furthermore, in response to various problems, particularly those of an economic nature caused by Mitch, the child participation rate rose to 16.4% in 1999. The earlier participation rates suggest that the rise in participation is temporary, and that it will decrease as the problems that caused it are gradually solved.

LABOR FORCE CHARACTERISTICS OF THE 10 – 14 YEAR OLD POPULATION				
	1990	1993	1996	1999
Working age (thousands)	676.0	707.8	784.6	845.4
Urban	259.1	281.5	303.6	336.0
Rural	416.9	426.3	480.9	509.5
EAP (thousands)	78.1	82.8	96.9	138.4
Urban	16.8	17.6	24.7	36.6
Rural	61.3	65.2	72.2	101.8
Participation rate (%)	11.5	11.7	12.3	16.4
Urban	6.5	6.2	8.1	10.9
Rural	14.7	15.3	15.0	20.0

Source: UNAT, based on PMHS.

Part of the high participation of children in the labor market is related to a significant percentage of children who do not go to school, either because of lack of access or because of the need to contribute to family income. The average child works an average of 33 hours a week, but only contributes 9% total family income (since most work is unpaid family labor).

C. ADJUSTMENT AND STABILIZATION MEASURES

The macroeconomic and sectoral framework is closely related to economic growth and therefore to poverty reduction. It is recognized that although structural economic adjustment seeks to establish positive long-term effects on production growth rates and therefore on poverty reduction, in the short-term, while the economy is being reoriented, some measures can have negative effects on vulnerable groups.

In the 80s, the economy was characterized by high fiscal deficits, financed mainly by external resources, and a progressive deterioration in the current account of the balance of payments. Towards the end of the decade it became obvious that, since external resources flows were neither sufficient nor sustainable to compensate for losses in the external sector, measures were required to correct imbalances and control inflationary pressures through sound fiscal and monetary policies. Therefore, in 1990 the country found it necessary to adopt a stabilization program, which had positive effects on internal and external balances.

However, price stabilization did not occur until 1992. Initially, with price adjustments, the general price level rose and the increase in the consumer price index (CPI) accelerated to 34.0% in 1991; then in 1992 a substantial improvement was achieved when the increase in the price level was limited to 8.7%. The easing of inflationary pressures probably contributed to the reduction of the incidence of poverty from 74.8% in 1991 to 69.9% in 1992. Unfortunately, this process was not immediately consolidated due to erratic fiscal and monetary discipline in 1992 and, especially, in 1993. Therefore, the inflationary process was again stimulated, so that increases in the CPI reached 29.5% in 1995. With fiscal expansion the GDP was temporarily stimulated and grew by 5.6% in 1992 and 6.2% in 1993, while the incidence of poverty fell to 67.5%. However, given the source and quality of the stimulus, growth increases were not sustainable.

In 1994 the new Government took measures to reestablish the process of fiscal stabilization. Although GDP contracted by 1.4% in that year, the incidence of poverty fell slightly to 67.2%, for reasons that have not been fully explained⁶. The incidence of poverty rose slightly in 1995 and

⁶ This phenomenon is perhaps explained partly by the fact that the poverty figure reported above for 1994 is for the month of October, while data for other years are for the first quarter (generally March).

in 1996, reaching 68.7%, partly because inflation canceled out the positive effects of GDP growth (3.9% annually in those years). Maintenance of fiscal discipline and the real effective appreciation of the lempira, eventually had a favorable impact on the inflation rate, when fell to 12.8% between December 1996 and December 1997. The CPI rose 15.8% between December, 1997 and December 1998, but fiscal and monetary discipline prevented a larger rise as the aftermath of Hurricane Mitch. The combination of moderate inflation rates and economic growth of 5% or more helped reduce the incidence of poverty to 65.8% in 1997 and 63.1% in 1998 (before Mitch).

In 1999, after the devastating impact of Hurricane Mitch, the country continued to maintain fiscal and monetary discipline. The fiscal deficit was lower than programmed and inflationary financing of reconstruction and transformation expenditures was avoided, as the country took advantage of the availability of external financing for these purposes. Inflationary pressures on basic grains were avoided through external donations and a production-incentive program for these products immediately after the disaster. Between December 1998 and December 1999 the country was able to reduce the increase in the CPI to 10.9%. Despite a decrease in per capita GDP of approximately 4.5% in 1999, the incidence of poverty rose only to 65.9%.

GROWTH, INFLATION AND POVERTY, 1990-1999										
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
GDP growth	0.1	3.3	5.6	6.2	-1.3	4.1	3.7	5.1	3.0	-1.9
Inflation (annual)	23.3	34.0	8.7	10.7	21.7	29.5	23.8	20.2	15.7	11.9
Poverty rate (%)	n.d.	74.8	69.9	67.5	67.2	67.8	68.7	65.8	63.1	65.9

Source: Central Bank of Honduras.

The series of economic measures adopted had a positive impact on the growth of the Honduran economy. When in 1994 it became necessary to implement an adjustment program to correct the effects of the 1992-93 fiscal expansion, it was estimated that GDP would have grown at an annual average rate of 4.7% in next five years, if the country had not been affected by Hurricane Mitch. Although this rate of economic growth is clearly insufficient to reduce the incidence of poverty quickly, it represents a substantial improvement compared to the 80s, and it is higher than economic growth in Latin America as a whole during this period. Among the effects of these policies are the following:

- **Exchange rate liberalization** stimulated nontraditional exports and some import-substitution products, thereby contributing to economic growth. Later, exchange-rate appreciation helped many poor households, especially in urban areas, through its effect on the prices of imported products and its contribution to the gradual reduction of the rate of inflation. However, it also had negative effects on the rural poor, especially basic grains producers who have to compete with the lower prices of imported grain, due to the indirect subsidy of exchange-rate appreciation, lower production costs and the direct subsidies that external producers receive.
- **Liberalization of domestic trade**, like exchange-rate liberalization, has a contractionary effect in the short-term: it helps small basic-grains producers, who are among the poorest groups in the country, but it has negative impacts on poor consumers in urban centers. On the other hand, the production and productivity of basic grains did not seem to respond to the price-liberalization stimulus, because they also depend on other factors, such as access by small producers to factors of production and the real appreciation of the lempira.
- **Financial sector liberalization** resulted in extremely high interest rates on loans, fueled by high reserve requirements, which reached 42%. Reserve requirements are now 19%,

including a base of 12% for all deposits and 7% in obligatory investments. On the other hand, open-market operations have increased, with the purpose of making them the main instrument of monetary policy; progress has been made in the modernization of the financial system through reforms to Central Bank law of 1997, which better define its function and increases its autonomy; the National Banking and Insurance Commission was established as an independent regulatory institution; and other laws important for the financial system were enacted. With these actions, together with better efficiency and competitiveness of the national financial system, lower intermediation margins and interest rates on loans are expected to facilitate access to loans for production.

- **Trade liberalization** has had a generally positive effect on poverty, through its contribution to the expansion of exports, many of which are labor-intensive, and the drop in the price of imports, which has stimulated internal competition with favorable effects on the productivity and prices of domestic production. Although some workers have lost their jobs as a consequence of external competition, the number of people affected is small.
- In the **fiscal sector**, measures such as the reduction of income and export taxes did not have direct effects on the poor population. It is expected that these reductions will stimulate investment, with positive medium- and long-term effects on employment and, consequently, on poverty reduction. The dilemma for Honduras is that society demands a higher level of social spending, which is financed mainly by fiscal revenues and loans from external financing sources, which later have to be repaid with greater tax collections.

SUMMARY OF ADOPTED ADJUSTMENT MEASURES

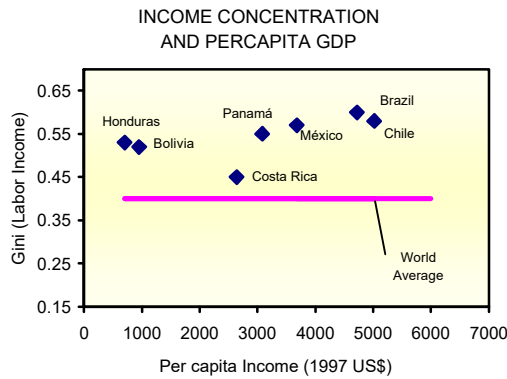
- **Exchange Rate Liberalization.** The fixed exchange rate was abandoned, and a flexible mechanism to determine the rate of exchange was adopted. At the present time this rate is adjusted on the bases of differences between expected domestic inflation in Honduras and that of its major trading partners, together with an auction system.
- **Liberalization of internal trade.** Various price controls were eliminated for agricultural as well as non-agricultural products.
- **Interest-rate liberalization.** This was a gradual process that ended in November 1992. This liberalization sought to achieve positive real interest rates that would help mobilize savings and provide a larger supply of loaned funds.
- **External Openness.** The country achieved full membership in the General Agreement on Tariffs and Trade (GATT) and full entry into the World Trade Organization (WTO); non-tariff barriers were eliminated; tariffs were reduced from a maximum of 90% to a range of 5%-20% and the process of regional tariff unification has advanced.
- **Fiscal Sector.** Tax-revenue administration and restructuring and simplification of the tax system was initiated, simultaneously with a search for better incentives to investment. Recent major changes (April 1998) are: 1) a reduction of the marginal tax rate on income from 42% to 25% and increased tax exemptions for individuals; 2) an increase in the sales tax from 7% to 12%; and, 3) a significant reduction in export taxes. In 1997, a tax code was approved that establishes an integrated legal framework for the tax system, including general principles, administrative norms and sanctions that include prison.

D. INCOME DISTRIBUTION AND ACCESS TO PRODUCTIVE ASSETS

The low rate of transformation of economic growth to poverty reduction is a reflection of the unequal distribution of income and wealth, as well as the limited access by a broad sector of the population to productive assets, including land, credit and secondary and technical education. The distribution of income is also linked to public-expenditure priorities, particularly in education and health, discussed in another section.

1. GINI COEFFICIENT OF INCOME DISTRIBUTION

The degree of inequality in Honduras, as well as for the rest of the countries of Latin America and the Caribbean, is above the world average. The Gini coefficient in Honduras, for household income (labor income), was 0.54 in 1997, below countries such as Brazil (0.60), Chile (0.58)



Source: IDB, Latin America Confronts to Inequality, 1998-1999.

and Mexico (0.57), but higher than countries such as Costa Rica (0.45) and Jamaica (0.38), which is the only country of the region with a coefficient lower than the world average.

Unequal distribution, as measured by the Gini coefficient, is different at the urban and rural levels. According to estimates by the Bank World, the natural coefficient remained between 0.55 and 0.59 during the decade of the 1990s and is several percentage points (2 to 6 points) higher in rural than in urban areas. Especially disturbing is that in the last few years this index has fallen slightly in urban areas, while tending to increase in rural areas.

In examining the *proportion* of national income received by the lower strata or deciles of the population, that is, the indigent or extremely poor, one can see that the structure of income distribution in these groups is very similar to that of the countries with which Honduras is compared.

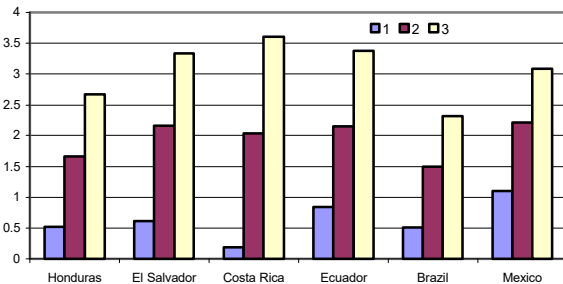
Nevertheless, when *average income* is analyzed for each indigent group in the various countries, it can be seen that the indigent in Honduras have a lower *average income* than indigent groups in other countries. This indicates that conditions of extreme poverty in Honduras are worse than in other countries with more or less similar income-distribution structures.

If Honduras had the same income distribution as Costa Rica (considered to be the most advanced country in social development in Latin America), extreme poverty would decrease by nearly 7 percentage points due to an improved distribution. This reduction is considerably smaller than the reduction of 34 points that would occur if per capita income were the same as in Costa Rica. On the other hand, it is obvious that the combination of economic growth and improvements in the distribution of income would result in more effective poverty reduction.

2. ACCESS TO THE FACTORS OF PRODUCTION

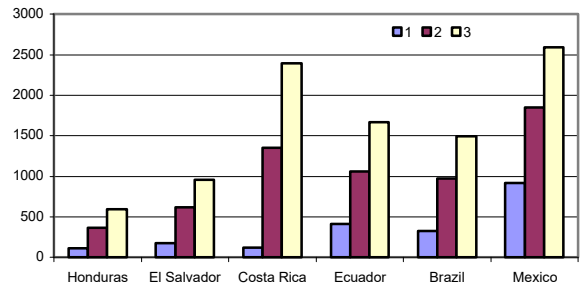
In Honduras, issues related to access to property rights in basic resources such as land, forests and other natural resources, as well as to factors supporting production and marketing, are always identified as being among the principal determinants of social inequalities and poverty, especially for families living in rural areas.

SHARE OF INCOME RECEIVED BY THE THREE FIRST DECILES OF THE DISTRIBUTION, 1999



Source: Honduras, Social Diagnosis.

AVERAGE INCOME (US\$ APP) OF THE THREE FIRST DECILES OF THE DISTRIBUTION, 1999



Source: Honduras, Social Diagnosis.

A common feature found in the various agricultural censuses is the problem of land concentration. According to the National Program of Sustainable Development (PRONADERS), 72% of the productive units administer 11.6% of the cultivated area and 1.7% (representing units larger than 100 hectares) administer more than 39%. Of a approximately total of 330,000 agricultural producers, 205,000 poor small farmers (62%), of whom 19.7% have no tenure security and 42.4% are rural poor who farm land, as sharecroppers or renters, or under other such arrangements the balance of 118,000 small farmers or 35.8% of the total numbers of producers have no land.

In addition problems of access, there are problems related to the legality of land tenure. Despite some progress, approximately 1.5 million hectares of national and community (ejidal) lands have not yet been titled. Moreover, the structure and technical characteristics of the land registry do not guarantee full land-use security; the distribution of the district registries is inadequate; and procedures for recording and filing information are insecure. Also, land-title programs have not covered forestlands, these are deemed not subject by the provisions of the Agrarian Reform Law and the Forest Law. This omission has at least two serious consequences: i) proprietors wishing to title their partially forested lands choose to cut down their trees to avoid problems; and ii) smaller pieces of land between titled properties have remained without owners, or sustainable uses, which also subjects them to short-term deforestation.

INFRASTRUCTURE AND PRODUCTION SUPPORT SERVICES

- **Credit.** Access to credit by small producers continues to be very limited, and the convertibility of their real guarantees is low. In spite of the emergence of new formal sources of credit and the increase of non-bank intermediaries, credit coverage in the rural sector is still limited, moreover most rural borrowers cannot guarantee their financial sustainability in the long-term.
- **Infrastructure.** Limited road infrastructure hinders the development of rural communities. Maintenance of the rural road network is not clearly defined, as SOPTRAVI is responsible for the maintenance of only 32% of the network. Maintenance is not planned but carried out in response to community requests. Furthermore, only about 20% of the rural population has electric power, compared to 85.0% in urban areas, with respects to telephone lines, more than 100 municipalities have no kind of telephone service, and some 50 municipalities have access only to telegraph service and some other private means of communication, but with little interconnection with the national telephone network.
- **Irrigation.** Only 18.5% of agricultural lands are irrigated, of which most are large banana plantations. The inefficient administrative and organizational structure of state irrigation districts leads to operational and maintenance failures. On the other hand, little research has been done on irrigated agriculture, and limited technical assistance is available to producers located in the areas with irrigation, which has prevented a more efficient use of water.
- **Generation and transfer of technology.** Technical assistance provided by national and international NGOs is growing, through rural development programs financed by international organizations. Technical-assistance services and technology generation are provided through private services and consulting firms, through payments financed by rural development programs such as DICTA and the Program of Modernization of Agricultural Technology-Transfer Services.
- **Enterprise reconversion.** The reformed sector and indigenous groups continue to suffer from a lack of training in production and management of small-farm enterprise, and a lack of motivation to promote the organization of community participation and self-management of their own initiatives. This problem hinders the process of reconverting small-farm enterprises.
- **Commercialization.** The country lacks a system of standard weights and measures; quality norms in basic grains have not been officially adopted; and improvements must be made in market information systems, especially those directed to small producers. The high level of post-harvest losses and the large price differences between markets and seasons are reflected in a low level of marketing efficiency. Agricultural producers show very little adaptation to competition and openings to external markets, and in many cases they lack knowledge of the norms that regulate market transactions.

To improve access and land-tenure security, the 1992 Law of Modernization and Development of the Agricultural Sector reduced the amount of time required for land settlement and productive use of the state land prior to titling, and legalized rental arrangements to facilitate access to land for farmers without property of their own. However, problems arose in complying with the application of legal provisions for expropriating land above the legal maximum landholdings as well as those for idle land, thus impeding the effectiveness of the law.

- The norm that limits the size of landholdings has been evaded in several ways, such as transferring ownership to other people, especially other family members; and recourse to

the reformed article 39 of the same Law that specifies that size limits can be exceeded where there has been an investment of at least one million lempiras in constant 1991 prices, which is considered to be a very low amount.

- Which respect to idle land, there are no technical criteria that permit a clear determination of when this is applicable. The Law for Modernization and Development of the Agricultural Sector is not in accord with its respective regulation, since farmer defines idleness of land as its lacks of exploitation for more than 18 months, or up to 24 months due to reasons of force majeure, while the regulation refers to 12 and up to 15 months. An additional obstacle is the lack of clarity regarding certification of the exact starting date from which to begin counting the period of idleness.

Inequality in the rural sector is also related to the persistence of problems affecting the development of agricultural, forest and non-agricultural production systems, notably inadequate access to support services for production and marketing, such as infrastructure (roads, telecommunications, electric power), credit, technical assistance, irrigation, training and access to markets, among others.

3. MICRO, SMALL AND MEDIUM SIZE ENTERPRISES

The analysis of the labor market showed that the great majority of establishments belongs to micro, small and medium-size proprietors, both rural and urban. These are the sectors that have the greatest problems in terms of productivity, access to markets and factors of production in general. Additionally, damages caused by Hurricane Mitch to micro, small and medium-size enterprises have worsened the difficult situation of the sector.

Estimates are that 70% of MS&ME are in urban areas. Of these, more than the half are in the cities of Tegucigalpa and San Pedro Sula, and an equal proportion are engaged in commercial activities. This sector generates employment for approximately 20% or more of the national EAP; and it has a strong potential for entrepreneurship, creativity, risk-taking and relative openness to innovation. Access to credit is among the factors that most affect the development of this sector. Lack of guarantees is the main obstacle to access to finance for all types of micro and small producers. Some resources are mobilized through NGOs, but these are insufficient given the magnitude of the demand and the additional needs generated by Hurricane Mitch.

Informal trade, specifically, the so-called street-vendors is a sub-sector that requires immediate attention. These people have developed their own strategies and mechanisms of survival, becoming self-employed. The main problem affecting these vendors is their lack of formal sales locations. This problem has intensified by some recent disasters, especially in the city of Tegucigalpa; where it is estimated that there are between 4,000 and 11,000 itinerant vendors, depending on the season and the day of the week. This problem affects the flow of vehicles and people in the cities; it also represents to a certain degree, unfair competition for established merchants, making it a problem that concerns various sectors of the community. There is a clear need to generate better information to identify the characteristics of this sub-sector and to quantify its importance.

E. SOCIAL EXPENDITURES AND HUMAN CAPITAL

1. SOCIAL EXPENDITURES BY SECTORS

Despite the importance, noted above of economic growth, income and its distribution, these factors do not explain by themselves all problems related to the incidence of poverty. Social

expenditures and their priorities are essential, especially in countries where poverty is very high, as is the case of Honduras. Trends in poverty as measured by the Unsatisfied Basic Needs methodology, reflect the importance that the Honduran state has assigned to public expenditure in essential services such as education, health, water supply and sanitation, as well as relief programs for vulnerable groups in extreme poverty. However, the analysis of the performance of the social sectors demonstrates the need to undertake greater reforms, oriented toward improving the quality and coverage of services, mainly for the poorest groups in society

The dynamism of social expenditure has been restricted by the size and rate of growth of Gross Domestic Product, by the volume of fiscal revenues and by restrictions imposed by obligations such as payment of the foreign debt. Social expenditure in Honduras during 1990-97 were equivalent to 7.2% of GDP, similar to levels in countries such as Mexico, Paraguay and El Salvador (7.7%-7.9%) and higher than in Peru (5.8%), the Dominican Republic (6.0%) and Guatemala (4.2%). In absolute values, social expenditures in 1999⁷ were close to L.6.9 billion, representing a real increase of 47.6% compared to 1990. The most important sectors of social expenditure are education (4.2% of GDP) and health nearly 2.5%.

TRENDS IN PUBLIC SOCIAL EXPENDITURE				
In Millions of Lempiras				
	1990	1993	1996	1999
Current Lempiras	997.5	1,989.1	3,555.5	6,932.3
Education	521.9	888.8	1,668.3	3,158.6
Health	344.3	523.2	1,057.3	1,791.6
FHIS and PRAF	14.8	368.4	473.4	1,154.3
Others	116.5	208.7	356.5	827.8
1996 Lempiras	3,077.6	3,931.2	3,555.6	4,568.6
Education	1,160.0	1,756.6	1,668.3	2,089.8
Health	1,062.5	1,034.1	1,057.3	1,185.4
FHIS and PRAF	45.7	727.9	473.4	763.7
Others	359.4	412.6	356.5	547.7

Note: Expenditures on education and health are those of the respective Ministries, plus transfers to other entities in these sectors.
Source: UNAT, Study Expenditures on Basic Social Services.

CHARACTERISTICS OF SOCIAL EXPENDITURES ON EDUCATION & HEALTH, 1990-97

- Education Sector.** Expenditures on education were 4.2% of GDP, of which 2.3% were allocated to basic social services. Expenditure on education is equal to 18% of total Central Government expenditure while basic educational services account for 9.6%. The expenditure structure by educational level is as follows: pre-school, 1.2%; primary, 60.7%; secondary, 19.5%; and higher, 19.7%. This expenditure structure suggests that the primary level receives the higher priority. However, the relationship between total expenditures and school-age population by educational level reveals a serious problem of expenditure equity that worsens with low levels of cost-effectiveness and quality in the educational centers. Moreover, an analysis of educational expenditures concludes that human and physical resources in primary schooling are not directed to where they are most required. Thus, they are not contributing to substantially increased coverage, or to the quality and efficiency of the system, particularly in the public sector.
- Health Sector.** Public expenditure on health averaged 2.5% of GDP, with only 1% of GDP directed toward basic services. Total expenditures on health represent 11.1% of Central Government expenditures, of which 4.7% goes to basic services. The distribution of expenditures by levels of health assistance, was as follows: primary, 51.6%; secondary, 23.6%; and tertiary, 24.8%. Although the data reflects an upward trend of public expenditure on health, the urban bias of the public health services, and the serious problems of efficiency and quality in small cities and rural areas should not be ignored. These are factors that continue to restrict the redistributive impact of expenditure among the poorest population groups. According to a study by the World Bank, ambulatory assistance by the public sectors concentrated on lower-income population while private clinics concentrate on higher-income population. Likewise, the Ministry of Health focuses services delivery on the three lower-income quintiles, while the IHSS and the private sector finance health assistance for higher-quintile groups.

During the period 1994-96, Honduras allocated 34% of total public expenditures to the social sectors, slightly less than countries in Latin America such as the Dominican Republic (36.6%) and Colombia (37.2%), but far below others such as Chile and Costa Rica (both with 62%). At present, Honduras is probably in a similar or relatively better position compared to the first set of

⁷ This analysis of social and sectoral expenditure is based on the t: Ministry of the Presidency report, Study of Expenditure on Social Services (1999).

countries mentioned above, because in the last few years it has carried out major effort to prioritize social expenditures, which rose to 40% in 1999 and close to 42.% in 2000. This effort resulted in a significant increase of social expenditure in 1999 to support the rehabilitation of basic infrastructure in the social sectors as part of the reconstruction process after Hurricane Mitch. However, expenditures have varied more than the real provision of services, because they are affected to a significant degree by the pattern of adjustments in salary which represent a very high proportion of total expenditures.

Expenditures for basic services directed to the poor population⁸ absorbed an average of 47% of total public social expenditures in the period 1990-98. This figure fell to 38% in 1998, mainly due to the cyclical phenomenon that affects the years of change in government, as well as to delays in the implementation of town meetings organized by FHIS to prioritize projects. In 1999 social expenditures for basic services were again strengthened, with more resources assigned by FHIS and PRAF for programs focused on the poor population, as well as to institutions such as the Honduran Children's and Family Institute (IHNFA) and the National Women's Institute (INAM), whose activities support vulnerable groups.

- Between 1990 and 1999, FHIS invested a total of L.2,519 millions (nearly US\$168.0 million at the current exchange rate), an annual average of approximately L.252 million. However the trend in annual implementation has been upward, as annual investment reached in 1998-99 averaged L.467 million, due to the significant increase in 1999 to support the emergency programs that responded to the damages caused by Hurricane Mitch. During the same period, PRAF's total investment was L.998 million (about US\$66.5 million), which represents an annual average of about L.91.0 million, benefiting approximately 309,000 people annually, mainly children (90%).
- These programs have become increasingly linked to actions in the areas of education and health that support the development of human capital. FHIS's actions alone have reduced the percentage of households lacking basic sanitation services from 72% in 1990 to 31% in 1997, with similar trends in rural and urban areas. Likewise, PRAF has strongly supported basic education and health programs for children.
- IHNFA's activities include, the following programs among others: i) the Family Well-being and Community Development Program which focuses on boys and girls from 0 to 6 years and organizes youth clubs and vocational and cultural workshops. The Intervention and

SOCIAL EXPENDITURE IN BASIC SOCIAL SERVICES
(Millions of 1996 Lempiras)

	1990	1993	1996	1998
Educational Sector	830	1,288	972	886
Health Sector	347	488	572	435
Others	245	206	137	73
Total	1,422	1,982	1,681	1,394

Source: UNAT, Study of Expenditure on Basic Social Services.

ANNUAL INVESTMENT OF FHIS AND PRAF BY AREA
1990 –1999, selected years
(Millions of Lempiras)

Years	Education	Health	Others ¹	Total
FHIS				
1990-93	305.8	117.8	89.5	513.1
1994-97	606.0	312.5	152.8	1,071.3
1998-99	346.0	138.0	450.0	934.4
Total	1,257.8	568.7	692.3	2,518.8
PRAF				
1990-93	100.0	39.8	4.0	143.8
1994-97	266.5	189.2	57.6	513.3
1998-99	135.9	123.5	81.6	341.0
Total	502.4	352.5	143.2	998.1

¹ Sanitation, environment, social assistance, ethnic groups, others.
Source: Ministry of Finance.

⁸ ESA Consultants, Ex Post FHIS Final Evaluation Report, 1999

Protection Program for children vulnerable to social risks; and iii) the Re-education and Social Re-insertion Program for juvenile delinquents. In addition, INAM has developed activities aimed at contributing to the full and integral development of Honduran women, they guarantee the human rights of women and girls; guaranteeing the equality of opportunity for men and the women; and stimulation's women participation in the economic, political and social development of the country.

Additionally, as part of its social expenditures, the Government has been making significant resources transfers to various decentralized and independent institutions, to support areas such as water and sanitation, housing and social security. Additionally, it subsidizes public transportation in the city of Tegucigalpa and provides an electric-power subsidy to households consuming up to 300 kilowatts per month.

2. TRENDS IN THE PERFORMANCE OF THE SOCIAL SECTORS

a) Education

The education sector has registered some advances in recent years, mainly at the primary level. Illiteracy has decreased more than 20 points during the last thirty years; average years of schooling have increased from 2.3 years in 1974 to 4.6 years; and the net primary rate has increased from 78% in 1980 to 86.7% in 1999. In 1997 enrollment growth was greater in rural areas (an annual increase of 2.5%) than in urban areas (1.5%).

Nevertheless, serious deficiencies persist, among the most important of which are low coverage at the secondary level, particularly in technical-vocational training, and in higher education, as well as serious problems of grade repetition and school desertion. The lowest levels of efficiency are public education, at all levels.

With respect to gender, at present there are no significant differences in educational opportunities for women compared to men. Enrollment of women in education today is even slightly higher than that of men at all levels, although older women still have higher levels of illiteracy, a reflection of gender differences in previous decades.

Recently, and in order to respond to coverage demands and to raise the degree of schooling, a decision was reached to extend basic education to the ninth grade, for which a pilot program began in 1996 in 35 educational centers. In the third cycle of basic education, students are being trained in general areas with an orientation to the

CHARACTERISTICS OF EDUCATION IN HONDURAS

Net coverage in secondary education is around 35%, which means that more than half a million young people have no access to this educational level. In formal mid-level education, 85% of enrollments are in traditional areas such as commerce and secretarial studies, and only 15% in careers related to agriculture and industry.

Formal technical-vocational education also lacks the technological base that the work force requires to link it efficiently to the labor market. Despite the more diversified training in this area, curricular adaptation has not followed and has not been able to address needs in a coherent and orderly manner within its own level and with other educational levels.

In basic education, grade repetition, dropouts and over-age students are factors that influence the level of schooling and the final efficiency of students. Most children who do not complete primary education are repeaters. Among the principal causes of this behavior are: the training and absenteeism of teachers; student absenteeism associated partly with family conditions of poverty; a lack of teaching materials; outdated study plans; the prevalence of multi-grade schools, with teachers not prepared for this type of education; and lack of pre-school education.

Some indicators show that the public sector is less efficient than the private. The repetition rate at the primary level is 9.7% in public schools versus 2.9% in private schools. In secondary education, it is 10.3% in the public sector and 8.7% in private schools. In higher education repetition is 17% in the public university (UNAH), almost double the 8.8% rate of private universities.

Educational achievement in the public sector is also of concern. In Mathematics and Spanish the average score was 39% for students from third and sixth grades in 1997. Likewise, in higher education, the average academic index for UNAH in 1995 was estimated at 37.3%, versus an estimated 79% for private universities in 1997.

workplace, preparing them with an appropriate vocational orientation and helping them select a career to pursue at the secondary level. In addition the Honduran Program of Community Education (PROHECO) was initiated in 1999, as a strategy for providing educational services in poor rural areas, with direct participation of parents in the administration of educational services.

In addition to the above-mentioned efforts in social expenditures, since the beginning of the nineties a series of administrative and institutional reforms have been implemented, directed toward increasing the efficiency of the Ministry of Education in providing educational services. In this context, in 1996 a process of decentralizing responsibilities from the national to the department level was promoted through of the creation of the Departmental School Offices of Education District. This allows the particular needs of each region to be more efficiently addressed .

In spite of the progress achieved, both literacy as well as average years of schooling continue to be below the Latin American averages. In addition, there is a growing perception that the crisis of the educational system in Honduras is fundamentally a crisis of quality¹⁰, related to factors such as the distribution and efficiency of education expenditures, the internal efficiency of the education system; the quality of teacher training; and outdated curricula at all levels, among others. Teachers in basic education have secondary-education degrees and in pre- school no formal training prevails, despite efforts to provide it.

Public higher education has serious quality and efficiency problems, and needs substantial reforms in the administrative, legal and curricular areas, to guarantee greater equity in educational expenditures; as well as to overcome problems of academic deficiency, neglect of scientific and technical research, and adaptation to the needs of an ever- changing labor market.

b) Health

The health sector of Honduras has also made significant, although not sufficient progress. According to the 2000 Human Development Report, between 1970 and 1998 life expectancy rose from 54 to 69.6 years; the infant mortality rate fell from 116 to 33 per 1,000 live births¹¹; and the mortality rate for children under 5 years fell from 170 to 44 per 1,000 live births. These indicators are slightly better than average for countries of medium human development, but the infant mortality rate is still very high compared to nearby countries such as Costa Rica, Mexico and Panama.

These trends are related to progress in education and urbanization; as well as preventive health programs, particularly for maternal-child health and to wider coverage of basic sanitation services. Vaccination coverage of infectious-contagious diseases and preventable ones like measles and whooping cough have reached around 98% for children under five years. The country has achieved international certification for polio eradication.

Access to primary health services has improved at the national level. In 1998 the primary-health care network had 1,079 units, an increase of 56% since 1990. This has given poor people more frequent access to health centers. Reproductive health services have experienced a greater

¹⁰ SEP/GTZ, Sectoral Study and Ten-Year Plan (1997), p. 267.

¹¹ These figures are consistent with those of the National Epidemic and Family Health Survey, 1996 (ENESF-1996). According to this survey mortality rates in 1993 for children under one year, and for these under five years, were 42 and 53, respectively per each 1,000 live births.

demand for their services by women in reproductive ages. This is having an impact, mainly in urban areas, in reducing birth and fertility rates.

In spite of these gains, serious problems persist, such as the following:

- High rates of infant under-nutrition, reflected in a significant proportion of underweight children at birth and in protein-energy under-nutrition in children under five.
- High mortality in children under five, caused mainly by respiratory illnesses, related largely to greater environmental deterioration.
- A high maternal mortality rate, associated with sexual and reproductive health problems, as well as limited access to health services, especially in rural areas.
- Health problems related to domestic violence.
- Leadership weakness in the Ministry of Health, with strong negative effects on service management; and
- Evident deficiencies in medical attention in rural areas, partly because doctors have little interest in working in these areas, and also because of a lack of medical supplies.

Likewise, the evolution of morbidity continues to show that Honduras is a country in full epidemiological transition, where illnesses typical to developing countries are now giving way to illnesses that characterize industrialized countries. Chronic-degenerative illnesses such as cancer and cardiovascular diseases have increased, demanding high-technology services. In addition to these new demands, attention is needed for diseases resulting from demographic growth and urban development, such as AIDS, which has a high prevalence in the country, and other infectious-contagious diseases.

c) Water and Sanitation

According to a study by ESA Consultants¹², water coverage has improved substantially in the last decade. When poverty is analyzed by unsatisfied basic needs, it can be seen that lack of water decreased (including water from wells) from 18% to 7% between 1990 and 1997 in urban areas and from 33% to 9% in rural areas. The impact of investments in this sector is reflected in the increase in life expectancy (noted above). Unfortunately, Hurricane Mitch damaged many water and sanitation systems, which have to be repaired to restore previous coverage levels.

Honduras does not have a single institution managing water and sanitation systems. Several institutions and organizations are trying to solve the problems of this sector, without the necessary coordination. Also evident is the lack of a more modern legislation striving to achieve more efficiency, coverage and quality in providing services. SANAA, the largest institution of this type, manages the water systems of Tegucigalpa and some other cities. However, nowadays the municipalities provide most of the potable-water connections in the urban sector. Water Boards supported by NGOs are the key suppliers in rural areas. The sector faces an institutional crisis that is being resolved through a gradual process of having municipalities take charge and legislating a coherent regulatory framework.

d) Housing

Decent housing is fundamental to human development; likewise, the lack of an acceptable habitat is an enormous obstacle to the formation of the human capital necessary for

¹² Ex post FHIS (FHIS II) Evaluation (May, 1999).

competitiveness and sustainable development. Honduras like many other developing countries, still has not found a solution to the housing problem for low-income families.

Public funds for housing have been directed to projects in the formal sector, out of the reach of poor families, who have been allowed to solve their problems by invading public or private lands. The result is the emergence of marginal neighborhoods, often built on lands unsuitable for habitation, lacking basic urbanization, full of environmental problems and highly exposed to natural disasters such as Hurricane Mitch. It is estimated that more than a third of the population of Tegucigalpa lives in such conditions.

Projections by the Latin American Demographic Center (CELADE) illustrate the rapid urbanization phenomenon that Honduras has been experiencing for several decades. For example, the urban population in 1970 was only 29% of the total; but by 1990 it had grown to 40.8%. By the year 2025 it is expected that two out of every three Hondurans will live in urban areas. Faced with this problem, added to the lack of an appropriate model for providing basic housing in satisfactory urban and environmental conditions, Honduras would be condemned to repeat the experiences of countries like Brazil and Venezuela, where economic growth combined with an unregulated urban sprawl have resulted in urban disasters in the major cities. Fortunately, this can still be avoided; but a sustainable model must urgently be developed, to give secondary cities more emphasis and to assign priority to providing formal basic housing within the financial scope of families with limited resources.

CHARACTERISTICS OF HOUSING IN HONDURAS

According to the Housing and Population Census of 1988, only 345,000 houses (38% of the national total) were considered adequate; 417,000 houses (46%) needed improvements and 145,000 houses (16%) were unrecoverable.

By 1999 the quantitative deficit in housing was estimated, on the basis of the household-survey information. This required knowing the number of nuclear family units within the total number of household that cannot in fact be considered as households because they do not actually have a house of their own. These nuclear units were estimated through an index of nuclearization that varies according to the size of homes. In the case of Honduras, an estimated 192,000 nuclear family units "require" housing. There are an estimated 150,000 unrecoverable houses, due to the fact that they have so many deficiencies that it makes more sense to completely replace them. Which added to the required housing for nuclear family units the total need for new housing, equivalent to the quantitative deficit, amounts to 342,000 new houses.

When proposing adjustments to the percentages of qualitative deficit in order to determine the most critical and urgent cases within the wide scope of needs, and assuming that these deficiencies to a large degree coincide in the same houses (in other words, precarious houses probably have deficiencies in sanitation, inadequate materials and irregular legal tenure), the total accumulated deficit to date can be estimated as being at least 600,000 houses.

At the same time, public expenditures allocated to the housing sector must be within global fiscal limitations, and their priority should be considered in the context of other programs focused on the poor population with greater economic and social benefits. This implies that the private sector, including savings and loan cooperatives, will have an important role in providing homes to poor groups.

e) Social Security Welfare

The Honduran social security system is based on the allotment focus, and operates through various institutions, organized to benefit specific population groups. The system offers coverage against contingencies such as illnesses and accidents; maternity and breastfeeding; work accidents; disability, retirement and death; and services directly related to the system such as personal and mortgage loans. System coverage is among the lowest in Latin America, reaching only 28% of the AP and only 11% of the total population in 1999.

Disability and retirement pensions are highly variable, depending on the norms for each entity. In the case of the Honduran Social Security Institute (IHSS), which represents more than 80% of the system coverage, the highest pension is L.600 per month, and the lowest is L. 75. Other entities offer between L.1,500 and L.4,000 (INJUPEMP); or between L.1,800 and L.6,200 (INPREMA). Likewise, pension percentage calculations are between 40% and 65% of the nominal wage or salary, in the IHSS, and 80% in INJUPEMP and INPREMA.

Factors such as low system coverage, low levels of pensions received and the lack of equity in the distribution of benefits with the system, contribute to raising the incidence of poverty among senior citizens. Also, the financial situation of the institutions of the system has been deteriorating for various reasons. The main problems include the following:

- Low contribution rates in the IHSS are not related to the high costs of medical-hospital attention. The rapidly increasing number of pensioners aggravates this problem.
- Institutions such as INJUPEMP and INPREMA continue to use their resources for self- administered projects whose purposes differ from their own objectives, with high risks to the interests of their members.
- There is no proportional relationship between the savings effort made by workers and the benefits received.
- Workers are not able to freely choose the entity with which they want to affiliate.
- There is no regulatory framework for private pension systems.
- The State has an inequitable contribution system. For INJUPEMP and INPREMA contributes more than 60% of the payments, while for IHSS beneficiaries it only contributes 25%, even though most of the affiliated population, and affiliates with the lowest wages, are concentrated in the latter.

SOCIAL SECURITY INSTITUTIONS

The system was started in 1959, with the creation of the Honduran Social Security Institute (IHSS), whose functions are twofold: medical-hospital attention and social security.

Later, in the area of social security, other entities were created for specific sectors, such as public employees (INJUPEMP), teachers (INPREMA), The Armed Forces (IPM), journalists (IPSP), The National Autonomous University of Honduras (INPREUNAH), and the Central Bank of Honduras (PAS), among others. Most of these entities function under the allotment focus. During the last few years unregulated pension plans administered by the private sector have been developed, operating under the concept of individual capitalization.

Recently a draft Framework Law of the Social Security System was prepared, in which reforms such as the following are envisioned: the effective separation of the disability, retirement and death benefits systems, from the systems for illness, maternity and work-accidents; redefinition of the State’s new role in the system; and promotion of private-sector participation in the system. A system has been proposed under which public and private Pension Fund administrating institutions can coexist in a coordinated and at the same time competitive manner.

f) Social Safety Nets

The importance of FHIS and PRAF programs, is evident from evaluations carried out of these entities. Among the biggest challenges for increasing their efficiency and effectiveness are the development of better targeting mechanisms, and stronger linkages with activities oriented toward the sustainable poverty reduction.

To improve the targeting of its programs, FHIS developed poverty maps based on indicators of unsatisfied basic needs, which permits the distribution of resources based on the population of their municipalities and the relative level of poverty, with more resources per capita assigned to the poorest municipalities. Likewise, the concept of “demand-oriented” project selection was

adopted from the beginning; that is, projects are conceived at the local level by the future beneficiaries within the framework of a menu of projects managed by the institution. Within this concept, a close working relationship has been developed among communities, municipalities and civil-society organizations, in the cycle of project formulation, implementation and maintenance.

Similarly, PRAF has used a Composite Poverty Index (CPI) as a basic instrument for the geographical targeting of its projects, to achieve an equitable distribution of its investments. This index is based on a weighted sum of unsatisfied basic needs (UBN) and the index of chronic malnutrition; calculated from information in the 1988 national population census and the height census of first-grade school children. The identification of the beneficiaries at the local level is made principally by the directors of the schools and the health centers, according to criteria provided by the institution, which in many cases has led to a questioning of the objectivity of the selection process. At the present time, under the PRAF Phase II project, identification of beneficiaries is improving through a family census, mainly to select the beneficiaries of school vouchers and nutrition and health vouchers.

Mechanisms need to be established to improve coordination between FHIS and PRAF, and between these entities and the ministries directly related to them, particularly the Ministries of Health and Education. Also important is coordination with several rural development projects implemented by the Ministry of Agriculture and Livestock (SAG), food assistance projects and others related to the activities developed by both entities. The objective, in any event, is to avoid duplication and to maximize program support benefits for the poorest sectors of the population.

IHNFA has given special emphasis to the improvement of services that permit this institution to comply with completely current national and international norms regarding children's rights, incentives for education and health and improvement of infrastructure to raise living standards. Likewise, the institution seeks to adapt to its role of coordinating public and private sector activities to study, promote, implement and audit general policies of prevention and integral child protection.

F. POPULATION AND ENVIRONMENT

1. DEMOGRAPHIC TRENDS

The population census of 1988 showed that Honduras had an annual population growth rate of approximately 3.0%. According to official estimates, the present rate of demographic growth is 2.5%. These figures place the country as being among those with the most rapid population growth rates in the Latin American region. It is estimated that, by the year 2025, the total population of Honduras will be more than 10 million.

The mortality rate decreased from 22.3 per thousand in the fifties to 8.1 in the past decade. Meanwhile, the national birth rate fell from 51.4 to 39.8 per thousand in the same period. The total fertility rate for the nation, according to the census of 1988, was approximately 5.4 children, a figures that fell to 4.1 in 1998, according to some projections. Survey information shows that in rural areas women have on average between 6 and 7 children during their reproductive lives compared with 4 in urban areas.

The high poverty indices and exclusion from social services prevalent in rural areas, especially in the southern, south-central and western parts of the country, have caused them to become areas of constant population out migration. In recent years, migratory currents have been

towards the most important cities in the country, as well as towards rural areas of constant attraction but with fragile ecological characteristics, such as broadleaf forests. Internal migration during the inter-census period (1974-1988) has been moderate, at around 19%; which has resulted in a relatively slow urbanization process. The urban population grew from 32% of the total in 1974 to 39% in 1988 and to an estimated 43.4% in 1997¹³.

Urban-urban migration to the major cities, is the dominant flow at the present time. In second place is the rural-rural migration flows toward the less populated departments in the east of the country (Colón, Olancho and Gracias a Dios). The main reason for this migration is the search of land to cultivate, thus, contributing to the expansion of the agricultural frontier, especially in broadleaf-forest. This stimulates slash-and-burn agriculture and spearheads the advance of ranchers and farmers willing to buy deforested lands.

The dynamics of these migratory currents have caused an accelerated loss of natural resources, greater environmental deterioration in both urban and rural areas, and increased vulnerability to natural disasters. This situation has multiple causes, mainly related to poverty, irrational and disorderly land use, disarticulated sectoral policies, an ineffective legal and institutional framework, and lack of an environmental-culture in the population.

In areas with the highest indices of rural poverty, such as the western and southern areas of the country (including the southern part of Francisco Morazán), the population is engaged mainly in agricultural activities on lands better suited to forestry. This inappropriate use of soils has generated an accelerated environmental degradation and has caused a decline in the productivity of agricultural activities, creating a vicious circle of poverty-environmental deterioration-more poverty.

2. ENVIRONMENTAL DETERIORATION IN URBAN AREAS

The increasing numbers of migrants to more developed urban centers have spontaneously settled in areas with high risks of flooding and landslides, thus increasing the vulnerability of cities such as Tegucigalpa, San Pedro Sula, Puerto Cortés and other cities in the Sula Valley. This type of urban growth, added to the lack of land-use and urban-development planning, has contributed to increased the problems of environmental deterioration and pollution in the main urban centers of the country, with major impacts on human health.

According to the 1990-1997 Environmental Profile of Honduras, water resources are the receptacle of the country's environmental problems, being affected by such factors as contamination from an inadequate sanitary infrastructure and sedimentation from the degradation of upper basins. Added to these problems is a growing chemical contamination caused by the lixiviation of fertilizers and pesticides, waste-waters and domestic and industrial solid wastes.

The presence of pollutants in soils and water causes high rates of diarrhea illnesses in Tegucigalpa, for which the Ministry of Health reported 255,936 cases in 1995. Likewise, studies of air quality carried out by the Municipal Statistics Research Directorate (1994) in the city of San Pedro Sula found an above-normal concentration of nitrogen dioxide of 0.029 ppm a day.

¹³ Taken from the 1997 Environmental Profile of Honduras.

Other studies¹⁴ revealed high rates of pollution in Tegucigalpa. Monitoring air quality during January-May 1999 showed average pollution to be two times higher than the norm for smaller particulates up to 10-microns and fourteen times higher for total suspended particles. In 1999 there was an increase in nitrogen dioxide and ozone contamination, as well as high levels of lead-poisoning among first-grade school-children.

The high level of air pollution in the main cities is related to the fact that the main causes of morbidity in Honduras, according to reports by the Ministry of Health, are acute respiratory diseases, which in 1995 accounted for 69.1% of the hospital-care cases.¹⁵

3. USE AND MANAGEMENT OF FOREST RESOURCES

The development of subsistence activities on forest lands is directed related to the high incidence of poverty in rural areas. This cycle begins with the slashing and burning of forests to obtain lands for agricultural activities, which can not be sustained because these lands are not naturally suited to farming. This results in quick abandonment and a new search for forest lands, restarting the cycle.

Forest resources have been disappearing at a rate of more than 80,000 hectares per year. The western and southern regions are the most affected, with more than 61% of the forests having been lost. In the Atlantic region deforestation has affected 55% of the area suitable for forests, aggravated by the fact that it is broad leaf forest. Although the central region, has expected a relatively smaller loss (45%), the number of deforested hectares is quite high (16,730 squared kilometers). The Eastern region shows less severe deforestation, with almost 24% of its forest area lost.

DEFORESTATION BY REGION (in squared kilometers)			
Region	Forested Area	Forest Area without Forests	Land Suitable for Forests
Western	5,582	8,875	14,457
Southern	2,370	3,752	6,122
Central	20,536	16,730	37,266
Atlantic	4,102	4,979	9,081
Eastern	24,215	7,578	31,793
Total	56,805	41,914	98,719

Deforestation is the environmental problem to which the highest priority attention must be given. Among its main effects are reduction of national productive assets and biodiversity; soil erosion and degradation of very important basins for the agricultural and energy sectors. Most of the deforestation occurs because of changes in usage and takes place mainly in the broadleaf forests. On the other hand, it is important to recognize that a rational and sustainable use of forest resources could contribute in a positive way to economic growth, employment generation and reduction of poverty, especially in rural areas. The country has a sustainable-forest-production capacity much higher than current production.

a) Deforestation and Its Causes

There are many causes of deforestation, although some have greater effects than others. Notable are: changes in the use of forest soils; firewood consumption; forest fires; and irrational logging. This problem is also magnified by the limited effectiveness of the State Forest Administration (AFE-COHDEFOR), manifested by a lack of presence and effectiveness in the field.

¹⁴ CESSCO, Swisscontact and COSUDE, Summary of Air Quality in Tegucigalpa (1999); CESSCO, COSUDE-EPFL, Government of Honduras and OPSA-ECO, Notes on the Environmental States of Honduras, No.3 (1995), and F. M. Rivera, Preliminary Evaluation of Lead Poisoning in First Grade School Children, Tegucigalpa, Honduras (1999).

¹⁵ 1997 Environmental Profile of Honduras.

Change of use of forest soils. Deforestation occurs mainly when users decide that, for some reason or incentive, the forest has less value for them than using it for other purposes. Incentives for agricultural and livestock activities include credit under special conditions (for example, the use of livestock as collateral for credit and subsidized loan terms and interest rates), while the productivity of existing forests is too low, compared to the benefits generated by these activities with these incentives provided¹⁶. In addition to the low productivity of unmanaged forests, disincentives to forestry activity has been created by institutional problems in the public sector and lack of stability in the country's forestry policies.

Firewood consumption. Deforestation problems are also associated with the high consumption of firewood, which continues being the fuel of greatest domestic consumption and of easiest acces. One of the few studies¹⁷ of this problem, reveals the following:

- 65% of the energy generated in the country comes from firewood.
- 75% of the population uses firewood for domestic needs, with an annual per capita consumption of 1.7 cubic meters.
- Tegucigalpa, San Pedro Sula and Choluteca are the centers of highest consumption due to the higher population concentration.
- Consumption by industry (bakeries, salt manufacturers, etc.) and handcrafts (ceramics, etc.) has been around 15% of the domestic consumption.

Most of the forest areas near urban centers have been depleted mainly by woodcutters and middlemen who distribute firewood. It is important to note that, at 1994 market prices, the value of firewood production in the country, exceeded US\$125 million and generated full-time-equivalent employment to more than 30,000 heads of family. Deforestation caused by this activity has had a direct impact on the environmental conditions of cities, their water sources and microclimates.

Degradation and forest fires. Forest fires cause climatic changes and immeasurable damage to the environment, the economy and the health of the population. Although the problem of deforestation is centered mainly in the broad-leaf forests, the problems of fires and pests, with their consequent economic, ecological and genetic degradation, mainly affect the pine forests. Just in 1998, the Monitoring and Detection of Forest Fires Station of the NOAA satellite, located in Nicaragua, detected 9,594 forest fires in Honduras, damaging an area of 335,790 hectares.¹⁸

A recent study of the Central American Environment and Development Commission (1998) estimated that economic losses caused by forest fires and agricultural burnings in Honduras in 1998 were as follows:

Damages to timber and non-timber products	US\$100,737,000
Biodiversity losses	3,717,600
Losses due to effects on water	3,657,700
Losses in scenic beauty and eco-tourism potential	3,657,700
<u>Total of estimated losses</u>	<u>US\$ 111,770,000</u>

¹⁶ In this case, the issue is not eliminating agricultural incentives in soils suitable for agriculture in the rich river valleys, where Honduras may have competitive advantages in the world markets. The problem rather is that most land in Honduras is not agricultural, and therefore cannot sustain more intensive uses than forest production, forest protection or agro-forestry systems.

¹⁷ ASDI/GTZ, Strategy for the Contribution of the Poverty Reduction (October 2000).

¹⁸ AFE-COHDEFOR figures only account for forest fires that were seen and fought, by means of an obsolete and low coverage system. Therefore, they underestimate significantly the frequency, incidence and magnitude of forest fires.

These estimates do not include losses in tourism and revenue due to airport closings, losses in soil fertility or damages to human health and the consequent decline of productivity, combined with increases in health expenditures. On the other hand, the effects of forest fires on the genetic degradation of coniferous as well as broadleaf forests are well known, as are their effects on the fertility and erosion of soils in all types of forests, creating irreversible degradation and generating sedimentation that causes floods in the rainy season and droughts in the dry season.

b) Population in Forests and Protected Areas

As noted above, there is a strong coincidence between areas of greater deforestation or degradation of forest soil and water, and municipalities with greater and more persistent poverty. This can be seen especially in the southern and western regions, which have the greater differences between urban and rural income. However, other departments (Comayagua, El Paraíso, Olancho and Yoro) with good forest coverage, also have low human development indices (HDIs). This is related to the fact that most of the population of these departments, better endowed with forests than the former group, does not work in, or have access to the commercial use of forest resources or to other productive resources that would allow them to improve their income.

In the case of departments that have lost most of their forest cover or have only a few, degraded forests, the rural population consists of small hillside producers with marginal and unproductive production systems. Training and extension to introduce agro-forestry and forest-pasture systems and energy plantations, especially in the south of Francisco Morazán, Choluteca and Valle, will be fundamental to improving their productivity and income. In these cases, high-priority must also be given land titling and access to credit. There are successful cases, where the introduction of these programs has led to rapid and impressive development of micro and small support companies, such as family and/or communal nurseries. These successful cases have almost always been associated with credits conditioned to the introduction of trees on the farm.

It is obvious that in departments such as Comayagua, El Paraíso, Yoro and Olancho, which have many national and communal forests and at the same time show low human development indices, no effort has been made to promotion to incorporate communities in investment activities with the purpose to protect and sustainably manage the public forests in a way that enhances their economic, social and environmental value in medium and long-term. There is also a need to develop activities within national forests, beneficial in themselves that will increase their protection and future value, as well as strengthen the participatory capacity of local stakeholders (groups, communities, local governments and personnel from the State Forest Administration) for the decentralized implementation of forest management and protection, as well as an equitable distribution of benefits.

G. GOVERNANCE AND DEMOCRATIC PARTICIPATION

Poverty is part of an institutional environment that can either heighten or diminish it. Economic policy is part of this environment, but so are social and political institutions. The specific characteristics of a country's political institutions may be related to the various factors that have caused poverty to persist, especially those that prevent the appropriate administration of justice, the efficiency of legislative activity and the participation by the poor people in the definition of policies.

1. TRANSPARENCY IN PUBLIC ADMINISTRATION AND CIVIL SOCIETY

The lack of transparency in public administration is evident in many cases in the diversion of funds toward illicit purposes, resulting in the high cost and low productivity of public investments. The problem becomes more complex, constituting an obstacle to effective legal intervention in the protection of the public interests, when legislative and judicial management is weak and the legal framework provides unlimited immunity to some officials. Moreover, legal and regulatory insecurity is a disincentive to investors, due to the high risk of unfair and arbitrary actions; so is personal insecurity, which tends to corrupt and weaken the foundations of the State, the family and the community, with a negative impact on the economic, cultural and political development of society.

In the last two decades traditional political institutions have been affected by a series of reforms that are improving citizen participation. Governmental succession has been stabilized (5 continuous presidential elections); new institutions have been created, such as the National Electoral Tribunal, the National Commissioner of Human Rights and the Ministry of Civil Prosecution; processes of modernization of the State and municipal strengthening have been initiated; and various civil society organizations have flourished. Central Government institutions such as FHIS, in its current form, have improved services provision through consultation processes with communities, encouraging prioritization of projects through consensus.

Although the process of strengthening democratic participation has had its ups and downs, and needs for constant review, it has developed sufficient strength to expect that the poor can find the necessary opportunities to discuss and seek solutions to their problems. A detailed study still has not been undertaken in Honduras to demonstrate that greater democratic participation has been favorable for reducing poverty. However, international observation provides evidence that political stability and popular democratic participation are factors that favor economic growth, which in turn affects poverty reduction.

Civil-society participation in the framework of the reconstruction and transformation process has acquired a unprecedented presence and significance in the history of Honduras. This participation has been key to formulating public policy and implementation of projects, but its main role has been directed at the follow-up, monitoring and social auditing of the process. Notable in this regard has been the Commission for Civil Society Participation in National Reconstruction and Transformation; the Commission for Supervision of Reconstruction Activities; and, most recently, the National Anticorruption Council, whose aim is to formulate and implement an integrated plan to fight corruption in Honduras.

2. CULTURE AND MORAL VALUES

There is a generalized perception that the country has suffered a sharp deterioration of moral and cultural values. This is evident in growing problems such as alcoholism; delinquency; lack of national identity; and negative attitudes toward work, discipline and school attendance. Additionally, cultural patterns related to land use have resulted in low productivity and environmental degradation.

According to the United Nations Development Program (UNDP), in its 1994 document, "The Political Dimension in Human Development", in most countries there is a demand for a new governmental culture that sees poverty elimination as an ethical requirement, a social need, a political objective, an economic strength and a State policy. Nevertheless, some negative values

related to administration of the State, such as corruption and the lack of a democratic culture, help prevent better results from activities implemented to combat poverty.

Among the effects of corruption are a gradual loss of credibility and respect in political leadership; difficulty in implementing government programs, and diminished goals as some resources are diverted before arriving at their destination; and the feeling by the population that in order to achieve legitimate goals and adequately protect interests, they have to go through irregular channels. Corruption results in high economic costs, such as irregular payments, inefficiencies and delays in bureaucratic process, which when internalized as business costs can drive away investment and discourage the redistribution of wealth by diverting resources meant for poor sectors, thus favoring the persistence of poverty and marginality.

On the other hand, social policies and particularly a strong policy commitment to fighting poverty, is the main source of government legitimacy, because democracy and governance sooner or later are affected by large social imbalances, particularly, extreme poverty. In this connection, the UNDP promotes the idea of “governing for human development” based on the conviction that a democratic regime better permits the achievement of goals such as a long and healthy life, access to education and work and, above all, the possibility of making such choices. Democratic culture implies, among other values, the full exercise of human rights, the free play of democratic principles and the preservation and strengthening of democratic institutions.

3. MODERNIZATION OF THE STATE AND DECENTRALIZATION

The broad range of needs of the population and a small, not very aggressive and risk-adverse private sector, led the public sector to assume innumerable functions from those traditionally accepted, such as personal security, national defense, social protection of vulnerable groups and justice, to the most contested, such as provision of basic services, marketing of goods and the assumption of risks in productive activities to support the business sector. At the same time, the functions and processes of decision-making and administration were centralized, weakening local institutions.

This process of organization and growth resulted in a oversized and inefficient public sector, with little clarity in the effectiveness of its actions and little accountability. This situation is fostered by the lack of policy continuity and underutilization of available human capital, since a large proportion of public employees rotates every four years when a new government administration takes over. The low efficiency of public institutions translates into high costs for society, caused by a waste of resources and often by the creation of obstacles that impede greater economic growth.

Given the over-dimensional state apparatus, with low effectiveness and efficiency and little citizen participation in decision-making processes, a redefinition of functions and a down-sizing of the public sector has been initiated. The solution to this problem is not easy, nor is it short-term, since it requires a change of culture to get things done. Nevertheless, a Public Administration Reform Program (PRAP) is under way, which seeks in the short and medium-term, to make significant improvements in the efficiency of State operations through the following programs:

- Privatization and concessions of the public services especially telecommunications, energy and airports;
- Administrative reforms, especially in the education and health sectors, and in programs for children and women; and

- Public-administration reforms, including the rationalization of employment, better administration of resources, and the adoption of an Integrated Financial Administration Management System (SIAFI).

As part of this process, between January 1994 and November 1999 the efficiency of public administration was improved by reducing the number of employees by 18% in the Central Government and by 15% in decentralized institutions. This may have had negative effects on poverty in the short term, which still have not been estimated. Some discharged employees quickly found other employment in the private sector, but others did not; likewise, the effects of changes in employment on wages and benefits usually vary. The number of people affected is relatively small, and it is expected that the negative effects in the short term will be more than offset in the long term by the positive effects on the efficiency and productivity of public-sector policies, programs and projects.

The process of modernization of the public sector envisions greater participation of municipalities in the financing and operation of municipal social projects, within the framework of the Law of Municipalities of 1991. However, the process of decentralization has been slow, due to the fact that many municipalities still have not developed the technical capacities to assume the tasks of State institutions. Most municipalities need institutional strengthening before assuming new responsibilities. Many have current expenditures that surpass 80% of municipal revenues, which indicates a high degree of inefficiency. Decentralization should continue, but municipalities, as well as the Central Government, should be monitored for efficiency in spending their resources.

The municipal decentralization program stipulates the transfer of 5% of State tax revenues to municipalities. This transfer has not been completely and directly made, due to fiscal pressures. However, parallel to those transfers that have been made, the government has provided to the municipalities education, health, water and sanitation projects that are implemented mainly by FHIS, which is another way of transferring resources to the municipalities. Also, municipalities are decisive agents in the allocation of FHIS resources within their jurisdictions.

The consequences of Hurricane Mitch have stimulated wide spread activity by national and international NGOs, interacting with municipalities and communities, in the implementation of various projects, mainly in water, sanitation and housing:

- Many municipal water supply projects have been carried out under the SANAA PS2 program, together with the beneficiary communities, and these are many examples of joint financing by NGOs (such as Water for the People, CARE), municipalities and communities.
- Also, construction of more than 50,000 homes has begun under the direction of NGOs which provide most resources, while communities (generally organized by the municipalities) contribute with local materials and labor. Municipal governments are also involved, along with the Central Government, through of the provision of land needed to develop the projects and the installation of basic services.

With respect to decentralization, progress has also been made in specific activities, such as the Open Town Meetings of FHIS and the Honduran Community Education Project (PROHECO), both with wide community participation in their respective areas. In addition, the regional and local structures of the Permanent Disaster Preparedness Committee (COPECO) are in the process of being consolidated, and work is continuing in other sectors, such as the transfer of water and sanitation systems to the respective municipalities.

IV. COMPONENTS OF THE STRATEGY

A. OVERALL VISION

The overall vision of the strategy regards its implementation and follow-up as a historical commitment of Honduran society, through its representative entities, including both the various branches of government, as well as political parties and society in general. This broad support, will allow the Strategy to become a State policy, with a long-term perspective, whose implementation will not be altered by changes in government.

The fundamental objective of the Strategy is to reduce poverty significantly and sustainably, based on accelerated and sustained economic growth, whose benefits are distributed with equity, through greater access by poor people to the factors of production, including the development of human capital, and through the provision of social safety nets in favor of groups living in extreme poverty.

Implementing the Strategy will make feasible the establishment of a society that guarantees to its population an appropriate and equitable access to essential goods and services, within a context of broad participation and personal security, and with moral and cultural values as the essential foundation that leads to the effective development of democracy, the full exercise of rights and the responsible exercise of duties.

OVERALL TARGETS

This section identifies a series of overall targets, as well as intermediate and results indicators, closely linked to the diagnosis and the principal determinants of poverty. Achieving the PRSP targets, will firmly establish, to a large degree, the vision of a transformed Honduras, in the medium- and long-term, that will result in greater opportunities for the most vulnerable groups.

The establishment of targets has taken into account, international parameters defined for the year 2015 by the United Nations, the Organization of Economic Cooperation and Development (OECD) and the World Bank. Also taken into account have been projections made by the World Bank based on trends since 1960, in basic variables such as economic growth and rates of urbanization, in a sample of 140 countries; and estimates by the International Monetary Fund in the framework of the HIPC Initiative. Trends in health and education indicators in Honduras have also been taken into consideration.

The viability of the targets requires, besides an appropriate rate of sustained economic growth, the political will to increase social expenditures substantially and sustainably, in quantity as well as in quality, as well as a decision to stimulate the processes of national transformation in fundamental areas related to the promotion of competitiveness, human development and the reduction of environmental vulnerability. A basic element motivating a positive focus in defining targets is the availability of additional resources for the country, mainly through external public debt relief.

Under this framework, the following overall targets have been established for the year 2015. These may be modified periodically based on evaluation results and in response to changes occurring in the social, economic and political environment of the Strategy:

- a) **Reduce by 24 percentage points the incidence of poverty and extreme poverty.** This is consistent with a scenario characterized by key elements as an annual average growth in per capita GDP that increases from 2% to 3% per year, based on a better performance of GDP and slower population growth; in a framework of greater macroeconomic stability and more efficient and effective social expenditures that reach 50% of the Central Government's total expenditures in the first five years of strategy implementation. It will also be necessary to adopt a series of policies, programs and projects oriented toward providing opportunities for a larger proportion of the GDP to be generated by the poor population; and improving the living conditions of the more vulnerable groups.
- b) **Double the net pre-school educational coverage for 5 year-old children.** This refers to formal pre-school education of one year's duration. Its implementation implies a sustainable growth in coverage of not less than 5% annually. It will also be necessary to expand infrastructure, train and hire additional teachers, and promote alternative methods of service delivery through NGOs or other community organizations. Marginal growth will be smaller after a high coverage, as is evident in countries with high educational levels but pre-school education rates below 80%.
- c) **Achieve 95% net coverage in access to the first two cycles of basic education.** This target is linked to a series of actions, such as efficiently enlarging and making sustainable PROHECO schools, or other models of educational service delivery with community participation; raising teacher preparation to the level of higher education; applying efficient methods of management and curricular innovation; developing nutritious school feeding programs; and maintaining and improving programs such as FHIS, PRAF, and Healthy Schools, etc. with actions to strengthen both demand for and supply of basic educational services. This target is also linked to improving quality at these educational levels, reducing dropouts and grade repetition as well as improving efficiency in general.
- d) **Achieve 70% net coverage in the third cycle (7th to 9th Grades) of basic education.** This will require increasing the Ministry of Education's budget, improving educational quality, in both teacher training and curricula; expanding incentives such as scholarships or direct subsidies that help retain students from poor homes in the last three years of basic education; and strengthening or creating alternative models with community participation.
- e) **Achieve completion of secondary education by 50% of new entrants to the labor force.** In this case it will also be important to improve educational quality; expand and develop new incentives that allow students to continue their secondary education, especially in technical schools; increase substantially the number of school centers; and achieve a greater participation by NGOs, businesspeople, parents, etc.
- f) **Reduce infant and child mortality rates by half.** This implies a reduction from 33 and 44 per 1,000 live births in 1998, to 17 and 22, respectively, in 2015. According to statistics from national health sector organizations, by the end of the decade of the 80s the infant mortality rate was 50 per 1,000 live births and mortality for children under 5 was 65 per 1,000 indicating an annual reduction of close to 5% between 1990 and 1998. Considering these trends and a scenario with new policies and projects, it is feasible to assume targets in line with the country's historical experience. Nevertheless, it will be necessary to eliminate vitamin A and iron deficiencies in children under 5, and reach and maintain 100% coverage of vaccinations in children under 1 (polio, diphtheria, tetanus, measles and tuberculosis). This goal is also related to improvements in access to potable water and sanitation.

- g) **Decrease malnutrition in children under 5 to not more than 20%.** To achieve this goal programs providing food vouchers and attention to pregnant women need to be expanded and strengthened; the importance of breast feeding needs to be promoted; and food and nutrition monitoring systems need to be implemented in urban and rural health centers to permit early warning and on time corrective measures. The greatest efforts will be made during the first 5 years of implementation of the PRS. Achievement of this target will also permit reductions in school dropouts and absenteeism.
- h) **Reduce maternal mortality rates by half, from 147 to 73 per 100,000 live births.** To help achieve this goal, efforts will be made in the following areas: increase pregnant women's access to care to more than 90%; increase institutional childbirth (childbirths in appropriate healthcare establishments) to more than 70%; increase to more than 70% the proportion of women in union who use family planning methods; and substantially improve assistance to pregnant adolescent woman.
- i) **Achieve 95% access to potable water and sanitation.** Achievement of this target will require approval and implementation of the Water and Sanitation Sector Framework Law, and a broad participation by local governments and communities in developing and managing water systems. Additionally, it will be essential to continue and expand FHIS projects in this sector, develop a strong program of water basin management, and undertake broad consciousness-raising campaigns for protection of water sources and rational water use.
- j) **Achieve parity and raise by 20% the Human Development Index related to gender,** from 0.640 currently to 0.770 in the year 2015. To achieve this target, the following actions will be promoted: eliminate any disparity in the various levels of education; achieve parity in women's access to the labor market and earnings; and promote greater participation of women in elected and managerial positions, among others. Achieving greater gender equity depends not only on legislation but also on a greater awareness of the population of the need to eliminate all forms of discrimination; which can be accomplished through a concerted effort of the Government, civil society and the business community. It will also be essential to increase the national level of HDI, which was located in 0.653 in the UNDP's 2000 report.
- k) **Implement a strategy for sustainable development,** in order to recover the loss of environmental resources. In this respect, a land-use law, a new forest law and risk-management law will be approved. At the local level, the majority of municipalities will include environmental protection and water management in their municipal action plans. It will also be necessary of the Ministry of Natural Resources and Environment, to strengthen the regulatory, planning and management capacities, and to strengthen coordination among the various public, private and local entities active in the sector.

TABLE OF TARGETS AND INDICATORS

TARGET	INDICATOR	BASE DATA	YEAR					
			2001	2002	2003	2004	2005	2015
Real GDP	▪ GDP growth rate (2000) ¹	5.0	3.5	4.0	4.5	4.5	5.1	5.6
Per capita GDP	▪ GDP/ Population (2000) ¹	2.5	1.1	1.6	2.1	2.2	2.7	3.7
Population	▪ Population growth Rate (2000) ¹	2.5	2.4	2.4	2.4	2.3	2.3	1.9
Social Expenditures	▪ % social expenditures over total expenditures (2000) ²	44.0	45.0	46.0	47.0	48.0	50.0	50.0
Reduce poverty by 24 percentage points ³	▪ Poverty rate (1999)	66.0	63.0	61.5	60.0	58.5	57.0	42.0
	▪ Extreme poverty rate (1999)	49.0	47.0	45.0	43.0	41.0	39.0	25.0
Double net pre-school education coverage in 5 year-olds ⁴	▪ Net pre-school enrollment (2000)	31.0	33.5	36.0	38.5	41.0	45.0	62.0
	▪ Pre-school completion* rate (2000)	95.0	95.0	95.0	96.0	96.0	97.0	98.0
Achieve 95% net coverage in the first two cycles of basic education ⁴	▪ Net enrollment 1 st to 2 nd cycle (2000)	86.2	87.0	88.0	89.0	90.0	91.0	95.0
	▪ Completion rate 1 st to 2 nd cycle (2000)	60.4	62.0	64.0	66.0	68.0	70.0	85.0
Achieve a net coverage of 70% in the third cycle of basic education ⁴	▪ Net enrollment of 3rd. cycle (2000)	35.0	37.0	39.0	41.0	43.0	45.0	70.0
	▪ % students that completed 3 rd cycle (2000)	41.3	42.0	44.0	46.0	48.0	50.0	65.0
Ensure that 50% of the emerging work force completes secondary education ⁴	▪ Net enrollment in diversified education (2000)	25.0	26.0	28.0	30.0	33.0	35.0	50.0
	▪ Completion rate diversified (2000)	28.0	29.0	31.0	33.0	35.0	36.0	45.0
Reduce by half the mortality rate in children under 5 years of age ⁵	▪ Infant mortality rate (per 1,000 l.b.) (1998)	33	32	31	30	29	28	17
	▪ Mortality rate in under 5 year-olds (per 1,000 l.b.) (1998)	44	44	43	42	40	38	22
Diminish malnutrition to not more than 20% in children under 5 years old ⁶	▪ Infant malnutrition rate	40.0	38.0	36.0	34.0	32.0	30.0	20.0
Reduce maternal mortality by half ⁵	▪ Maternal mortality rate per 100,000 l.b. (1997)	147	143	138	133	128	123	73
Achieve 95% access to potable water and sanitation. ⁴	▪ % of population with access to potable water	81.0	82.0	84.0	86.0	88.0	90.0	95.0
	▪ % of population with access to sanitation systems (1999)	70.2	71.0	72.0	73.0	74.0	75.0	95.0
Achieve parity and raise by 20% the Human Development Index related to gender ⁷	▪ HDI gender related (1999)	0.640	0.645	0.650	0.655	0.665	0.675	0.770
	▪ Gender empowerment index (1999)	0.450	0.460	0.470	0.480	0.590	0.500	0.585
Implement a sustainable development strategy ⁸	▪ Forest area (1996) (% covered)	50.7					53.0	56.0
	▪ % area under managed protection (1996)	24.0					80.0	100.0 ⁹
	▪ % of rural water containing fecal coliforms (1996)	53.0					45.0	25.0
	▪ Level of air pollution in urban centers (ug/m3 of PTS)	1,100					900	200

* Completion rate is the percentage of student enrolled as a new students no repentance), whose finish their cycle.

¹ UNAT based on figures from SECPLAN/FNUAP/DGEC.

² SEFIN.

³ Estimates based on the PMHS.

⁴ World Bank projections.

⁵ Human Development Report 2000.

⁶ PRAF, quoted by the Program for Transition and Protection of Social Expenditures.

⁷ HDI Honduras 2000.

⁸ UNAT, based on various studies.

⁹ Based on the National System of Prioritized Protected Areas (40 protected areas).

In addition to the indicators mentioned above, a matrix in Annex A presents performance indicators for each measure and programmatic area. Later, specific indicators will be defined for programs and projects, in coordination with the implementing units. There are several sources for monitoring indicators, although it is expected that most indicators will be organized and processed by the National System of Management Evaluation, as described in detail in the chapter on the operational framework of the Strategy.

B. STRATEGIC GUIDELINES

The various programs, policy measures and specific projects that constitute the essence of the Poverty Reduction Strategy Paper (PRSP), are based on five main guidelines, which serve as guiding principles for the ***definition and prioritization of the Strategy's policies, programs and projects.***

1. PRIORITIZE ACTIONS THAT TEND TO REDUCE POVERTY IN A SUSTAINABLE MANNER

Given the scale of poverty in Honduras, it is obvious that it cannot be solved, even less so in a sustainable manner, through State transfers (vouchers/subsidies) to cover the income deficits of poor households. The IPEA study estimated that, in 1999, it would have taken L. 11,000 million to bring the income of these households up to the level of the poverty line. This amount is equivalent to more than 75% of the current revenue of Central Government for that year.

The capacity of the State for making public expenditures and investments is closely dependent on the size of the economy and its growth rate which were identified in the diagnosis along with the relationship between current revenue and the GDP, which in Honduras has already reached appropriate levels (approximately 18%). Based on these factors, current revenues during the decade of the 90s increased at an annual rate of 24%, slightly above the annual rate of inflation (19.4%). This reflects the narrow margin that the State of Honduras has to finance new programs in various budgetary areas, including the social sectors. This would be the case even if the Government were to have additional fiscal resources, generated by external debt relief or originating in substantial increases in tax rates. Tax increases could have a negative impact on economic growth, thereby resulting in greater poverty in the medium- and long-term, unless the increased taxes were oriented toward supporting investment in human capital.

Consequently, the Strategy contemplates concentrating most efforts on social expenditures and investments in programs, policies and projects that give priority to sustained poverty reduction, with a focus that emphasizes the long term, and with special attention to areas of action that provide opportunities for the poor to improve their income through their own efforts.

Under this approach, a fundamental requirement, although not sufficient for reducing poverty, is an accelerated and sustained economic growth, through which permanent employment is generated and the base is established for real increases in per capita income. These actions will be combined with policies directed to greater development of human capital and to an improved distribution of income, mainly through a more equitable access to productive resources and basic services.

A fast growing economy, besides generating greater and better employment, also facilitates access to the fiscal resources needed for increasing public investments in physical and human capital, which at the same time are required to sustain rapid economic growth in the long-term. For this reason, investment opportunities will be encouraged, especially in areas of high economic potential that guarantee greater generation of value added and employment. The private sector would take these initiatives, under a focus that includes large, small and medium size enterprises within a framework of favorable conditions, with the support of the public sector.

These priorities do not imply discontinuing implementation of poverty alleviation programs, focused on groups living in extreme-poverty conditions. However, subsidies and transfers for alleviating poverty will be assigned only to the lowest income strata, i.e. those least able to meet the cost of the basic food basket.

Implementation of relief programs will be accompanied by measures that strengthen the links between these activities and the initiatives that tend to reduce poverty in the medium and long term. This principle will serve as the basis for strengthening the relationship between PRAF's vouchers and the improvement of demand for and supply of basic educational service, and between FHIS's programs to generate employment and the creation and improvement of economic and social infrastructure that tend to facilitate economic activity and human-capital formation.

2. PRIORITIZE ACTIONS FAVORING THE LEAST DEVELOPED GROUPS AND AREAS OF THE COUNTRY

The Poverty Reduction Strategy prioritizes on interventions tending to attack the specific causes of poverty and to strengthen social safety nets focusing especially on groups and sectors with the greatest social vulnerability.

Accordingly, the PRS gives high priority to the development of actions that allow the departments with the lowest human development indices and the highest levels of unsatisfied basic needs to have per capita social expenditures equal to or above those in departments that rank higher according to these indicators. This does not imply a need to reduce the already low level of social expenditure in some areas of the country in order to improve those in others, but rather to achieve equity in the distribution of public investments, mainly in the areas of education and health. Within the poorest departments, special attention will be given to groups living in rural areas.

Likewise, efforts will be directed towards poverty reduction in urban areas, especially in marginal neighborhoods, with programs that improve the living conditions of their inhabitants; create greater employment opportunities; and reduce high risks in the face of natural disasters. Specific actions will be necessary in intermediate-size cities, also with the objective of achieving geographical equity in the creation of opportunities for higher incomes. These measures, furthermore, will contribute to reducing demographic pressures and related problems in large cities.

In addition to geographic dimension, the Strategy gives special importance to some groups within Honduran society with high probabilities of living under extreme poverty conditions. These groups include households with large numbers of children; households headed by women; households with very young or senior citizen heads, and households whose heads have low levels of schooling. Other factors that increase the degree of social vulnerability of households, and that therefore guide the prioritization of the activities are low levels of schooling of household heads and spouses; underemployment, and lack of a second income.

Characteristics such as gender equity and the ethnic dimension have been identified as subjects of major importance in the development of the Strategy. Therefore women as well as members of the various ethnic groups in the country receive special attention. In addition, gender and ethnicity are considered as cross-cutting elements in the various programmatic areas of the PRSP.

3. STRENGTHEN CIVIL SOCIETY PARTICIPATION AND DECENTRALIZATION IN THE PRS

Traditionally the Central Government has been assigned all responsibility for socioeconomic development policies. However, the failure of past statist models has led to the development of proposals that eliminate previous barriers to the exercise of private initiative, reduce the role of

the State in the direct management of the economy and strengthening its normative and regulatory role.

The Poverty Reduction Strategy, without eliminating the appropriate responsibilities of the Central Government, places a high value on programs and projects that can be carried out by municipalities, communities, NGOs and private initiative. The following actions are proposed to help promote greater participation by non-governmental agents in implementation, follow-up and evaluation processes:

- a) Decentralization of public service will receive greater support, as it can help improve efficiency and quality by allowing greater flexibility and adaptation to specific local conditions. Since municipalities differ widely, particularly in their technical and management capacities, the process of decentralization is expected to be gradual and in accordance with the absorptive capacity of each municipality, and through intermediate actions geared to strengthening their technical and management capacities. Part of the gradual decentralization process is the encouragement of cooperative efforts among municipalities with similar economic and social situations, as well as the transfer of resources and responsibilities.
- b) Rural and urban communities will have the opportunity to empower their participation in the processes of economic development and poverty reduction through various social, productive and infrastructure projects. Likewise, it is crucial to strengthen mechanisms that allow the participatory planning of all sectors at the local level in: i) preparation of municipal social and economic investment plans, which include social projects with high community priority as well as their maintenance requirements; ii) implementation of their own projects; and iii) monitoring and follow-up of programs and projects.

Implementation mechanisms will take into account the views of civil society, that construction cost are reduced significantly when projects are implemented at local level; local resources and capacities are better used; and the communities themselves have a greater sense of ownership. In order to strengthen capacities at local and/or regional level, the participation of Municipal and Departmental Development Committees (CODEM) will be encouraged. Because of its growing experience in providing advice and technical assistance to municipalities, the Ministry of Governance and Justice will perform a more active coordinating and normative role in achieving these objectives.

- c) The participatory experience of a large number of NGOs in the implementation of various projects in sectors and areas of the MPNRT should be integrated into the implementation of public and private activities to be developed within the framework of the goals and targets of poverty reduction. This is based on the recognition that these entities not only contribute to the fight against poverty through their own programs, but also play an important role in training, especially in poor urban or rural communities, to facilitate the implementation of other programs.
- d) Complementing this framework of non-governmental actors and within a framework of clear and transparent rules, it is expected that private enterprises will acquire greater awareness of poverty issues, and will make efforts to contribute directly and indirectly to poverty reduction. Private enterprise can support areas such as investment in the training of human resources; moral and technical support in reforming educational and pension systems; signing contracts with micro and small businesses in agriculture, handcrafts and

manufacturing businesses, to purchase their products; and provision of financial and technical support to NGOs.

4. STRENGTHEN GOVERNANCE AND PARTICIPATORY DEMOCRACY WITHIN THE PRS FRAMEWORK

Poverty implies material privation and political exclusion of the poor, which in turn creates conditions that deepen the incidence of poverty. For this reason, the Master Plan for National Reconstruction and Transformation (MPNRT) includes policies and actions, both implicit and explicit, for establishing conditions that guarantee equity without regard to gender, age, ethnic origin or any other type of social differences; as well as for democratic strengthening and improving the administration of justice.

The PRS will give continuity to these principles, through mechanisms that facilitate the reduction of any form of social inequality or exclusion, both in the implementation process and follow-up of its various programs, and also through entities created to follow-up programmed initiatives and measure their results, in order to assure that good intentions become real actions. Likewise, a series of actions will be developed to create conditions and mechanisms oriented toward guaranteeing democratic participation and transparency in public management.

In line with the above the PRS proposes a series of actions related to the following:

- a) Increase the participation of lower-income people in the formulation of policies and in decision-making at different levels. This includes greater participation of the poorest groups in the follow-up and evaluation of the strategy which will help guarantee transparency in the implementation process.
- b) Deepen structural reforms, modernization of public administration and decentralization. The goal is to eliminate the tradition of lack of transparency in public administration, which in many cases is manifested in the diversion of public funds for illicit purposes, thus reducing the efficiency of public investments and programs.
- c) Raise the quality of political representation of the population, through modernization and flexibility in the functioning of the legislature, the introduction of innovations in parliamentary procedures and reforms in the systems of civic representation.
- d) Attack the weaknesses of the judicial system, together with laws related to the immunity of some officials, which ultimately become an obstacle to effective legal intervention to protect public interests. Moreover, it is recognized that judicial and regulatory insecurity is a disincentive to investors. To consolidate the democratic process the strategy seeks to guarantee public safety, social peace and the effective enjoyment of fundamental human rights, such as the right to life and to the physical integrity of persons and goods.
- e) Consolidate the National Anticorruption Council, whose membership reflects a high participation by civil society, and implement a national anticorruption plan.

5. REDUCE ENVIRONMENTAL VULNERABILITY AND ITS IMPACT ON POVERTY

There is a recognized relationship among environmental deterioration, a high incidence of poverty and increased vulnerability to natural disasters. Under this premise, the MPNRT as well as the PRS propose measures directed at strengthening environmental and risk management, by improving the legal, institutional and planning framework and utilizing the instruments needed

to improve the coordinating and normative functions of the institutions linked to environmental management and mitigation. Likewise, measures are proposed to encourage citizen participation in environmental care and protection and in disaster prevention, mitigation and awareness.

Also recognized is the importance of promoting the use of economic-financial instruments such as carbon markets; sale of environmental services; incentives and disincentives for promoting sustainable management of natural resources; environmental protection, especially in critical or degraded areas; and establishment of an environmental fund to support environmental investment projects implemented by local communities. The purpose of all these instruments is to help society view sustainable management of natural resources and environmental protection as activities compatible with economic profitability and social equity.

Within a framework of sustainable development, poverty reduction is based fundamentally on land-use planning and sustainable management of hydrographic basins and micro-basins, with a focus on deconcentration, decentralization and broad local participation. This will be especially important to prevent the recurrent loss of material goods and lives caused by poor location of human settlements, productive activities, housing and infrastructure in general. When growth takes place spontaneously, fragile areas such as the high and middle levels of hydrographic basins are subject to permanent demographic and productive pressure.

STRATEGIC GUIDELINES

The Strategy is based on five guidelines, which can be summarized as follows:

1. **Prioritize actions that tend to reduce poverty in a sustainable manner.** Given the scale and depth of poverty, Government monetary transfers are neither sufficient nor sustainable; therefore, economic growth and the reforms that stimulate it will be the driving force in poverty reduction.
2. **Prioritize actions that favor the least developed areas and groups in the country.** The focus will be on areas where there is a greater concentration of poverty (southern and western departments and rural areas of the central zone, as well as marginal neighborhoods). Also targeted will be other groups that have high probabilities of being in poverty (households with many children, households whose heads are women, the very young or senior citizens, and ethnic groups that lack opportunities).
3. **Strengthen civil-society participation and decentralization in the PRS.** The Central Government's role of establishing norms and regulations will be strengthened, and a higher priority will be given to programs and projects that can be implemented in a decentralized manner with community participation, including that of private enterprise and non-government development organizations.
4. **Strengthen governance and participatory democracy within the PRS framework.** Emphasis will be given to lessening inequalities and social exclusion; consolidating participatory democratic institutions; improving equity in the justice system; and promoting transparency.
5. **Reduce environmental vulnerability and its impact on poverty.** Priority will be given to improving environmental management and to breaking the vicious circle between environmental degradation and poverty.

C. PROGRAM AREAS

1. ACCELERATING EQUITABLE AND SUSTAINABLE ECONOMIC GROWTH

The Poverty Reduction Strategy is framed within a context of accelerated, equitable and sustainable economic growth. For economic growth to contribute in a substantial and effective manner to poverty reduction, it must be accelerated to rates of 4.5% - 5.5%; otherwise, the growth of per capita income would be insufficient to improve the living conditions significantly. Likewise, economic growth should be equitable, so that increases in per capita income are effectively converted into greater well-being for the poorer sectors. Finally, sustainability of the economic growth process requires better protection of natural resources and the environment.

Although average GDP growth during the nineties was only 3.2%, it was higher than in the eighties (2.5%), influenced largely by the initiation of a process of policy reforms and modernization of the State, which despite its ups and downs has followed a favorable trajectory in improving the investment climate and supporting competitiveness. During the seventies, during which the macroeconomic and structural imbalances that characterized Latin America were not apparent, the country had achieved annual growth rates of 5.4%, even with the impact of the hurricane Fifi. However, the prevailing development process was not sustainable because the country was highly vulnerable to macroeconomic and structural imbalances.

On the other hand, the country's output growth rates do not reflect its true potential, especially given the availability and use of its productive resources. When this potential has been better used together with adequate policies, the country has achieved growth rates of 8.4%, 4.5% between 1976-1998 and of 6.1%, 6.3% between 1992 and 1993. Honduras has many under utilized resources in areas such as tourism and eco-tourism, forest resources, mining, agro-industry and maquila industry; as well as opportunities offered by an unsatisfied demand for infrastructure services and the potential demand created by faster economic growth. As noted in the diagnostic section of this PRSP, investment levels in Honduras are satisfactory as a percentage of GDP, indicating that the problem lies in the quality of investment and its contribution to GDP growth.

General Objective

Increase the growth rate of GDP and per capita GDP to levels consistent with the poverty reduction targets, based on a stable macroeconomic framework; the strengthening of investment levels, as well as improvement of its level of efficiency; and the creation of conditions that allow the development of sectors with the greatest productive potential.

1.1 MACROECONOMIC FRAMEWORK FOR POVERTY REDUCTION AND GROWTH (PRGF)¹

a) Specific Objective

To have a stable macroeconomic framework that contributes to the sustainable viability of greater public investment in programs and projects directed to poverty reduction and that generates confidence and certainty for private investment, thus generating greater sources of wealth and employment within the population.

¹ Specific short-term aspects on the macroeconomic framework are incorporated in detail in the policy document presented to the IMF under the Poverty Reduction and Growth Facility (PRGF).

b) Short-Term Policy Guidelines

- i. Attain fiscal viability that also allows greater social expenditures, including among others the following actions:
 - Achieve a low fiscal deficit, congruent with sustainable-economic-growth targets and a prudent monetary policy and assure that it is financed, in a manner that avoids inflationary pressures whose negative impact is especially strong on poor households, and reduces real interest rates.
 - Exert firm control over fiscal expenditures, limiting their growth to reconstruction and transformation programs and projects, and to those that stem from the Poverty Reduction Strategy.
 - Increase efforts to improve tax administration to maintain tax collecting over 17.2% of GDP, and current revenues to be over 18.5% of GDP.
 - Establish an equitable public-sector salary policy with clearly defined technical criteria, consistent with the fiscal target.
 - Approve the Civil Service Reform Law
 - Implement reforms included in the new IHSS (Honduran Social Security Institute) law.
 - Administer in an efficient and transparent way, the resources made available by external debt relief and revenues from privatization, for social expenditures through the establishment of a Poverty Reduction Fund.

- ii. Assure that monetary and exchange rate policy is consistent with interest rates favorable to investment and with inflation rates not higher than one digit, through the following measures:
 - Assure prudent liquidity management through open-market operations, mainly by auctioning Monetary Absorption Certificates.
 - Continue reducing obligatory investments for deposits in national currency.
 - Maintain international monetary reserves equal to approximately 4 months of imports.
 - Achieve greater efficiency and transparency in financial intermediation, improving the payments system with an electronic check- processing system.

- iii. Continue strengthening the financial system, as an essential element for macroeconomic stability and long-term growth, including the following:
 - Assure strict implementation of prudential regulations in accordance with international standards, and take quick action to liquidate financial institutions when necessary.
 - Reform legal procedures that affect financial transactions, in order to improve access to and reduce the cost of loans by the national banking system, especially for the productive sectors.
 - Limit related loans and bank participation in other enterprises, in order to facilitate financial intermediation in favor of productive sectors.
 - Promote the merger of small financial institutions.
 - Implement the governing laws: Stock Markets, Insurance and Re-Insurance Institutions, and Deposit Insurance; and achieve prompt approval of the law to regulate pension funds.

- iv. Improve the external-sector balance by reducing the impact of changes in the international environment.

- Assure a competitive exchange-rate system, as a key factor for medium-term sustainability of the balance of payments.
- Deepen the liberalization of foreign trade which tends to increase the efficiency of national producers and strengthen the trade balance.
- Continue the prudential management of the foreign debt, avoiding the contracting of non-concessional debt as well as payments arrears.

v. Continue to make progress in structural reforms, especially through the following actions:

- Speed up the capitalization of Hondutel.
- Promote prompt approval of the Framework Law of the Electricity Sub-sector.
- Define a strategy for the modernization and competitiveness of seaports.
- Consolidate the National Anticorruption Council, whose membership includes significant participation by civil society, and implement a national plan to fight corruption.
- Implement international codes of transparency in fiscal policy, including the General Budget of the Republic, monetary policy and financial accounts.

c) Medium-Term Guidelines

The medium-term macroeconomic framework of the PRS focuses in continuing to consolidate the process of financial stabilization, deepen structural reforms to promote economic growth, strengthening the external position of the economy and securing substantial and prompt external debt relief and additional financing in adequate amounts under concessional conditions. These actions are all directed at achieving growth rates consistent with the poverty-reduction target.

Therefore the medium-term macroeconomic framework emphasizes the following objectives and policy measures:

i. Strengthen fiscal revenues, for which it will be necessary to:

- Enlarge the base for applying the of sales tax;
- Improve the customs valuation system;
- Modify the Income Tax Law to apply clear concepts;
- Reduce the number of exonerations for all kinds of taxes; and
- Continue strengthening the management of tax collections with a firm application of the Tax Code.

ii. Rationalize public expenditures giving priority to those related to the poverty-reduction program, through the following measures, among others:

- Achieve acceptable Central Government's expenditure in salaries comparable to international levels;
- Perform audits of key ministry positions; and
- Implement civil service reforms and simplify its structure.

iii. Achieve sustainable levels of external financing, through:

- Limited donations or concessional loans;

- Adapt levels of external resources with consistent and macroeconomic sustainable objectives; and
 - Achieve transparent management of resources made available by external debt relief.
- iv. Maintain inflation at rates close to international levels, through:
- Limiting current expenditure, except for social and reconstruction programs; and
 - Maintain an effective monetary policy.
- v. Maintain a solid and competitive financial system, throughout:
- Substantially improving financial and banking supervision;
 - Prompt and firm application of prudential norms, comparable to international standards; and
 - Improving competitiveness in support of productive sectors.
- vi. Create conditions that promote competitiveness, based on greater investment efficiency and productivity, through mechanisms such as:
- Avoiding real exchange rate appreciation that discourages production and exports;
 - Increasing opportunities for the private sector to participate efficiently in providing public services;
 - Achieving a profound and equitable reform of the pension system that helps stimulate savings and therefore the supply of medium and long-term funds, and
 - Reducing risks by strengthening confidence in the legal system and by fighting corruption.

Given the assumptions noted above and the current international scenario, the following table presents projections of the main variables of the PRS macroeconomic framework. Reaching the overall poverty reduction targets within the proposed period, implies a resource gap that will have to be closed with additional financing or postpone and reduce the targets, having into account prioritization of interventions in order to adjust to the financial resources available.

HONDURAS: MEDIUM-TERM MACROECONOMIC FRAMEWORK

	1998	1999	2000	2001	2002	2003	Projections		2010	2015
							2004	2005		
National income and prices										
	Annual variation (%)									
GDP in constant prices	2.9	-1.9	5.0	3.5	4.0	4.5	4.5	5.1	5.5	5.6
GDP Deflator	11.6	11.6	8.1	8.8	7.4	6.4	5.5	5.4	4.5	4.5
Consumer prices (at period end)	15.7	10.9	10.1	10.0	8.0	6.0	6.0	5.0	5.0	5.0
Per capita GDP (US\$) ^{1/}	851.9	851.6	896.9	929.3	951.6	988.9	1,028.6	1,078.7	1,396.3	1,816.5
Poverty rate 2/	63.0	66.0	64.5	63.0	61.5	60.0	58.5	57.0	49.0	42.0
. Balance of Payments										
	Percentage of GDP									
Current account	-2.8	-4.2	-4.1	-5.7	-6.3	-6.0	-5.4	-4.7	-3.4	-2.0
Trade balance	-14.4	-23.8	-21.1	-23.9	-23.6	-23.7	-23.6	-23.7	-23.0	-20.2
Exports	30.6	22.4	24.2	21.3	22.0	22.5	23.3	24.3	27.8	33.0
Imports	-45.0	-46.2	-45.3	-45.2	-45.6	-46.2	-46.9	-47.9	-50.9	-53.3
Services	6.3	9.0	7.3	7.6	8.2	9.2	10.0	11.0	11.6	11.1
Revenue	-4.0	-3.0	-2.8	-2.5	-2.6	-3.5	-3.6	-3.3	-2.8	-2.4
Transfers	9.3	13.6	12.5	13.1	11.8	12.0	11.8	11.3	10.9	9.5
i. Savings and investment										
Capital formation	28.2	29.8	27.2	25.3	23.8	26.4	25.9	25.5	25.3	25.0
Public Sector (NFPS)	6.9	6.7	5.5	7.4	6.6	6.5	7.1	6.7	7.7	7.8
Central Government	3.2	2.8	2.5	3.5	2.6	2.3	3.1	2.6	3.5	2.8
Others Public Sector	3.7	3.9	3.0	3.9	4.0	4.2	4.0	4.1	4.2	5.0
Private Sector	21.3	23.1	21.7	17.9	17.2	19.9	18.8	18.9	17.6	17.2
National Savings	25.4	25.6	23.1	19.5	17.5	20.4	20.6	20.8	21.9	23.0
Public Sector	8.5	7.5	6.0	6.3	6.4	5.1	7.8	7.9	8.3	7.6
Private Sector	16.9	18.1	17.1	13.2	11.1	15.3	12.8	12.9	13.6	15.4
f. Public Sector										
General Balance of the NFPS	1.5	1.5	1.0	-0.8	-0.6	-1.9	-0.7	-0.3	-0.2	-0.6
General Finance of the NFPS	-1.5	-1.5	-1.0	0.8	0.6	1.9	0.7	0.3	0.2	0.6
External	0.1	3.9	1.5	2.4	2.0	3.3	2.7	2.4	0.7	0.6
Internal	-1.6	-5.4	-2.5	-1.6	-1.4	-1.4	-2.0	-2.1	-0.5	0.0
Savings of the NFPS	8.5	7.5	6.0	6.3	6.4	5.1	7.8	7.9	8.3	7.6
Central Government General Balance	-1.4	-4.1	-4.6	-4.5	-2.6	-4.4	-3.6	-2.8	-1.4	-0.6
Total income including donations	19.0	19.6	19.1	21.2	20.8	20.1	21.1	20.3	19.6	19.0
Total expenditures	20.4	23.7	23.7	25.7	23.4	24.5	24.7	23.1	21.0	19.6
g. Nominal GDP at market prices										
In million lempiras	70,438	77,095	87,523	98,542	110,065	122,414	134,952	149,550	246,566	402,559
In million U. S. dollars	5,264	5,437	5,898	6,294	6,638	7,106	7,613	8,223	12,340	18,610

1/ Calculated dividing price market nominal GDP (expressed US\$) by population.

2/ Taken from PRS draft, projections based on 0.7 poverty income elasticity.

Source: Central Bank of Honduras and Finance Ministry, except for poverty rates which correspond to UNAT estimations.

1.2 STRENGTHENING INVESTMENT AND GENERATING EMPLOYMENT

a) Specific Objective

Strengthen investment levels and improve their level of efficiency, in order to increase employment opportunities and improve their quality.

b) Policy Measures

- i. Reduce costs and simplify procedures for new investments, through the following actions:
 - Approve the Administrative Simplification Law, which includes elimination of “legal qualification” and simplifies regulations for establishing businesses, and
 - Reactivate the one-stop window for processing investment applications.
- ii. Create conditions that permit improvements in the quality of employment, with substantial increases in productivity and increase in workers real incomes, through:
 - The consensual approval of Labor Code reforms, to guide the labor market toward an efficient and equitable model of social negotiation; and
 - Transform the Ministry of Labor and Social Security into an efficient institution for the design and implementation of employment and training programs, and the effective application of labor regulations.
- iii. Promote greater participation of private capital in the provision of public services, through structural reforms in each sector, under transparent regulatory mechanisms and international norms.
- iv. Correct insecurity problems in property and investment, through respect and application of the law, by taking the following high-priority actions:
 - Approve the Unified National Registry of Property Law;
 - Guarantee application of the Conciliation and Arbitration Law for settlement of investment disputes;
 - Accelerate the signing of bilateral agreements to guarantee protection of foreign investment, especially with investing countries; and
 - Promote necessary reforms to modernize the Commercial Code.

c) Programs and Projects

- i. **Modernization of the Legal and institutional framework.** The objective of this program is to define and reach agreement on Labor Code reforms and to define governing labor relations for the Ministry of Labor. The program seeks to strengthen the institutional capacity of the Ministry to formulate and implement policies and programs governing employment, wages and social security. Another objective is to establish coordinating mechanisms to improve management capacity.
- ii. **Support market regulations.** This activity seeks to promote the proper functioning and healthy competition in markets, through regulations that assure the development of

economic activity under conditions of efficiency and competition and that avoid distortions that damage the economic system and consumers, especially the poorest.

1.3 IMPROVING COMPETITIVE ACCESS TO INTERNATIONAL MARKETS

a) Specific Objective

Promote the insertion of the Honduran economy into channels of world trade, guaranteeing the access of national products, both traditional and new, to export markets under competitive conditions.

b) Policy Measures

- i. Strengthen Honduran participation in the Central American integration scheme, with the objective of promoting the mutual improvement of the regional economies and increasing their capacity for joint negotiations with other countries and groups, through the following:
 - Comply with commitments regarding harmonizing of tariffs and policies;
 - Simplify customs processes and eliminate non-tariff barrier to regional trade, in order to increase trade within Central America;
 - Improve norms for the peaceful and definitive resolution of conflicts;
 - Complete actions necessary to establish the Customs Unification with Guatemala, El Salvador and Nicaragua and its possible extension to Costa Rica;
 - Promote the creation of a regional capital market, in order to promote competition in the financial sector; and
 - Promote the Central American Logistic Corridor, as a means to achieve a freer and competitive flow of products and inputs.
- ii. Enlarge and improve Honduran trade relations, with a view toward effective inclusion in the Free Trade Agreement of the Americas, through:
 - Implementing the Free Trade Agreement with Mexico;
 - Achieving prompt approval of the Free Trade Agreement with the Dominican Republic; and
 - Completing negotiations for free trade with Panama, Canada and Chile.
- iii. Create conditions that allow for Honduras to participate more fully and competitively in new export markets, through:
 - Continuing to simplify tariff and non-tariff procedures;
 - Assuring the implementation of commitments in the framework of the WTO;
 - Establishing a modern system of strategic market information;
 - Establishing pre-certification systems, quality control and phytosanitary inspection;
 - Promoting alliances between national and foreign businesspeople for marketing Honduran products; and
 - Establishing an advisory body, with the participation of business and public sector organizations, to help define and implement negotiation and market-access strategies.

c) Programs and Projects

- i. **Strengthen foreign-trade policy.** The work of the Ministry of Industry and Trade in defining and implementing foreign-trade policies will be strengthened, as well as its interaction with an advisory body composed of public and private sector representatives. The objectives will be focused on technical improvement of the negotiating teams and improvement in the Ministry's capacity to define trade policies and competitive-market access policies, that are in the country's best interests.

1.4 DEVELOPMENT OF SECTORS WITH HIGH PRODUCTION AND EMPLOYMENT POTENTIAL

a) Specific Objective

Create conditions that facilitate the development of the agro-industrial, forestry, light-assembly and tourism sectors, given their high productive potential for sustaining rapid economic growth and diversification of production, with greater and higher quality employment; without neglecting support to other economic sectors.

b) Policy Measures

- i. Create the National Competitiveness Council with public- and private- sector participation, to define strategies for identifying and developing clusters, in areas with potential such as agro-business, forestry, light assembly and tourism.
- ii. Define a strategy for productive linkages for the development of clusters, including small and medium-size enterprises.
- iii. Support medium- and long-term financing for cluster development under competitive conditions, through actions oriented toward the modernization and competitiveness of the financial system.
- iv. Facilitate the development of **agro-business**, including measures to:
 - Promote and concentrate investments on tropical products with rapidly growing markets, including organic products, for which Honduras has, or has the capacity to develop, a competitive position;
 - Foster alliances between small producers and large enterprises under the contract-farming model, as well as marketing networks to solve organizational and marketing problems inherent in the production and export of fresh products;
 - Establish certification, quality and "green seal" systems; and
 - Develop incentives for restructuring production, based on market forces and consistent with WTO regulations.
- v. Promote the development of the **forest** cluster including actions to:
 - Approve a unified Forestry Law that defines conditions for forest resource management and use with efficiency, sustainability, equity and participation;
 - Establish technical-assistance and credit programs for primary-forest activities and their links to secondary-forest activities; and
 - Develop a system of "green seals" for forest management.

- vi. Define and implement a strategy to achieve a greater development of *light assembly* operations including measures to:
 - Increase value added, by integrating local industry, including small and medium-size enterprises;
 - Develop mechanisms to address the needs for skilled human resources, in accordance with international competitiveness standards; and
 - Promote the creation of support industries and related services around the geographical areas where the clusters are located.

- vii. Stimulate the development of the *tourism* cluster by promoting the following measures:
 - Simplify incentives and eliminate legal obstacles to tourism investments in coastal areas;
 - Support the development of infrastructure services in tourist areas;
 - Improve the marketing of tourism, through qualified international operators, in order to position Honduras as a specialized tourist destination;
 - Promote the development of handicrafts and of other micro and small enterprises, in various activities linked to the sector; and
 - Establish mechanisms of environmental certification for tourism enterprises, strengthening the position of Honduras as a eco-tourism destination.

c) Programs and Projects

- i. **Technical assistance to develop the non-traditional agro-exporter sector.** The objectives are to strengthen the technical and financial information-access and human-resources capacities of sector participants, as well as other actions that increase the production and export of non-traditional products on a sustainable management of renewable natural resources.

- ii. **Technical assistance for development of the forestry sector.** The objectives are to support the development of commercial forest plantations; enlarge the primary-forest industry; expand and develop the secondary-forest industry; and establish a program to attract foreign investment to the forestry sector.

- iii. **Develop tourism clusters.** The objectives are to strengthen the development of the tourism sector within the framework of the National Program of Tourist Competitiveness; improve the quality of life by developing economic units linked to tourism; and develop promotional activities to better position the image of Honduras in countries where demand for tourism is strong.

- iv. **Identify and promote industrial clusters.** The objective is to identify sectors that can become industrial exporting niches, in order to create development poles, that exploit the country's competitive advantages.

2. POVERTY REDUCTION IN RURAL AREAS

Given the complexity and multisectoral nature of the problems that affect the rural sector, various projects have been implemented in areas such as titling and access to land; rural development, creation and transfer of agricultural technology, irrigation systems, management of rural areas; and food security, among others. At present a series of actions are being carried out, including projects to strengthen the small rural economy, with investments of approximately L.3,120 million (around US\$200 million).

In addition, the recent initiation of the National Program of Sustainable Development (PRONADERS) has become one of the basic pillars of the struggle to reduce rural poverty. This program gives priority to generating management and leadership capacities in rural residents, in order to empower their development and improve their quality of life, mainly through improving equity in income distribution and in access to the factors of production.

The diagnosis of the rural poverty requires an integrated perspective that includes a substantial increase in, and an equitable distribution of income for poor rural families. Especially important in this respect is greater support to the small rural economy and substantial improvements in the distribution of productive resources, mainly land. To achieve these objectives, the following strategic areas should be emphasized: actions to strengthen local management capacities; sustainable management of natural resources; technological diversification and development; reduction of transaction costs; expansion, improvement and maintenance of infrastructure; and finance. The planning and implementation of these actions should include civil society participation, gender focus, sustainability and decentralization.

Regarding unequal access to land as a fundamental cause of rural poverty, it is recognized that a high percentage of agricultural and forest lands lack full-domain titles, and that inadequate filing and management systems in the rural property registries do not guarantee that the possession of a title assures tenure of a particular parcel. This situation is also related to the failure to apply expropriation procedures, both of rural properties whose size exceeds the limit established by law and of idle lands.

Objective

Reduce poverty in rural areas, by improving equitable, secure and sustainable access to productive factors, especially land, and by supporting the generation of employment and income, and access to basic services to the rural population, through participatory mechanisms in rural communities.

2.1 IMPROVING EQUITY AND SECURITY IN ACCESS TO LAND

a) Specific Objective

Guarantee access to land and secure land tenure, for organized and independent small farmers and ethnic populations to improve the income and food security of rural families.

b) Policy Measures

- i. Effectively apply procedures for expropriating land for reasons of size limitations and idleness, making the necessary legal arrangements defining clear and precise technical criteria and preparing necessary administrative actions.

- ii. Strengthen programs for adjudicating, titling and clearing of land tenure, especially in the reformed sector, and among ethnic groups and independent small farmers, through actions to:
 - Strengthen and enlarge massive land titling programs;
 - Increase coverage of programs providing access to agricultural lands, through market mechanisms and support of productive development projects; and
 - Complete the Agrarian and Forest Cadaster.
- iii. Develop and implement mechanisms that permit the clear definition and security of rural property, such as:
 - Approval of the Unified National Property Registry Law; and
 - Modernization of the National Land Cadaster and the Property Registry.

c) Programs and Projects

- i. **Enlarge massive land titling program.** This program seeks to increase the production and productivity of small-farmer beneficiaries of agrarian reform, ethnic groups and small independent farmers, through increased access to and better distribution and use of land resources. The program includes the titling of rural properties recovered and expropriated by the State, as well as the case files being legally processed by the National Agrarian Institute (INA). For ethnic communities, the program includes increased titling based on the functional habitat of the community and the clearing of property tenure.
- ii. **Complete the agrarian and forest cadaster.** The goal is to support advances in legalizing rural property, whether agricultural or forest lands. Existing programs will be strengthened and made more efficient, in order to complete the nationwide cadaster as soon as possible. The efforts should include definition of the legal nature of the land, administrative and property limits, hydrographic basins, forest lands, archaeological sites, reserve areas, etc.
- iii. **Modernizing the rural property registry.** The objective is to have a modern tool that guarantees the accuracy of land tenure arrangements and allows all transactions related to each specific property to be registered. The registry should also be a useful tool for use by municipalities in implementing programs to collect land-use taxes.
- iv. **Access to Land Program.** The goal is to guarantee equitable access to productive land by poor rural families who are landless, or have limited access to land. This project is focused on producers located in less developed areas, with participation by rural organizations, financial intermediaries and Local Technical Units (UTL), among others.

2.2 SUSTAINABLE DEVELOPMENT IN HIGH-PRIORITY AREAS

a) Specific Objective

Achieve the integration, coordination and sustainability of the activities directed toward poverty reduction in rural areas with the most economic and social vulnerability, under mechanisms that guarantee the participation of local governments and communities.

b) Policy Measures

- i. Consolidate and broaden the National Sustainable Rural Development Program (PRONADERS), as a coordination, planning and action mechanism for reducing rural poverty.
- ii. Increase rural-development activities and their linkages to the national economy in the border zones of the country, to contribute to poverty reduction and to secure national identity in these areas.
- iii. Expand training programs for poor groups living in forest areas, to promote sustainable development of small agro-forestry enterprises.
- iv. Increase activities that support the development of small-scale activities such as fishing, salt extraction, clay products, tourist products and services, etc, consistent with the sustainable management of natural resources.

c) Programs and Projects

- i. **Development of border towns.** The objective of this project is to increase the quality of life of Hondurans living in border communities, traditionally isolated from the rest of the country and with high poverty indices. Their potential as centers for trade, service provision, and development of fishing and other productive activities will be exploited. Assuring national sovereignty and protecting natural resources are other elements of the project.
- ii. **Support to small forest enterprises.** The objective is to provide support and training for the creation and operation of micro and small enterprises in management, protection and reforestation activities. Included also are small forest-products industries. Implementation of these activities presupposes the assignment of national forests areas to communities settled within these forest areas.
- iii. **Integrated program to support artisan fishing.** The objective of this program is to increase income and diversify the activities of artisan fishermen and their wives. It includes the following components: (i) processing of marine species with lower commercial value; (ii) handicraft production; (iii) basic-needs and fishing-tackle store managed by women; (iv) encouragement of small-scale fishing; and (v) farm cultivation of red tilapia and other species for export.
- iv. **Rural development of the Mosquitia.** Incorporate the Mosquitia area into sustainable rural development activities. This project is now in the negotiation and definition phase, and its implementation is expected to take place under PRONADERS.

2.3 IMPROVING THE COMPETITIVENESS OF THE SMALL RURAL ECONOMY

a) Specific Objective

Increase production and improve the efficiency and competitiveness of small rural producers by facilitating better access to infrastructure, market-support services, technology and financing, thus strengthening the assets of the rural family.

b) Policy Measures

- i. Promote the productive transformation of reformed-sector enterprises, ethnic groups and rural micro-enterprises, to enable them to become competitive and sustainable entities, by:
 - Training trainers who can transfer knowledge of small-farmer enterprise- management issues.
 - Supporting the diversification of productive activities, including non-agricultural ventures, in order to increase incomes.
 - Expanding the number of co-investment contracts signed.
 - Promoting the organization and voluntary establishment of productive, service and supply enterprises among small farmers and ethnic groups.

- ii. Implement activities that will reduce transaction costs and therefore improve competitiveness of the rural economy, giving priority to actions such as:
 - Strengthening programs for building and maintaining rural roads, focusing on key aspects such as the regulatory entity; the priority of rural roads; increased of financial capacity; and direct participation by municipalities, NGO and communities.
 - Broadening access to irrigation systems, by increasing infrastructure and approving the new Water Law, which encourages participation of private entities in the construction of irrigation systems.
 - Increasing electric-power coverage in rural areas, by establishing a National Electrification Fund for new projects and extending coverage of the "Solar Villages" initiative.
 - Promoting implementation of existing legal provisions regarding the expansion of telecommunications services in rural areas through public or community telephones or other types of telephone systems.

- iii. Improve access to basic support services for small and medium-size producers for the development of their economic activities, including activities such as the following:
 - Increasing and making more flexible the supply of short-, medium- and long-term credit, especially through alternative mechanisms such as rural and community banks, among others.
 - Fostering the approval of the Real Estate Guarantee Law and revising administrative norms related to the provision and collection of guarantees.
 - Improving and strengthening market information and access systems, and improving marketing of products and inputs.
 - Providing alternative technological guidelines, through the National Agro-forestry Technology Transfer and Research System (SNITTA), to all links of the productive chain for various products and productive systems, accessible to all strata of producers in the valleys and on hillsides.

- iv. Develop mechanisms for the capitalizing of small agricultural enterprises dedicated to the production of food for basic consumption, especially mechanisms that protect natural resources, establish production chains and solidarity markets, and promote diversification of products with higher rates of return.

c) Programs and Projects

- i. **Business development of the small-farm economy.** An effort will be made to develop “campesino” enterprises through training in business management, marketing and negotiating, technology transfer and micro-irrigation, creation of new productive and service enterprises; and promotion of co-investments by small-farmers and private business people. This implies promoting a new economic culture among the small farmers that makes use of the commercial advantages provided by globalization.
- ii. **Build and repair rural roads and bridges.** This programs seeks to repair the rural road network damaged by Hurricane Mitch and build the rural roads needed to complement production and marketing activities of rural producers.
- iii. **Increase the area under irrigation.** The objective of this project is to significantly enlarge the amount of land under irrigation, in order to increase its productivity, and to adopt an appropriate mechanism to optimize the use of irrigation systems. The project includes micro-irrigation and major infrastructure construction in all valleys of the country, and small irrigation projects at the national level. It will be harmonized with the new Water Law, especially regarding water ownership and the right to sell to third parties through new and innovative systems, as well as mechanisms that permit the recovery of operational costs.
- iv. **Rural electrification program.** The objective of this program is to provide rural communities with electric power service, that will support production and improve the well-being of the rural population. This program is now being implemented with foreign and Government resources, and with contributions from the communities. Among the modes of energy production, increased support will be considered for renewable sources such as solar energy.
- v. **Seed-capital programs for small producers.** This program seeks to establish a fund that will allow small producers to capitalize and improve their income, by developing productive activities that contribute to the protection of natural resources, and mechanisms that increase competitiveness by improving access to productive and marketing network chains, and by promoting diversification and productivity increases.

2.4 IMPROVING SOCIAL CONDITIONS IN RURAL AREAS

a) Specific Objective

Strengthen social infrastructure and widen the coverage of poverty-alleviation programs in the most depressed areas with the greatest incidence of poverty.

b) Policy Measures

- i. Support rural housing programs that include direct beneficiary participation and Government financial support, as well as the participation of local governments and NGOs in the construction of rural housing.
- ii. Increase coverage of potable-water and basic-sanitation systems.

- iii Incorporate into FHIS and PRAF programs the promotion of productive vegetable gardens and food-conservation activities carried out by rural women which help improve incomes and the nutritional status of their families.
- iv. Improve the coordination of food aid and donations of key inputs to support small productive projects and community construction activities, in order to improve their coverage and targeting and to avoid negative effects on local production.

c) Programs and Projects

- i. **Strengthen the Rural Minimum Housing Program.** This program seeks to provide technical, financial, and social assistance to poor families in the rural sector of the country, in the self-help construction of new houses or improvements that would permit them to recover or improve their living conditions prior Hurricane Mitch.
- ii. **Basic sanitation in rural areas.** The objective of this program is to improve access by basic sanitation services to the extremely poor, guaranteeing water appropriate for human consumption, the constructing of water systems and wells; as well as to provide appropriate sanitation through construction of latrines and septic tanks. The main components are: studies and basic designs, construction of basic infrastructure; and organization and training to ensure sustainability.
- iv. **Sustainable food assistance.** The objective of this program is to adopt better coordination mechanisms to optimize the distribution and use of food and other donated supplies, as well as to improve the use and sustainability of food assistance programs, by promoting crop diversification and the implementation of projects benefiting the community. It also includes activities to support rural women in food production, particularly through access to the factors of production.

3. REDUCING URBAN POVERTY

Even though poverty in Honduras is greater in the rural sector, the diagnosis also shows that there are serious poverty problems in both large as well as intermediate cities. The greatest problems are those related to insufficient and poor-quality employment, which in turn are also linked to high rates of migration from rural areas as well as from less developed urban areas. This is also associated with a disorderly growth of human settlements, the inadequate supply of basic services, and a large housing deficit.

During the last decade, efforts were made to diminish the effects of this problem, by seeking to influence the causes that drive migration towards major urban centers, as well as greater access to employment and basic services. One action area has been to support micro, small and medium-size enterprises, through the creation of an appropriate institutional and legal framework, as well as financial instruments and technical assistance. Recently there has been an increasingly recognized need to develop intermediate cities in different regions of the country, as evidence by the creation of competitiveness committees directed by municipal governments and with the active participation of civil society and the business sector.

With respect to housing and human settlements, various programs directed at poor families have been implemented, such as the Complement to Self-Help Housing Program (PROVICEP), the Integral Urban Housing Improvement Program (PRIMHUR), and the Land Legalization and Classification Program. As part of the effort to replace losses caused by Hurricane Mitch, a large self-help housing program has been implemented, through the joint efforts of national and international NGOs, central and local governments, and the beneficiaries themselves. Other actions have also been undertaken to improve access to basic services, such as potable water, sanitation, electric power and urban transport, mainly in marginal neighborhoods.

General Objective

Improve living conditions and the quality of life of the poor urban population, by improving employment and increasing income opportunities; fostering the development of micro, small and medium-size enterprises; developing the potential of intermediate cities; and improving of human settlements through access to housing, environmental protection, education, and primary health care and access to basic services in general.

3.1 STIMULATING THE DEVELOPMENT OF MICRO, SMALL AND MEDIUM-SIZE ENTERPRISES

a) Specific Objective

Support the growth and competitiveness of micro, small and medium-size enterprises, as sources for generating employment and income for poor families in urban areas.

b) Policy Measures

- i. Strengthen public and private entities that provide assistance to micro, small and medium-size enterprises, by:
 - Strengthening the Office of the Social Sector of the Economy;
 - Assuring the effective operation of the Honduran Council of the Social Sector of the Economy (COHDESE);
 - Legally constituting the Regional Councils of Development of the Social Sector of the Economy (CODESSEs); and

- Promoting the restructuring of micro, small and medium-size enterprise (MIPYMEs) organizations in order to provide assistance and training to the these enterprises.
- ii. Support the creation of alternative models of saving and credit, with participation by the beneficiaries, to ensure the sustainable capitalization of their enterprises, the adoption of new technologies, and the creation of systems of networks and information to improve market access.
- iii. Stimulate entrepreneurship among young Honduras by incorporating training in project design into the various educational modalities and levels, mainly those of a vocational nature by providing initial financing under favorable conditions preferably under the enterprise-incubators systems.
- iv. Facilitate the opening of neighborhood markets and other centers for street vendors, under a plan to reorganize informal trade at the municipal level, gradually incorporating into the formal commercial sector.

c) Programs and projects

- i. **Strengthening micro, small and medium-size enterprise organizations.** This project seeks to provide advice and training for MIPYME associations or groups of business operators in the areas of management, administration, organization, accounting, finances, production, total quality, marketing, input supply and promotion of human resources. An important component of the project is the Census and Registration of MIPYMEs, which will improve knowledge of their real status and problems; generate basic information for decision-making; and contribute to the formulation of plans, programs and projects directed to solving their specific problems.
- ii. **Strengthening the Office of the Social Sector of the Economy.** This project seeks to carry out a diagnosis of the social sector, strengthen its organization, achieve regional integration and promote the sustainable development of enterprises in the sector.
- iii. **Supporting the capitalization of MIPYMEs.** This program is additional to the existing mechanisms of financial support for these entities. Its objective is to develop new models that not only will provide better access to credit but also foster savings. Similarly, the program seeks to increase the competitiveness of the enterprises, through capitalization, focusing of activities, and incorporation of new technologies with linkages to networking and information systems that permit better access to markets.
- iv. **Support for young entrepreneurs.** This program seeks better training for young people studying vocational careers in the formal and informal systems, in the identification, organization and administration of various types of small businesses, as well as access to sources of financing, that would help them develop such enterprises, preferably through enterprise-incubator models that operate within the educational institutions themselves or under their guidance, for an appropriate period of time, prior to their full establishment.
- v. **Formalization and regulation of street vendors.** This project seeks to conduct a census of street vendors in the main cities of the country; determine the deficit of fixed sales points; formulate a plan to regulate informal trade; promote the organization of

cooperatives that foster savings in this sector; and seek new resources for developing specific projects.

3.2 DEVELOPMENT OF INTERMEDIATE CITIES

a) Specific Objective

Foster the development of intermediate cities so that they can become regional development poles. This strategy implies a strong interrelationship with productive activities in surrounding rural areas, in order to improve rural well-being and help reduce migratory flows toward the large cities.

b) Policy Measures

- i. Organize solidarity markets at the regional level, preferably through associations of municipalities, generating mutual beneficial trade flows, including the organization of supply centers for raw materials and other inputs in order to decrease production costs.
- ii. Promote the organization of enterprise incubators, taking into account the potential of intermediate cities and organizing reciprocal guarantee societies to facilitate access to credits, inputs and equipment.
- iii. Promote industrial activity in intermediate cities by:
 - Coordinating the actions of public entities involved in the improvement of road infrastructure, based on initiatives that stem from organized civil society or competitiveness committees; and
 - Promoting external marketing of their products through strategic alliances bringing together the government, private enterprise and civil society.

c) Programs and Projects

- i. **Solidarity markets.** This project will develop fairs and exhibitions that promote and facilitate trade of products at the regional and local level. It seeks to organize supply centers for raw materials in order to reduce production costs, and to build facilities for marketing local products to increase inter-community commerce.
- ii. **Enterprise incubators.** This project seeks to create models of enterprises incubators or agents that facilitate the development and consolidation of business activities; offering integrated services that foster managerial capacity and promote the creation of competitive and high-value-added enterprises.
- iii. **Technical and organizational assistance in secondary cities.** This activity responds to requests for technical assistance, under existing action plans, to solve some of the problems identified and to take advantage of existing opportunities. Program components include training; the creation and strengthening of competitiveness committees; information centers, with a series of services and activities linked to Chambers of Commerce; preparation of community leaders; and project design and business administration.

3.3 SUPPORTING LOW-INCOME HOUSING

a) Specific Objective

Stimulate the construction of low-cost housing through legal, financial and participatory mechanisms that provide low-income families access to a sustainable solution to their housing problems.

b) Policy Measures

- i. Approve the Law for Modernization of the Housing Sector and improve the efficiency of the sector's regulating entity, preventing it from directly implementing projects.
- ii. Facilitate the construction or improvement of in housing for low-income groups, through activities designed to:
 - Strengthen the Complement to Self-Help Housing Program for families with incomes less than five times the minimum wage;
 - Locate sources of financing, including NGOs, that can support the self-help model of basic-housing construction; and
 - Undertake a feasibility study of the secondary market for mortgages.
- iii. Grant legal security to land and housing tenure, with titling systems that especially protect women and children, for which there is a need to:
 - Standardize, simplify and speed up the title-regulation system; and
 - Establish legal recourse to an immediate resolution to land and housing tenure problems.
- iv. Establish regulations for the orderly development of human settlements, taking into account risk prevention.

c) Programs and Projects

- i. **Strengthening the self-help urban housing program.** The objective of this program is to increase the availability of subsidies to low-income families for the construction and improvement of housing. Program beneficiaries have a basic requirement to cover the non-subsidized part of the cost of the housing construction or improvement.
- ii. **Legalization and land-use planning of human settlements.** This program seeks to develop specific projects, with the framework of land-use planning. Priority is giving to sites that have serious risk situations, and projects are linked to the preparation of urban regulatory plans to the legalization properties.

3.4 ACCESS TO BASIC SERVICES IN HIGH-PRIORITY AREAS

a) Specific Objective

Improve the access to groups living in urban marginal areas to basic services of potable water, sewer systems, electricity and transport, in order to improve the quality of their lives.

b) Policy Measures

- i. Promote the establishment of a special fund for efficiently providing basic services to marginal areas in the main cities of the country.
- ii. Achieve progress in the decentralization chain by supporting the organization of microenterprise to provide public services at the local level, under mechanisms that include community participation.
- iii. Foster municipal management of water and sanitation systems, by promoting the approval of the framework law of the sector and improving the administrative capacities of the municipalities.

c) Programs and Projects

- i. **Municipal development fund.** This fund will support, through municipalities, the improvement in the availability and quality of basic services, through participatory mechanisms and processes. Among the activities to be supported are improved sanitation, solid-waste collection, legalization of properties, and infrastructure for education and primary health care. Project implementation should be carried out preferably through micro-enterprises and local NGOs.
- ii. **Potable water for marginal neighborhoods.** This program seek to construct water tanks and develop of distribution systems that provide potable water to areas of difficult access. It also proposes, training for beneficiaries to achieve self-sustainability in service provision.

4. INVESTING IN HUMAN CAPITAL

Under the objective of strengthening human capital, various actions have been carried out to improve educational and health services. In the former, in addition to regular educational programs, projects are being developed, with community participation, to provide infrastructure, technology and teaching inputs; incentives such as scholarships, school snacks and breakfasts are being offered; and in-service teacher training is being provided. In health, support is given to primary and hospital health, environmental sanitation and nutrition. In both sectors decentralization and deconcentration of service delivery is being promoted.

In the educational area, high-priority attention is being given to the coverage and quality of pre-school education and third cycle of basic schooling (7th to 9th grade), as well as to issues affecting quality such as dropouts, grade repetition, teacher performance, and institutional efficiency. Likewise, middle-school and technical-vocational education need greater support in order to adjust education supply to labor-market demands. These changes also require more emphasis on non-formal training programs, both within and outside the working environment, thus permitting continuous responses to technological changes. In higher education, consistent with the concerns addressed by civil society in the consultation process, measures are proposed to promote reforms in public higher education that improve quality and efficiency and address labor-market requirements.

Furthermore, a consensus was reached on a proposal for national educational transformation, prepared by civil society under the coordination of the National Convergence Forum (FONAC). This Strategy does not cover all actions formulated in that proposal, but rather seeks to complement it by addressing those elements that have greatest impact on improving the educational level of the poor population.

In the health sector, primary-health care programs will continue, to be strengthened, based on criteria for rationalizing and targeting expenditures and consolidation of the processes of community participation that have already begun at the local level. Addressing problems of infant and maternal mortality, as well as health prevention and promotion, will require hospital care, for which additional medical inputs must be provided. It is also necessary to consolidate and deepen the reform process in the health sector, within a framework of broad social participation.

In the cultural area, Honduras has great cultural wealth, but it is dispersed and atomized. The national cultural heritage provides cohesive elements for the definition and implementation of projects that foster, through the culture, changes in attitudes and values that would help strengthen the profile of the population, which in turn would help improve poverty conditions.

General Objective

Strengthen the human capital of poor groups by improving their access to basic education, health and cultural services within a framework of equity and quality that would allow them to improve their employment opportunities and income.

4.1 GREATER QUALITY AND COVERAGE OF BASIC AND TECHNICAL-PRODUCTIVE EDUCATION

a) Specific Objective

Improve the level of schooling of the Honduran population through greater quality, efficiency and equity at the pre-basic, basic and intermediate levels, thus guaranteeing a better quality work force, and achieving greater efficiency in higher and non-formal education.

b) Policy Measures

- i. Complete and approve the General Educational Framework Law, which seeks to implement the proposed transformation of the educational system in various institutions and levels, emphasizing participatory educational administration, curricular transformation and teacher training.
- ii. Improve quality and efficiency at the various educational levels, through actions such as the following:
 - Design and implement a national curriculum that is pertinent, integral, appropriate to national interests and of compulsory application;
 - Provide school centers with the necessary pedagogic and technical inputs;
 - Improve evaluation, accreditation and certification systems;
 - Define and implement actions for the modernization and efficiency of human resources, linked to the fulfillment of rights and tasks assigned to them;
 - Transform one-teacher schools into complete schools; and
 - Strengthen bilingual intercultural education.
- iii. Increase coverage of the educational system, with special emphasis on pre-school education, the third cycle of basic education (7th to 9th Grade) and intermediate-level education, through the following actions:
 - Expand infrastructure and human resources, under criteria of rationality and equity, at the local and national levels;
 - Raise the degree of capacity utilization and the efficiency of current human resources;
 - Allocate resources with equity and efficiency at each level of education;
 - Define appropriate criteria and make technical-pedagogical changes for the widespread implementation of the third cycle of basic education; and
 - Strengthen and promote alternative forms of education service delivery, both for the formal school system, as well as for youth and adults excluded from it.
- iv. Improve mechanisms and programs that raise the demand for education by the general population, such as those that:
 - Establish mandatory education for 5 year-old children at the pre-school level and for the third cycle of basic education;
 - Generalize the concept of the “healthy school” in all educational centers; and
 - Create scholarship programs for poor students.
- v. Strengthen technical-productive intermediate education, formal and non-formal, by:
 - Establishing policies that link formal and non-formal technical education;

- Adapting the curriculum to encourage attitudes and aptitudes that contribute to generating greater interest in the development of productive activities;
 - Developing mechanisms of cost recovery and sale of services, to raise the self-management capacity of technical education centers;
 - Establishing strategic alliances with the private sector, for training and incorporating youth into the work force; and
 - Establishing a national system of technical-vocational certification.
- vi. Strengthen the management of the educational system, in public, private and community organizations, by:
- Developing a model of educational management that will facilitate advances in the areas of deconcentration and decentralization, with community participation;
 - Improve information systems at the central, departmental, district and local levels;
 - Develop internal and external evaluations of school efficiency linked to teacher performance; and
 - Rationalize the employment structure of the central administration.
- vii. Improve the efficiency of higher education by means of:
- Promoting reforms in the UNAH as well as other higher-education institutions to achieve greater relevance and academic quality;
 - Conducting joint research with the business sector, to determinate the country's scientific and technical requirements;
 - Incorporating within programs of study, subjects related to the development of ethics and responsibility;
 - Fostering programs that preserve and stimulate the cultural, scientific and technological assets of the Honduran people; and
 - Promoting a gradual process of cost recovery, accompanied by a scholarship programs for poor students with academic potential.

c) Programs and Projects

- i. **Strengthening educational quality.** This project seeks to improve the level of at each educational level, through actions related to: a) local-level quality management; b) updating the basic national curriculum, including training and evaluation processes; c) capacity building and training of teachers and departmental and district directors; d) printing and distribution of texts; e) application of standardized tests to students; f) evaluation of teacher performance; and g) institutional strengthening.
- ii. **Strengthening education at the pre-school and grade 7-9 levels.** This program seeks to achieve the targets for increased coverage at these levels, for which an expansions of infrastructure as well as an increase in the number of teachers is required.
- iii. **Expansion of the coverage through alternative models.** This program includes a second phase of PROHECO and other educational-services-delivery mechanisms. Increased coverage at the pre-school basic-education levels is sought, through participatory mechanisms involving parents, NGOs and other community organizations.

- iv. **Adult education through alternative forms.** This project seeks to expand literacy in youth and adults who for different reasons do not have access to the national school system, with an emphasis on women and ethnic groups from rural and marginal urban areas. Various educational service modalities are envisioned, such as the participation by NGOs, churches and municipalities; recruitment of local facilitators; and interactive radio, among others.
- v. **Education, production and development.** The purpose of this program is to improve technical education in harmony with the potential needs of the labor market, including curricular updating and increases in educational supply. It will also contribute to strengthening human resources according to their capacities, abilities and skills.
- vi. **Scholarships for poor students.** Increased opportunities will be provided to young persons with academic potential in the third cycle of basic education and the diversified level, with an emphasis on technical careers, in both public as well as private schools.
- vii. **Educational infrastructure with community participation.** This project will continue to provide basic infrastructure to urban and rural communities to stimulate pre-school, basic and technical education through mechanisms of community participation or mutual assistance.

4.2 INCREASED AND BETTER ACCESS TO HEALTH SERVICES

a) Specific Objective

Guarantee equitable access by poor groups to high-quality health services, preferably in primary health care and nutrition monitoring, by achieving consensus on the definition and implementation of reforms in the health sector, and by guaranteeing that the service network has available, in a timely manner, the quantity and quality of supplies equipment and human resources needed for appropriately carrying out its functions.

b) Policy Measures

- i. Strengthen primary and preventive health care by:
 - Promoting a greater allocation of resources;
 - Supplying a basic package of interventions in primary health care;
 - Increasing coverage of maternal-child assistance programs, potable water and latrine systems, inoculations against infectious and contagious diseases, nutrition monitoring, health-promotion activities;
 - Expanding the Community Medications Funds; and
 - Promoting the use of alternative medicine, under appropriate regulations.
- ii. Provide increased attention to the health conditions of women through actions such as:
 - Increasing coverage of reproductive health, peri-natal and maternal-child programs; and
 - Widening the coverage of family-counseling programs.
- iii. Achieve increased efficiency and quality in providing health services by:
 - Deepening sector reforms, with an emphasis on the decentralization of health services

- and the strengthening of the Ministry of Health in its leadership role in public health;
- Promoting the complementary availability of services between the public and the private sector;
- Implementing a differentiated and equitable cost recovery system;
- Defining a policy governing medicines that takes into account their quality, essential nature, efficiency and availability for delivery;
- Increasing co-management agreements at community level;
- Defining integrated policies for addressing the problem of malnutrition;
- Defining a policy for developing human resources linked to improvements in the quality and completion of assigned duties;
- Institutionalizing an integrated system of health information; and
- Widening the health services network according to criteria of equity and an analysis of the health situation of the population.

c) Programs and Projects

- i. **Basic health services package.** The purpose of this project is to guarantee delivery of a standardized package of interventions that guarantees cost-effective assistance to groups in extreme poverty, including indigenous populations, through actions related to: attention to morbidity; health promotion services for children, including nutrition; integrated assistance to pregnant women; monitoring and control of vectors; and community organization.
- ii. **Community Medications Fund (FCM).** The purpose of this project is to guarantee the access of the poor population to essential, safe, effective and low-cost medications, and promote rational community use of natural medicinal products when appropriated. The main components of the project are: seeds capital for establishing the fund, community organization and training, and monitoring and evaluation mechanisms.
- iii. **Health promotion services for children including nutrition.** This project seeks to offer integrated assistance to children at the community level, including attention to prevailing childhood illnesses and standardized management of cases of acute respiratory infections, diarrheas and anemia in children less than five years of age. It will be complemented by actions in promotion and prevention, such as massive vaccination against various illnesses, micronutrient supplements, iron and vitamin A; promotion of breastfeeding; and appropriate nutritional practices.
- iv. **Integrated assistance to women.** The activities of this project will be directed toward the integrated healthcare of women of fertile ages in family planning, prevention of sexually transmitted diseases and pregnancy prevention in adolescents, the integral care of pregnant women, prenatal and post-childbirth care, appropriate assistance at childbirth, and prevention of domestic violence.
- v. **Healthy Schools.** This project will continue to assist preschool children, as well as those in the first and second cycles on basic education, in public schools throughout the country. It includes integrated assistance in education and health related to behavior; abilities and skills directed towards health practices, eating habits and nutrition; promotion of healthy environments; risk prevention and health problems; and the physical, psychological and emotional development of children.

- vi. **Prevention of infectious-contagious illnesses.** This project will implement, evaluate and improve of the national plan to combat AIDS and other infectious-contagious illnesses. It including prevention activities and the creation of a fund to support NGOs or other civil-society organizations in providing these services.
- vii. **Health infrastructure.** This activity seeks to ensure that poor communities have better access to health services by proving basic infrastructure in health (CESAMOs, CESARs and emergency hospitals), basic sanitation and training, based on the criteria that the investments be sustainable, equitable and rational.

4.3 CULTURAL WEALTH AND NATIONAL IDENTITY

a) Specific Objective

Assign a strategic value to socio-cultural management, as a fundamental factor for the development of the country, to strengthen civic, ethical, moral and democratic values, and to create new employment and income opportunities.

b) Policy Measures

- i. Stimulate the creation and diffusion of various artistic expressions at the national level, by:
 - Increasing construction programs for cultural centers, buildings and historical monuments;
 - Fostering and developing cultural events;
 - Strengthening the National Cultural Council;
 - Creating micro-enterprises linked to cultural activities; and
 - Promoting all types of sports.
- ii. Define an action plan for promoting ethical-moral values, especially those related to the work ethic, and to the conservation and recovery of cultural heritages that strengthen national identity.
- iii. Establish agreements among all interested parties for taking better advantage of cultural resources for tourism, and for self-sustainability in maintaining and conserving them.

c) Programs and Projects

- i. **Build and improve cultural centers and historical buildings.** This program seeks to promote the diffusion of socio-cultural activities and the preservation of cultural heritage, as a means to promote the recovery and strengthening of national identity, within a perspective of achieving integrated economic growth.
- ii. **Productions of handicraft by the indigenous and black population of Honduras.** This project seeks to contribute to increasing the incomes of ethnic communities, by fostering the establishment or strengthening of microenterprises in the tourism sector and other activities linked to their cultural identity.
- iii. **Promote and develop sports.** The purpose of this activity is to promote, stimulate and develop all types of sports and to consider them as a key factor for instilling positive

habits and discipline in the younger population, mainly through the construction of multi-sport fields, that can become necessary recreation spaces as healthy alternatives for the Honduran youth.

5. STRENGTHENING SOCIAL PROTECTION FOR SPECIFIC GROUPS

The diagnosis points out that poverty is anchored on a structure of insufficient opportunities and of low human, physical and social asset levels, which contribute to the vulnerability of large population groups, generating an inter-generational reproduction of poverty. These groups have multiple weaknesses and needs that make them high-social risk populations. They include, children, adolescents, senior citizens, persons with disabilities, women and ethnic peoples.

Programs under way to provide targeted assistance to these groups have helped strengthen basic social infrastructure and develop human capital in broad sectors of the population. Notable activities are those carried out by the Honduran Social Investment Fund (FHIS) in areas such as construction and improvement of schools and health centers; water and sanitation projects; roads, bridges and rural fords; and small flood-control infrastructure. In addition, the Family Allowance Program (PRAF) has a vouchers program that, in addition compensating for lack of income, has also contributed to improving school enrollment and attendance and to reducing dropout and absenteeism indices of schoolchildren in the first to fourth grade. PRAF has also increased access to basic health services for children and single mothers.

Various activities have helped protect children and adolescents in highly vulnerable situations. Special emphasis has been given to the process of transforming the Honduran Institute for Children and the Family (IHNFA) and to establishing integral development programs. Activities for senior citizens have included assuring the application of the Special Treatment Regime Law; providing economic assistance through the PRAF voucher program and granting subsidies to centers that assist senior citizens.

Honduras can also report important achievements regarding the socioeconomic advancement of women, for example in literacy, life expectancy and labor-market participation. The legal and institutional support framework for gender equity has been strengthened under the agreements and commitments made by the Country at the IV World Conference on Women in Beijing. One example is the creation of the National Institute for Women, entity that established guidelines for all public policies favoring women. Other actions have include the creation and application of the Law Against Domestic Violence, the Law of Equal Opportunities for Women, the Law of Gender Equity, and the National Policy of Sexual and Reproductive Health, as well as the signing of agreements with various municipalities for organization and technical assistance to establish Municipal Women's Offices.

To address the problems of the indigenous and black populations, the National Cultural Council has been reactivated, and the office of the Special Prosecution for Ethnic and Cultural Heritage has been created. Also, projects are being implemented to support ethnic groups in areas such as land titling: training of human resources in health, disaster prevention and mitigation, and reproductive health; bilingual and intercultural education; training at the Intibucá Indigenous Handcraft Center; and The Our Roots Program. Nevertheless, even though the country has promoted a process of sustainable human development through a variety of programs and projects, these need to be strengthened and new ones designed, to promote poverty alleviation and reduction.

General Objective

Improve living conditions of people living in extreme-poverty conditions, especially children, adolescents, senior citizens, women, persons with disabilities and ethnic groups in vulnerable conditions, through equitable access to better opportunities.

5.1 SOCIAL SAFETY NETS

a) Specific Objective

Diminish risk factors in specific groups of greater vulnerability, such as children, adolescents, women, senior citizens and persons with disabilities, in order to enable their social integration and integral development.

b) Policy Measures

- i. Strengthen and improve the impact of programs to alleviate extreme poverty, for which it is necessary to:
 - Continue FHIS and PRAF programs in the short and medium term, with a growing orientation toward actions within a framework of sustainable poverty reduction.
 - Periodically evaluate the impact of these programs and disseminate their results.
 - Improve the targeting of both programs, under broader mechanisms of local participation.
- ii. Support programs to protect children and young adolescents specifically by:
 - Strengthening the role of Honduran Institute for Children and the Family (IHNFA), especially to assist children and adolescent boys and girls at social risk, with an emphasis on street children, victims of child abuse, adolescent mothers, and adolescents in conflict with the law.
 - Improving IHNFA coordination with the Ministries of Health and Education in school counseling and orientation, and in the treatment of adolescent pregnancy and motherhood in educational centers.
 - Implementing the National Plan for the Gradual and Progressive Eradication of Child Labor.
 - Defining and implementing the National Plan of Integrated Attention to Children and Adolescents, in order to strengthen national policies, and the promotion and protection of their rights, with participation by civil society.
- iii. Provide integral assistance to poor persons with disabilities, through the following actions:
 - Create the National Disability Council, with the participation of public and private institutions and associations of persons with disabilities, which will coordinate, direct and guide actions related to integral rehabilitation in Honduras.
 - Create the Technical Unit for Integrated Rehabilitation to support for the National Disability Council in creating and implementing the National Policy, the National Plan and the agreements of the Council. A National Information System for persons with Disabilities should also be established.

- Create and implement at local level, integration and rehabilitation plans for persons with disabilities.
- Incorporate a module within the surveys of the National Statistics Institute, on various aspects of disability in order to identify, among other things, the geographic location and socioeconomic and demographic characteristics of the population with disabilities.

iv. Improve attention to senior citizens, by:

- Creating and organizing the Honduran Institute of Assistance to Senior Citizens (IHAM), charged with setting national policies, as well as supervising and coordinating activities in this sector.
- Strengthening support and cooperation networks, with special emphasis on older people who have been abandoned and/or are mendicants.
- Reforming pension systems, in order to guarantee a dignified retirement from the labor market to this sector of the population.

c) Programs and Projects

- i. **Strengthening IHNFA actions in support of children.** This program seeks to improve the capacity and expand the coverage of the institution so that it can effectively and efficiently fulfill its legal obligations, in support of children; especially those in social risk or under conditions of abuse and lack of respect to their rights. The program includes the following projects: i) early-children care, schooling for parents and promotion of Municipal Childhood and Family Councils; ii) protection of street children; iii) attention to children and adolescents at social risk and integral attention to adolescents in conflict with the law, by promoting their rehabilitation and social reinsertion; iv) prevention of alcohol and drugs use by children and adolescents; v) sexual and reproductive education for adolescents; and vi) support to adolescent mothers.
- ii. **Gradual and progressive eradication of child labor.** The project seeks to address the problem of children performing certain types of work, that under national and international norms constitutes a violation of children's rights by preventing their normal bio-psycho-social development.
- iii. **Protection of working adolescents.** The objective of this program is to intervene in problem cases of adolescents involved in high-risk work, such as underwater fishing, mining and occupations exposed to toxic substances. It will also assist adolescents working in domestic service by applying existing norms to prevent their economic exploitation.
- v. **Supporting the well-being of senior citizens.** This project seeks to improve the quality of life of poor senior citizens, through financial initiatives presented and implemented by municipalities and civil-society organizations, in areas such as: i) subsidies to asylums and community homes; ii) financing of small projects presented by groups and organizations of senior citizens; iii) purchasing of prostheses; and iv) social-awareness campaigns to benefits the senior citizens.
- vi. **Prevention, care and integrated rehabilitation of persons with disabilities.** This project seeks to carry out a series of actions in favor of persons with disabilities in order to create opportunities for their equitable social integration. The program includes five projects: i) equalization of opportunities (access to an appropriate physical environment

for culture, sports, information, etc.); ii) support for the creation and/or strengthening of physical and sensorial rehabilitation centers and services (technical aids, orthoses, prostheses, centers for integrated rehabilitation, etc.); iii) creation and strengthening of support services for special educational needs; iv) orientation, training and work placement; and v) sensitive training and promotion of the rights of persons with disabilities.

5.2 GENDER EQUITY AND EQUALITY

a) Specific Objective

Assist in the integrated development of poor women, by assuring their full and effective participation in the social, political, cultural and economic life of the country; empowering their capacities through the exercise of their rights and equal opportunities in access to healthcare, education and adequate incomes.

b) Policy Measures

- i. Provide conditions that permit an effective equality of opportunity for women, especially those living in poverty, by:
 - Verifying the effective application of the Law of Equal Opportunity for Women and the gender-equity policy in the Honduran agricultural sector.
 - Put into practice gender equity in the structure of public expenditures, in order to assure that they reflect a willingness to increase opportunities for equal access to productive, educational and healthcare resources.
 - Stimulating employment and income improvement for poor women, by supporting micro and small businesses, and by improving access to credit, markets, technical assistance and appropriate technology.
 - Implementing programs that develop and promote participation of indigenous and black women, assuring respect for their cultural identity.
 - Implementing a simple and expeditious titling system that assures ownership of housing, land and other assets under either the name of the woman or the couple, depending on the case, and that prohibits the sale or disposal of these assets for a reasonable period of time because of their condition as inherited family property.
- ii. Revise and apply the Law against Domestic Violence, in order to prevent and eliminate the incidence of this aggression against women.
- iii. Incorporate more information differentiated by gender in census and surveys in order to evaluate the economic contribution of women and other specific information about them.

c) Programs and Projects

- i. **Development of labor-market skills and support the working woman.** This activity seeks to develop, under equitable conditions labor-market skills for poor female heads of household, who have lost their jobs, are underemployed, or are seeking work for first time, preferably between 17 and 50 years of age, and who can read and write. Likewise, mothers will be helped to obtain access to active participation in the labor market, through mechanisms that provide childcare during working hours, such as the Community Centers for Integrated Childcare.

- ii. **Support for female microentrepreneurs.** This project will seek to: i) strengthen the administrative capacity of women in microenterprise management; ii) provide training for improving production quality; and iii) provide advice on better use of marketing channels for their products.
- iii. **Support for the participation of indigenous and black women.** This program will include the implementation of projects based on specific circumstances and designed to reduce levels of poverty and discrimination against indigenous and black women.
- iv. **Information Centers for Women's Rights (CIDEMs).** These are specialized information centers for women and for promoting their rights. The CIDEMs will be within the Municipal Office for Women, and can be organized and opened in departments and/or municipalities prioritized by INAM, or by organizations involved with women's issues. The Centers' responsibilities include: information, training, promotion and awareness campaigns based on the Equal Opportunity Law and related legislation, in order to help women gain their social, cultural, economic and political rights.
- v. **Prevention and treatment of violence against women.** This project includes promotion, training, verification and application, by various organisms, of the Penal Code Provisions dealing with intra-family violence and the Law against Domestic Violence. It also emphasizes prevention, social and psychological aid to victims, support for various institutions that manage shelters for mistreated women, and the promotion and organization of temporary and transitory homes where the incidence of this problem is greater.

5.3 DEVELOPMENT OF ETHNIC GROUPS

a) Specific Objective

Help empower the ethnic and black populations of Honduras, by strengthening their economic activities and their access to health and education services and basic infrastructure.

b) Policy Measures

- i. Create the National Ethnic Council, in order to define a national agenda to facilitate proper coordination of the implementation programs and projects benefiting ethnic communities.
- i. Incorporate the category "ethnic to which the respondent belongs or is associated" with census or as a module of the Household Survey.
- iii. Bring national legislation into line with the ILO's Agreement No. 169 regarding indigenous people, signed by Honduras, so its provisions can be enforced.

c) Programs and Projects

- i. **Socioeconomic Development of Ethnic Communities.** This activity seeks to strengthen the right of indigenous and black peoples to self-development based on their own identity. It supports self-management and decision-making processes consistent

with their situation and expectations. It also, provides training in handcrafts, making available seed capital for production and marketing.

- ii. **Ethnic and ecological tourism.** This project provides technical/legal assistance, training and financing for implementing local initiatives for developing ethnic and ecological tourism in high-potential areas, in order to increase the incomes of ethnic communities and to protect the environment.

6. GUARANTEEING THE SUSTAINABILITY OF THE STRATEGY

Because of the structural and historical character of the roots of poverty, combating it requires a process of implementing policy measures, programs and projects that are sustainable in the long run. Thus it is essential not only to maintain a healthy macroeconomic policy but also count on a State where transparency, justice, personal security and efficient public management prevail. Another key aspect of sustainability is the reduction of ecological vulnerability. Democratic participation, especially at local level, also plays an extremely important role in assuring the sustainability of the PRS.

In order to establish an institutional structure that contributes efficiently to guaranteeing good governance many actions have been undertaken to strengthen the Legislature, the judicial system, the Ministry of Public Prosecution and the budget offices of the State. Other important actions that help strengthen governance and transparency are: implementing a Program for Efficiency and Transparency in State Purchases and Contracting; supporting budgetary and social-audit offices; initiating the implementation of a proposal to reform the administration of justice; and the launching of an anticorruption program. A series of reforms and policy measures have also been implemented to improve the quality and efficiency of public services. As part of the decentralization process, support has been given to municipal administration, especially in intermediate-size municipalities, by providing technical and financial assistance and an integrated promotion of municipal development.

To ensure participation by a civil society that is fully involved with the processes described above several entities have been promoted and created. Notable in this respect are the approval of the regulatory framework for the operation of the National Convergence Forum (FONAC); the establishment of the Civil Society Participation Commission, for reconstruction and national transformation; the creation of the Reconstruction Supervision Commission; the establishment of a Special Commission charged with formulating proposals for improving the administration of justice; and the creation of the National Anticorruption Council.

The sustainability of the PRS is also related to the need to reverse the process of environmental deterioration, to decrease the level of ecological vulnerability and to prevent future disasters. This implies a need to consolidate the legal, institutional and political foundations for improving the management of natural resources and environment to have in place policies and mechanisms for disaster prevention. In this connection, actions will continue to be taken to reduce the hydrogeomorphological risks caused by Mitch; address the issues of water basin management and land-use planning; consolidate the National System of Protected Areas; create an environmental culture with citizen participation; develop carbon markets and foster clean-development mechanisms ; prepare the preliminary design of the law establishing the National System for Risks Reduction and Emergencies Responses and strengthen the Permanent Disaster Preparedness Commission (COPECO) at the central and regional level, as a prior step to the establishment and consolidation of the National System of Risk Management.

General Objective

Expand and deepen actions geared to strengthening governance and transparency and reducing ecological vulnerability, with the growing participation of local governments and civil society, as essential elements for achieving a greater degree of efficiency and sustainability of the Poverty Reduction Strategy.

6.1 STRENGTHENING TRANSPARENCY AND PARTICIPATORY DEMOCRACY

a) Specific Objective

Consolidate governance, guaranteeing transparency in public-management, by strengthening government budgetary offices and social audits, and by improving the quality of political representation of the population.

b) Policy Measures

- i. Guarantee transparency in all public management activities, and especially in the implementation of social programs and projects, for which it is necessary to:
 - Strengthen the capacities of the General Controller of the Republic (CGR) and of the General Office of Administrative Integrity.
 - Approve a new State Contracting Law.
 - Establish procedural manuals for the CGR.
 - Consolidate the National Anticorruption Council and implement an anti-corruption plan.
 - Implement project inspections and the new State purchasing and contracting system in PRS programs and projects.
 - Support social-auditing activities at the local level.
- ii. Formulate and approve, in consultation with the relevant sectors, a legal regulation and prudential supervision standards for the proper operation of national and international NGOs, particularly those supporting vulnerable groups.
- iii. Improve the parliamentary process, through appropriate technical assistance to the various commissions, computerization of controls and mechanisms for defining legislative priorities, as well as codification of legislation.
- iv. Reach a consensus and approve political reforms, in order to improve participative democracy.

c) Programs and Projects

- i. **Modernization of the Honduran National Congress.** This program supports technical improvements in the process of formulating and approving of laws; greater parliamentary efficiency; and institutional strengthening. It also includes advising the internal commissions of the Congress, establishing a daily Sessions Record and an Official Bulletin, modernizing of the computerized attendance and voting system, and the creation of a follow-up system for parliamentary records.
- ii. **Social auditing.** This activity includes supervising the receipt, management and distribution of international aid; overseeing the efficient use and management of public resources; and establishing a continuous relationship with the Controller-General of the Republic, the Prosecutor's Office and the Commissioner of Human Rights. Training will be provided on research methodology, civil rights, institutional methods and procedures, public accounting and other tools that may be necessary for analyzing fiscal accounts.

6.2 STRENGTHENING JUSTICE AND PERSONAL SECURITY

a) Specific Objective

Generate the conditions for establishing a system that guarantees protection of human person right's, legal security for investments, and a peaceful social life, through the equitable application of the Constitution and laws.

b) Policy Measures

- i. Strengthen the independence of the actors of the judicial system, by:
 - Applying the constitutional amendment on the appointment of magistrates to the Supreme Court, with greater transparency and civil-society participation.
 - Approving and applying the Judicial Career Law , in order to guarantee the selection of judges and magistrates on the basis of merit and ability.
 - Approve the Organic Law of the Judicial Branch, with the objective of guaranteeing and separating the organizational and jurisdictional, by creating mechanisms such as the Judicial Career Council or similar mechanisms.
 - Modernize and strengthen the capacity of the institutions in the sector.
- ii. Improve the application of justice and equity in accessing it, through actions that tend to:
 - Establish a consensus on and approving the penal-law regulations, particularly those concerning organized crime, money laundering and narcotrafficking.
 - Establish a consensus and approving the Civil Procedures Code.
 - Guarantee the effective application of the new Penal Procedures Code; in the framework of what was envisioned in the Plan of the Inter-institutional Commission created for this purpose².
 - Support free legal counseling for low income persons at the local and regional level and expand coverage of the independent public defenders.
 - Expand public promotion and orientation regarding citizens' rights and responsibilities.
 - Create conditions for the application of the Conciliation and Arbitration Law, particularly with respect to the certification of mediators.
- iii. Prevent and punish criminal activity, to guarantee social order and the right to life and property, by:
 - Designing and implementing strategies for attacking the causes of criminal behavior.
 - Strengthening the Civil Police, by establishing ethical behavior, professionalism and close relationships with the community as basic operational principles.
 - Carrying out an integrated reengineering of the national penitentiary system to guarantee its proper operation.
 - Establishing coordination mechanisms among various public authorities, with the participation of civil society.

² These institutions are the Judicial Branch, the Ministry of Public prosecution (Forensic Medicine Office), and the Ministry of Security (Procurement and Administrative Integrity Office).

c) Programs and Projects

- i. **Strengthening the new penal procedures system.** This project will continue to support the promotion and application of the new Honduran penal procedures system. It focuses especially on the following activities: i) technical support to the Supreme Court of Justice for implementing the Penal Procedures Code; ii) preparation of a Penal Procedures Law Manual; iii) international observation visits; and iv) training in Honduras of judges and magistrates from the penal jurisdiction.
- ii. **Modernizing the system for receiving complaints and accusations.** This project seeks to provide technical and logistical assistance to the national police so that it can restructure its system of receiving accusations within the investigative and preventive police branches, with the purpose of providing prompt, effective and efficient attention to the public. It also supports the preparation of strategic plans to fight delinquency in universities, high-schools, primary schools, neighborhoods, residential areas and banks.

6.3 MODERNIZATION AND DECENTRALIZATION OF PUBLIC ADMINISTRATION

a) Specific Objective

Achieve an effective process of decentralization and municipal development that contributes to poverty reduction at the local level, within a framework of modern and efficient public administration.

b) Policy Measures

- i. Continue to make progress in implementing of the Modernization of Public Administration Program, especially by:
 - Strengthening the Integrated Financial Management System (SIAFI).
 - Consolidating administrative and technical restructuring of the Office of the Controller-General of the Republic.
 - Restructuring the Civil Service Office and its employment and salary regime.
 - Developing institutional capacities for planning and evaluation.
 - Consolidating reforms in the regulatory framework that permit an expansion of privatization efforts.
- ii. Approve the Law of Administrative Simplification.
- iii. Implement the decentralization and deconcentration of Central Government functions to the municipalities, for which it is necessary to:
 - Ensure that the Ministry of Governance and Justice carries out its role of coordinating and facilitating municipal-sector efforts, without affecting municipal autonomy.
 - Strengthen the Executive Commission for Decentralization of the State, so that it can perform its role through various public-sector institutions, of helping to create strong municipal structures capable of developing and transforming the municipalities.
 - Comply with legal requirements regarding Central Government transfers to local governments, taking into account its financial capacity and its need to guarantee the macroeconomic stability of the country and the reduction of poverty.

- Increase the transfer of projects and public services to municipalities, taking into consideration the planning and implementation capacities of local governments and the level of development of community participation, as well as the efficiency indicators that the Law establishes.
 - Evaluate the position of Departmental Governor, in the framework of the decentralization process, and determine whether it should continue to exist.
- iv. Strengthen the role of local governments as development-promotion entities, with broad community participation, by:
- Reaching a consensus on and approving the reforms to the Law of Municipalities in order to adjust it to the economic, social and territorial differences among the municipalities; transfer to the municipalities the management of natural resources in their respective jurisdictions; and assure that citizen-participation mechanisms are put into practice in accordance with the Law.
 - Complying with provisions of the Law of Municipalities regarding the constitution of the Municipal Development Council; the holdings of plebiscites; the convening of open town meetings at least 5 times a year; consultative assemblies; and other citizen participation mechanisms.
 - Strengthening the managerial and technical capacities of the municipalities, so as to allow them to gradually assume the provisions of public services, guarantee their maintenance and improve their quality.
 - Creating the Municipal Civil Service career from a technical and professional perspective, with access and promotion criteria based on qualifications, integrity and merit.

c) Programs and Projects

- i. **Strengthening the coordination and regulation of the municipal sector.** This project seeks to strengthen and consolidate the Ministry of Governance and Justice (SGJ), as the normative entity of the municipal sector, and therefore the coordinator of efforts directed at the development of local governments and communities. To perform this role, the SGJ needs to strengthen its database, and to establish minimum training and technical-assistance standards with which national and international organisms must comply in order to guarantee a strong capacity for municipal administration. In addition to ensuring the effective generation and management of municipal resources, the appropriate training of local-government officials will allow the municipalities and various civil-society organizations, to gradually and progressively offer public services, as well as guarantee their maintenance and improved quality.
- ii. **Municipal training.** This program seeks to help strengthen municipal-administration capacities. Its includes: i) implementing a municipal training and technical-assistance program in the administrative, financial and organizational fields; ii) supporting the formulation of local development plans; and iii) strengthening the Municipal Development Council, which will be key to strengthening local decision-making levels in the PRS. The National System of Municipal Information (SINIMUN) of the Ministry of Governance and Justice would collect and publish the information at local level. As far as possible, increased association among municipalities will be encouraged to permit cost-sharing and the consolidation of resources. For this purpose, new mechanisms and related legal, institutional and financial procedures will be developed, and the municipalities as well as the communities will be trained to operate them.

6.4 IMPROVING ENVIRONMENTAL PROTECTION AND RISK MANAGEMENT

a) Specific Objective

Reduce the country's risks and ecological vulnerability by improving environmental-administration and risk-management processes at both the central and decentralized levels, and by the developing of economic and financial instruments that foster the sustainable management of natural resources and environmental protection.

b) Policy Measures

- i. Adapt the legal framework and improve the efficiency and effectiveness of the institutional framework, in order to reduce ecological vulnerability, for which it is necessary to:
 - Approve, regulate and apply the Law Land-Use Planning, the Water Law, the Forestry Law, and Law of the National System for Risk Reduction and Emergency Response.
 - Harmonize the legal framework related to the environment, improve coordination and apply the provisions of the laws.
 - Reform the institutional framework governing water resources and hydrographic basins, to promote proper planning and inter-institutional coordination.
- ii. Improve environmental planning systems, by:
 - Preparing and implementing the National Land-Use Classification and Planning Strategy and the Master Plan for Basins under decentralized, locally-managed structures with broad social participation.
 - Improving the environmental impact evaluation system by designing and implementing a short, quick and transparent procedure for environmental certification and by preparing procedural guidelines for the Environmental Impact Evaluations (EIAs).
 - Implementing an information system to strengthen the processes of environmental planning and risk management.
- iii. Promote the financial sustainability of environmental management and protection actions by:
 - Supporting the Joint Implementation Program, which promotes cooperation among private enterprise, municipalities and communities.
 - Pricing environmental services, especially those related to water resources, and creating local mechanisms for collecting payments for these services.
 - Designing and applying incentives and disincentives in the use of norms, for reducing contamination and improving the use of natural resources, in critical areas.
 - Implementing a decentralized Environmental Fund to support environmental projects formulated by municipalities and communities, in order to provide sustainability to their environmental management processes.
- iv. Promote citizen participation in environmental-protection and risk-management actions, in areas such as forest and water-source protection, reforestation and rehabilitation of damaged ecosystems, and management and protection of community basins and micro-basins, by:

- Designing and implementing educational environmental awareness programs, through widespread promotion and introduction of the environmental and risk- management subjects, into the basic-education curricula.
 - Promote community management of micro-basins.
 - Create incentives such as credit and land titling, to incorporate communities into the rehabilitation of deforested areas.
 - Establish co-management arrangements or concessions to local organizations for managing activities such as eco-tourism, research on biodiversity and its potential, and forestry and agro-forestry projects in buffer zones.
- v. Prepare and implement a strategy for prevention, mitigation and response to emergencies, based on a permanent and decentralized structure, under the coordination and participation of various actors and institutions.

c) Programs and Projects

- i. **Information system for environmental protection and disaster mitigation.** This program seeks to develop the capacity, at the central and local level, to monitor environmental indicators and provide early warning of impending natural disasters. It will provide permanent and alternative communications equipment, as well as train personnel in their use. Entities such as COPECO, SERNA and AMHON are expected to participate.
- ii. **Strengthening of joint implementation mechanisms.** This activity will strengthen the operation of the Honduran Office of Joint Implementation (OICH) and other appropriate mechanisms for: a) promoting the implementation of actions and projects that permit the certified reduction of emissions; b) promote the development and application of technologies, that respond to climate change; c) develop the Carbon Fund to promote community actions to mitigate climate change; and d) provide information on carbon markets.
- iii. **Pricing environmental services.** This project seeks to develop and support the implementation of mechanisms for the pricing of environmental services, provided by the protection and management of priority protected areas, basins and micro-basins, forest plantations and agro-forestry systems, in critical areas of ecological and social vulnerability. These pricing calculations should be incorporated into tariff structures, especially for potable water, irrigation and electric-power generation. Local payment mechanisms should also be developed.
- iv. **Environmental Fund.** A Fund for financing small environmental projects of community interest will be established, with an initial allocation of national funds and further contributions from donations, fines and sanctions for environmental violations, and loans. This Fund will benefit those municipalities with the greatest needs and that comply with certain sustainability requirements such as organization, trained leaders and environmental management systems in the process of being consolidated.
- v. **Community basin management.** This project seeks to strengthen the experience acquired under the Pilot Program of Municipal Technical Assistance implemented by SERNA through the Honduran Environmental Development Project, expanding it to other selected municipalities with high-priority basins, sub-basins and micro-basins. Once the project is completed, municipal environmental management systems will have

been strengthened. (It may also be possible to create regional networks of basins and of Municipal Environmental Units.)

- vi. **Rehabilitation of deforested areas.** This activity seeks to reduce the vulnerability of settlements in priority basins through reforestation and rehabilitation of denuded forest land in critical areas. In order to provide better access to lands in these areas, emphasis would be given to providing land titling to poor farmers in these basins who agree to accept the incentives offered.
- vii. **Strengthening emergency-response capabilities.** This activity will develop municipal and community-level capacities for disaster prevention and management, for which regional and municipal disaster-preparedness committees will be reactivated throughout the country and provided with equipment and training. Community organization will be strengthened through information systems and training programs for community leaders.

V. COST AND FINANCING OF THE STRATEGY

The implementation of the Strategy is based on a series of programs and projects directed toward achieving the targets established, both at the aggregate level and for each program area. These programs and projects help, on one hand, to correct and counteract negative factors identified by the diagnosis, and, on the other, to stimulate positive links and synergies that reduce poverty.

As a part of the participatory process of preparing the Strategy, a number of programs and projects already being implemented were identified as deserving to be completed and strengthened. These, in general, have fully identified financing. The Strategy is also being financed by increased allocations to public-sector institutions with actions directed to the social sectors, the goal being to increase social-sector spending to approximately 50% of total public expenditures.

The new programs and projects included in the Strategy represent those that were given the highest priority, within a much longer list of proposed activities, in the process of participatory consultation. Although the consultation process established a broad consensus that these programs and projects were viable options in the framework of the PRS, their selection was not always based on methodologies that determined the greatest impact on proposed targets, in some cases because of weaknesses in the methodologies and in others because existing institutional capacities were not sufficiently strong. Therefore, the development of impact-evaluation methodologies will be part of the implementation and evaluation mechanisms of the Strategy, as specified below.

The size of the total portfolio of programs and projects, both new as well those already being implemented, reflects total requirements for financial resources that are in line with the country's financial viability and with its capacity institutional for implementation. *****

1. PROGRAMS AND PROJECTS CURRENTLY BEING IMPLEMENTED

Through various mechanisms, the Honduran Government has been implementing a series of activities that seek to improve the living conditions of the poor population. Consequently, some significant results are evident in poverty reduction, especially when measured by the Unsatisfied Basic Needs (UBN) methodology.

Overall, these efforts have resulted in a large increase of social expenditures in the General Budget of the Republic, in absolute values as well as in relative terms. In the last few years, the share of total expenditures allocated to the social sectors has risen from approximately 35% in 1997 to almost 45% in 2001. In this last year, social expenditures in current prices have risen by 30.2%, with a notable increase of almost 27% in the education sector. This increase (also significant in real terms) constitutes an important local effort in support of the poverty-reduction targets.

The public investment portfolio of projects now being implemented shows that a considerable part is closely related to the goals of poverty reduction and alleviation, whether the source of financing is external or domestic. Projects now under way or in advanced stages of negotiation, and which can be considered as complementary to the PRS, total approximately US\$1,065.2 million. Their implementation will take place mainly between 2000 and 2005.

PROGRAMS AND PROJECTS BEING IMPLEMENTED OR IN THE PIPELINE RELATED TO POVERTY REDUCTION								
AREA OF PROJECT OBJECTIVES	Amounts per year (Million US\$)							
	2000	2001	2002	2003	2004	2005	Others	Total
Poverty reduction in rural areas	89.1	70.9	19.0	16.4	15.5	14.5	0.0	225.4
Urban poverty reduction	83.1	70.7	47.2	22.4	22.0	22.0	8.3	275.7
Investment in human capital	83.9	60.2	87.6	27.3	17.6	10.3	20.0	306.9
Social protection for specific groups	26.2	28.4	27.8	2.2	2.2	0.0	0.0	86.8
Governance, environment and risk management	14.2	36.5	32.8	21.6	17.3	15.4	32.6	170.4
TOTAL PROGRAMS & PROJECTS	296.5	266.7	214.4	89.9	74.6	62.2	60.9	1,065.2

Some 29% of projects now being implemented are related to investment in human capital, mainly in the form of local educational and health infrastructure financed through the FHIS; institutional reorganization of the Education and Health Ministries; and strengthening of basic education. About 26% of the investments are related to poverty reduction in urban areas, principally in the form of reconstruction and improvement of water and sanitation systems; credit and technical assistance to rehabilitate small and medium-size enterprises affected by Mitch; housing programs (complement to self-help and PRIMHUR); and municipal development in the cities of Tegucigalpa and San Pedro Sula.

Nevertheless, public expenditures in practice give higher priority to improving the living conditions of the rural poor. On the one hand, investment in projects dedicated to this sector represents 21.3% of the total, largely for infrastructure programs (roads, bridges and electrification) and for direct assistance to producers. On the other hand, rural areas receive most of the resources assigned to the education and health sectors, as well as most of the FHIS and PRAF investments. In addition, significant weight is given to expenditures to protect social groups in extreme poverty, and to environmental protection, risk management, strengthening of democratic participation and decentralization.

2. NEW PROGRAMS AND PROJECTS

The identification and selection of new programs and projects is the result of the interactive process that characterized the formulation of the PRS. As the diagnostic section was completed and programmatic areas of intervention were identified, demands arose, either for policy measures or for programs and projects. The initial high level of demand was then reduced as proposals were better defined, their priority was determined and their scope was adjusted to conform to time frames and to global financial viability. Under these criteria, many proposals were set aside for later reconsideration.

The inclusion in the document of programs and projects for each programmatic area of the PRS is not intended to define their precise costs, or to establish a definitive overall cost of the PRS. The precise measurement of the cost will be a continuous task, based on priorities and available resources. Therefore, the figures presented are intended, rather, to give an idea of the relative priority of different interventions. One of the immediate tasks, once this document is approved, will be to develop a profile of each project and its respective financial programming.

The selected new projects in the table below have a total cost of US\$1,806.5 million, to which US\$90.3 million are added for implementing and following-up the PRS. This last activity includes systems for obtaining, processing, and analyzing indicators, and mechanisms to guarantee transparency and efficiency in the use of resources.

Civil society is expected to participate actively in the new stage of prioritization of programs and projects, both within the framework of the Consultative Council of the PRS, as well as at the level of decentralized entities. The following chapter describes the proposed operational framework and how it deals with issues of identification, prioritization and mechanisms of resource allocation for programs and projects.

It is important to clarify that none of the new projects is designed to finance normal institutional expenditures, or the natural annual growth of their demand. In any event, some projects support segments of the demand that could not be covered by the regular growth of budgetary

SUMMARY OF PROGRAMS AND PROJECTS OF THE POVERTY REDUCTION STRATEGY							
PROGRAM AREA	Yearly amounts (US\$ millions)						
	2001	2002	2003	2004	2005	Otros	TOTAL
1. ACCELERATING EQUITABLE AND SUSTAINABLE ECONOMIC GROWTH	-	6.8	5.7	5.7	5.6	-	23.8
▪ Strengthening Investment and Generating Employment	-	2.3	0.6	0.6	0.5	-	4.0
▪ Improving Competitive Access to International Markets	-	0.6	0.4	0.4	0.5	-	1.9
▪ Development of Sectors with High Production and Employment Potential	-	3.9	4.7	4.7	4.6	-	17.9
2. REDUCING POVERTY IN RURAL AREAS	23.2	49.1	75.7	81.2	82.8	104.6	416.6
▪ Improving Equity and Security in Access to Land	3.0	13.5	18.9	18.9	18.8	23.0	96.1
▪ Sustainable Development in High-Priority Areas	2.5	4.5	10.1	10.6	11.3	14.5	53.5
▪ Improving the Competitiveness of Small Rural Economies	12	17.4	33	38	39	48.5	187.9
▪ Improving Social Conditions in Rural Areas	5.7	13.7	13.7	13.7	13.7	18.6	79.1
3. REDUCING URBAN POVERTY	7.0	26.4	35.4	37.5	37.1	109.0	252.4
▪ Develop Micro, Small and Medium-Size Enterprises	2.0	7.2	8.9	11.0	10.6	19.0	58.7
▪ Development of Intermediate Cities	-	3.2	4.0	4.0	4.0	-	15.2
▪ Support Low-Income Housing	5.0	11.0	11.0	11.0	11.0	50.0	99.0
▪ Access to Basic Services in High-Priority Areas	-	5.0	11.5	11.5	11.5	40.0	79.5
4. INVESTING IN HUMAN CAPITAL	34.6	66.7	84.2	90.8	99.0	468.4	843.7
▪ Wider Coverage and Quality in Education	19.5	42.0	52.0	56.1	61.8	368.4	599.8
▪ Increased and Better Access to Health Services	13.8	23.0	30.0	32.5	35.0	89.5	223.8
▪ Cultural Wealth and National Identity	1.3	1.7	2.2	2.2	2.2	10.5	20.1
5. STRENGTHENING SOCIAL PROTECTION FOR SPECIFIC GROUPS	5.4	7.9	19.0	19.0	19.3	136.2	206.8
▪ Social Safety Nets	1.9	1.9	10.4	10.4	10.6	73.4	108.6
▪ Gender Equity and Equality	3.5	3.5	6.1	6.1	6.2	42.0	67.4
▪ Development of Ethnic Groups	-	2.5	2.5	2.5	2.5	20.8	30.8
6. GUARANTEEING THE SUSTAINABILITY OF THE STRATEGY	6.2	8.3	10.6	6.4	4.5	27.2	63.2
▪ Strengthening Transparency and Participatory Democracy	0.6	1.1	1.6	-	-	-	3.3
▪ Strengthening Justice and Personal Security	1.0	1.5	1.5	-	-	-	4.0
▪ Modernization and Decentralization of Public Administration	2.7	1.7	0.6	-	-	-	5.0
▪ Improving Environmental Protection and Risk Management	1.9	4.0	6.9	6.4	4.5	27.2	50.9
SUB-TOTAL Programs & Projects	76.4	165.2	230.6	240.6	248.3	845.4	1,806.5
Implementation and follow-up of the PRS (5%)	3.8	8.3	11.5	12.0	12.4	42.3	90.3
TOTAL Programs & Projects	80.2	173.5	242.1	252.6	260.7	887.7	1,896.8

allocations. On the other hand, it is possible that specific financing has not been identified for a certain percentage of the costs of the PRS; if so, the preliminary estimated amounts would need to be modified, based on project priorities.

3. FINANCING PRS PROGRAMS AND PROJECTS

The total cost of the program, including programs and projects now being implemented as well as those that are new, is US\$2,666 million for the 15-year life of the PRS. Given this total, the

annual resource allocation required to finance PRS programs and projects averages about US\$178 million. Since projects now being implemented are already financed, mainly from external sources plus a counterpart of local funds, the main challenge is to guarantee financing for new programs and projects.

The additional financing needed to implement the PRS is closely linked to resources that will be freed from the General Budget of the Republic by external debt relief, mainly in the framework of the Initiative for Highly Indebted Poor Countries (HIPC). According to preliminary estimates, total financing from debt relief would be US\$934.4 million, which represents an annual average for the period of Strategy implementation of approximately US\$62.3 million, in nominal terms, although the annual distribution will not be uniform and most of the relief would take place in the first years of PRS, when an annual average of approximately US\$139 million is expected.

Given the total cost of the programs and projects, resources generated by external debt relief

FINANCING OF PROGRAMS AND PROJECTS FOR POVERTY REDUCTION							
(In Millions of US\$)							
DESCRIPTION	2001	2002	2003	2004	2005	Others	Total
A. TOTAL COSTS	346.9	387.9	332.0	327.2	322.9	948.6	2,665.5
1. Programs and projects under way	266.7	214.4	89.9	74.6	62.2	60.9	768.7
2. New programs and projects	80.2	173.5	242.1	252.6	260.7	887.7	1,896.8
B. FINANCING							
1. Debt relief resources	46.3	91.0	203.9	194.5	157.3	241.4	934.4
▪ HIPC Relief	46.0	49.5	111.6	116.6	101.8	231.2	656.7
▪ Traditional Relief	0.3	41.5	92.3	77.9	55.5	10.2	277.7
2. Disbursement for projects under way	266.7	214.4	89.9	74.6	62.2	60.9	768.7
3. Required additional financing	33.9	82.5	38.2	58.1	103.4	646.3	962.4
▪ External resources	28.8	70.1	32.5	49.4	87.9	549.4	818.1
▪ Internal resources	5.1	12.4	5.7	8.7	15.5	96.9	144.3

* Estimates based on SEFIN data and the HIPC Decision Point Document.

alone are insufficient to finance it. Therefore, it will be necessary to obtain additional resources from the international community, in the form of both grants and concessional loans from bilateral and multilateral sources. Other financing will result from internal efforts, to obtain resources from:

- Fiscal revenue generated by privatization processes, in their various modalities (sale of assets, concessions, capitalization, etc.), as established in several recently approved laws.
- The General Budget of the Republic, due to a reallocation of public-expenditure priorities as well as more efficient management with clearly established priorities. Likewise, it is expected that achievement of the economic-growth targets and improved tax administration, with effective and full application of the Tax Code, will help increase revenues beyond the traditional rate of growth.

The internal effort to finance PRS programs and projects goes beyond that needed to maintain existing levels in a sustainable manner. Social expenditures will be significantly increased until the expected target of not less than 50% of total expenditures is reached. Public-expenditure expectations for the PRS are established within a balanced macroeconomic context that assumes faster economic growth, prudent public expenditures that are sustainable in the medium and long term, and external resource flows that are consistent with the reconstruction process and the magnitude of the poverty problem that must be addressed. In addition to the close linkages between public-expenditure projections and expected economic growth, historical

trends in public expenditures and the need to increase the share of budgetary allocations devoted to social development, especially for the poor, are also taken into account.

Estimates of increased public expenditures, under the assumptions discussed above, will permit the sustainable implementation of programs and projects proposed in the PRS as well as continued expenditures for existing activities. Even with an economic growth rate slightly below projections, and with no substantial improvement in the share of public expenditures devoted to the social sectors, agreed levels of per capita social expenditures can be maintained and proposed PRS programs and projects can be implemented. However, to the extent that expectations for economic growth and resource availability cannot be met, the targets of the PRS will have to be revised in the context of the prevailing restrictions.

To ensure an efficient and transparent management of resources, a Special Fund will be created within the General Budget of the Republic. This Fund and other measures to improve efficiency and transparency are described in the following chapter.

VI. OPERATIONAL FRAMEWORK OF THE STRATEGY

A. INSTITUTIONAL FRAMEWORK OF THE STRATEGY

Once the document preparation stage is concluded, the functions and actions of the various actors involved in the Poverty Reduction Strategy will be focused on the processes of implementation, follow-up and evaluation of policy measures, programs and projects. An appropriate institutional framework is required for these tasks, supported by government entities as well as by civil-society organizations.

The institutional framework will be based mainly on the use of existing entities, which later would be strengthened. In the case of the new entities discussed below, it will be necessary to make certain that they can function under mechanisms that promote the effective participation of various sectors of society, and that they act in a coordinated and complementary way, avoiding duplications, so that actions are directed effectively toward the attainment of the goals and objectives of the Strategy.

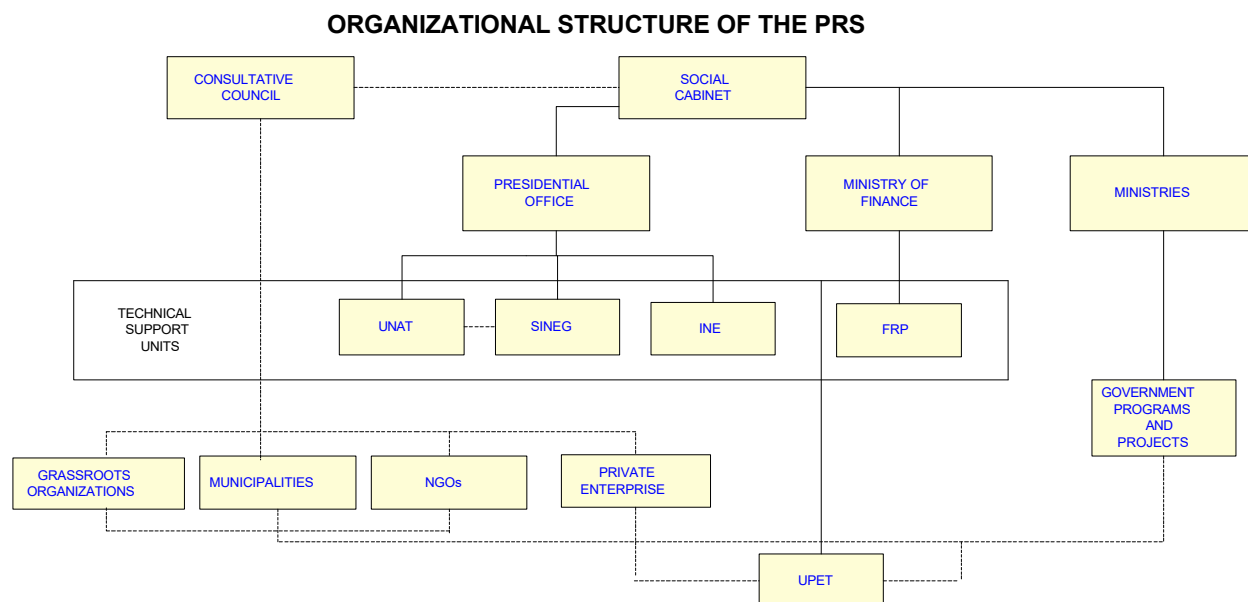
The implementation of the PRS requires that a series of promotional actions be carried out, particularly among target groups and implementing entities. Steps also need to be taken to facilitate the task of identifying high-priority actions, especially at local level. These processes would proceed in the following ways:

- a) Through **promotional activities**, PRS principles, components and procedures will be made known to the target population and the network of institutions. For these activities to be effective, it will be necessary to address obstacles to information access, such as the dispersion of beneficiaries and the distortions caused by intermediaries in the flow of information. To overcome these limitations, various mechanisms will be used simultaneously, such as:
 - Training by means of clear guidelines to Government institutions.
 - Meetings with civil society at the national, regional, municipal and community level.
 - Public broadcasts, press bulletins and promotional pamphlets.
- b) The process of **identifying actions** should take place mainly at the local level, with the participation of municipalities, NGOs and private enterprises. Coordination at the municipal level will be a precondition for financing activities, so that the overall demand for projects does not exhaust the capacities of the Poverty Reduction Fund (PRF) and it can respond effectively to people's needs. Activities to be financed must comply at the least, with the following criteria of eligibility and priority:
 - Be part of PRS portfolio of programs and projects.
 - Be within PRF guidelines, with a sector-level budget allocation.
 - Be focused on the poorest areas and social groups.
 - Have cost-benefit ratios consistent with the rational and efficient use of Strategy resources.
 - Be identified in consultation with the target population.

The promotion as well as identification of activities to be financed will be carried out by the Social Cabinet and the Consultative Council and based on PRS programs and projects. The Ministry of Finance will prepare the forms and instructions for providing the information needed to apply for financing.

1. ORGANIZATIONAL STRUCTURE

The organizational structure for the implementation and follow-up of the PRS combines a variety of government institutions, grassroots organizations, municipalities, NGOs, private-sector groups and donors, each with its own operational procedures. Respect for the specific role of each will ensure an effective alliance for achieving the broad goals of the Strategy. Implementation of the Strategy will rely mainly on existing institutional capacities, with appropriate adjustments. The creation of new institutions will be limited to those areas that would help guarantee the efficiency, complementarity and coordination of actions, through participatory and transparent mechanisms for prioritizing, financing and following-up the various processes.



1.1 SOCIAL CABINET

Leadership in implementing the Strategy resides in the Executive Branch through the Social Cabinet, created by Executive Decree N° PCM-011-99 issued on June 22, 1999. According to this Decree, the Social Cabinet is composed of the Ministers of State for Education, Health, Labor and Social Security, Agriculture and Livestock, and Culture, Arts and Sports, as well as the Minister-Director of the FHIS, the Executive Director of INA and the Minister of Technical and International Cooperation. It is coordinated by the President of the Republic, and in his absence by the Minister of the Presidency. Other Ministers of State and heads of decentralized entities participate on specific issues; for example, the Minister of Finance and head of the Central Bank of Honduras participated in the preparation of the PRS and will participate in implementation of follow-up activities.

PRINCIPAL FUNCTIONS OF THE SOCIAL CABINET WITHIN THE PRS FRAMEWORK

- Coordinate the implementation, following-up and evaluation of the PRS.
- Establish PRS general guidelines, priorities and components.
- Coordinate the implementation of the PRS with different State institutions.
- Prioritize program and project eligibility to be financed through Poverty Reduction Fund (PRF) resources.
- Establish guidelines for usage of PRF resources, to finance eligible programs and projects.
- In partnership with the Consultative Council, oversee Strategy objective compliance.

1.2 CONSULTATIVE COUNCIL FOR POVERTY REDUCTION

The Consultative Council for Poverty Reduction will be created by means of an Executive Decree as a collegial, participatory and advisory body to the Social Cabinet. Its membership will be as follows: the Coordinator of the Social Cabinet, who will preside; the Minister of the Presidency, the Finance Minister, and the Minister of Governance and Justice; three representatives of civil-society organizations, elected by means of a mechanism that permits the greatest possible representation; and a representative of the Association of Municipalities of Honduras (AMHON). Two representatives of the international financial community, proposed by the multilateral organizations and donor countries, will be invited to council sessions as observers. The members of the Consultative Council will perform their duties ad honorem; and their functions will be defined in the decree creating the Council and its regulations. An effort will be made to reach decisions by consensus.

MAIN FUNCTIONS OF THE CONSULTATIVE COUNCIL

- Recommend actions to improve the effectiveness of PRS management and follow-up activities.
- Advise to the Social Cabinet on PRS program and project eligibility.
- Revise and comment on inspection and progress reports.
- Promote and channel proposals to the various sectors.
- Make proposals to improve civil-society participation and support the dissemination of information on these processes.
- Support the creation of new entities for Strategy implementation and follow-up at a decentralized level.

1.3 POVERTY REDUCTION FUND (PRF)

The Poverty Reduction Fund is a financial instrument, of a “virtual” nature to be created by a Decree of the National Congress. It will be managed by the Executive Branch through the Ministry of Finance, to coordinate the administration of resources directed towards financing the activities of the PRS. The objective of the Fund is to allow greater transparency in the management and use of the resources allocated, based on the guidelines established by the Social Cabinet in consultation with the Consultative Council. The duration of the PRF will equal that of the PRS implementation period, but in any event will not be less than 15 years.

The PRF will be responsible for coordinating the management of the following financial sources:

- Resources made available by external debt-service relief.
- The amounts received by the Central Government from the sale, concession, license, lease or other transfer of public assets to the private sector.

The resources administered by the PRF will be used to finance:

- Policy measures, programs and projects declared eligible for the PRS by the Social Cabinet.
- PRS operational and follow-up expenditures, not to exceed 5% of the Fund’s annual budget.

Amounts budgeted for the purposes described above must be identified by expenditure category in the annual budget of the PRF, which must be an integral part of the General Budget of Revenues and Expenditures of the Republic, based on general guidelines to be prepared by SEFIN for this purpose. Similarly, the Ministry of Finance will open the necessary accounts to manage these resources.

The guidelines to be prepared by SEFIN must stipulate that resources managed by the PRF cannot be used to finance:

- Current expenditures, except those linked to eligible programs and projects, excluding central-administration positions.
- Expenditures associated with the service, cancellation and/or refinancing of debts or any other financial obligation.
- Normal operational expenditures of central and municipal-government institutions.
- Land purchases.

If resources are not being invested in the implementation of the PRS, they will be maintained in investments administered by the Central Bank of Honduras, as the Law and its respective regulation specifies. The Central Bank of Honduras will regularly submit status reports to the Social Cabinet.

PRINCIPAL FUNCTIONS OF THE MINISTRY OF FINANCE IN THE PRF

- Based on Social Cabinet guidelines, harmonize PRF resource allocations and demands for financing.
- Prepare and make public the formats and instructions required for financing PRF activities.
- Make financial allocations with PRF resources, based on Social Cabinet and Consultative Council priorities.
- Assure the flow of PRF resources to implementing units.
- Classify activities eligible for PRF financing according to: (i) the specific activity categories of the Strategy prioritized by the Social Cabinet; (ii) their focus according to geographical and demographic criteria; and (iii) their conformity with information requirements necessary to determine eligibility and permit follow-up.
- Prepare reports on the physical and financial implementation of programs and projects.

1.4 TECHNICAL SUPPORT UNIT (UNAT)

The Technical Support Unit, assigned to the Ministry of the Presidency and in its role as Technical Secretariat of the Social Cabinet, will provide necessary support in matters related to the implementation, follow-up and evaluation of the Strategy. In order to guarantee the efficient fulfillment of UNAT's functions in the framework of the PRS, institutional strengthening needs will be identified and addressed.

UNAT's FUNCTIONS RELATED TO THE PRS

- Propose targeting criteria to the Social Cabinet for prioritizing the allocation of PRF funds.
- Propose to the Social Cabinet the guidelines and procedures necessary to implement the Strategy; develop the instruments needed to operationalize it and coordinate the evaluation of its progress.
- Propose to the Social Cabinet the criteria for eligibility and prioritization of policies, programs and projects to be financed with PRF funds.
- Propose, jointly with the National Statistics Institute (INE), a system of indicators for the follow-up and evaluation of the PRS.
- Coordinate the formulation of programs and projects.
- Develop proposals to promote the participation of decentralized instances at various stages.
- Prepare and distribute progress reports and other information generated within the framework of the Strategy.
- Define technical-assistance requirements for implementation and follow-up of the PRS.

1.5 NATIONAL SYSTEM OF PUBLIC MANAGEMENT EVALUATION (SINEG)

The National System of Public Management Evaluation, under the Ministry of the Presidency, is the entity responsible for the follow-up of the policies, programs and projects

linked to the PRS. SINEG incorporates information derived from: (i) the Public Investment System (SISPU) of the Ministry of Finance; (ii) the National System of International Cooperation (SINACOIN) of the Ministry of Technical Cooperation; and (iii) the National System of Policy Follow-up (SINASEP) of UNAT.

To begin implementing the PRS and assure its efficient progress, an operational coordination arrangement will be established among SINEG, UNAT, SEFIN and SETCO. This basic organizational structure will be in close contact with all entities involved in the implementation of the PRS to maximize the impact of PRS activities on the goal of reducing poverty. Activities will also be coordinated with the System of National Municipal Follow-up (SINIMUN) of the Ministry of Governance and Justice.

1.6 NATIONAL INSTITUTE OF STATISTICS (INE)

The National Institute of Statistics is a technical, autonomous institution, incorporated and with its own assets, with an Administrative Council chaired by the Minister of the Presidency. INE is responsible for the coordination of the National Statistical System (SEN). In coordination with UNAT and SINEG, INE will support the definition and collection of basic indicators that will permit an effective follow-up with respect to the goal of poverty reduction.

1.7 EFFICIENCY AND TRANSPARENCY PROGRAM UNIT (UPET)

The implementing unit of the Efficiency and Transparency Program will audit and support the management of the institutions linked to the PRS, in order to assure that all purchases and contracting processes for construction and/or personal or company services, from budgeting to final-product delivery, comply with the principles of transparency and efficiency in the use of resources. The decree for the creation of the PRF will establish as a clear condition that all programs and projects are subject to inspections without any restrictions at all. This potentially involves centralized and decentralized public institutions, as well as local governments using Central Government funds. To carry out these inspections, independent consulting firms will be hired, and where applicable the methodologies and mechanisms used in PMRTN projects will be used.

1.8 DECENTRALIZED ENTITIES

In order to implement, follow-up and evaluate the PRS, participation of the various social actors and coordination of actions at municipal and departmental level will be promoted, with the objective of allowing greater participation in decision-making at the grassroots level. Involving local populations and local governments permits greater ownership and greater impact of the activities undertaken, as well as greater transparency of the processes. In addition, the participation of these parties in demand definition and in negotiations with institutions providing programs and projects stimulates the development of local capacities and the sustainability of the activities.

a) Target groups

Their participation in the process will take place through:

- Identification and prioritization of projects and programs;
- Implementation of activities; and
- Follow-up and evaluation of activities.

b) Municipal and regional level

The municipality is the basic territorial unit of political organization, coordination, identification, implementation and follow-up at the local level. In order to carry out these functions, municipalities will be supported by civic-participation and administrative-control groups, such as: Municipal Development Councils, town-hall meetings, Municipal Budget Offices and Municipal Auditors, and Neighborhood Committees and Community Development Councils at the level of neighborhoods and villages.

At the departmental or regional level, the existing institutional structure will be used as a PRS promotion instrument. This structure includes municipal organizations, associations of neighboring municipalities, and representatives of Government institutions. At this level, two basic functions can be identified: a) to publicize the strategy and to promote participatory processes that identify local demands, and b) to reconcile local requirements with institutional priorities.

MUNICIPAL GOVERNMENT FUNCTIONS IN THE PRS FRAMEWORK

- Promote civil-society participation in project identification, implementation and follow-up.
- Identify, through participatory mechanisms, the demand of local requirements for poverty reduction, within the framework of national programs and projects.
- Coordinate with government institutions the eligibility and allocation of resources at the local level.
- Guarantee rationality, efficiency and transparency in the use of allocated resources.
- Apply at the municipal level, follow-up mechanisms for programs and projects.
- Prepare management reports and channel them to national level entities of the ERP.

c) Private Institutions and NGOs

Projects and programs to be implemented within the PRS framework will incorporate NGOs and the private sector, taking advantage of their capacities, mainly by:

- Supporting PRS dissemination and grassroots participation.
- Supporting the process of demand prioritization.
- Implementing or co-implementing projects directed to poverty reduction.
- Participating in the follow-up and evaluation of activities.

For these institutional efforts to be carried out with the highest possible quality, the following actions are proposed within the Strategy framework:

- Put into practice measures to improve the administration, implementation, follow-up and evaluation of the implementing units. The operation of the Management Planning and Evaluation Units (UPEG) in the various Ministries will be strengthened, so that they can effectively implement appropriate planning and coordination mechanisms within and among institutions, in order to avoid duplication of effort and guarantee an appropriate use of resources.
- Promote the creation and strengthening of mechanisms of information, dissemination and coordination between implementing entities and local governments. In order for this to happen, the process of decentralization and the capacity of the local governments for formulation, management and follow-up of action plans will be strengthened, as will grassroots consultation mechanisms.

- Stimulate regional development effectively, promoting and supporting the operation of municipal development commissions, municipal associations and inter-municipal unions. Likewise, the role of the Departmental Political Governor will be evaluated, as well as his or her relationship to the implementation and follow-up of the PRS.
- Consolidate and strengthen community-participation mechanisms, such as Town-Hall Meetings, Community Education Associations, Local Development Offices and Competitiveness Committees, among others, Greater involvement by NGOs and community organizations will also be promoted.

B. FOLLOW-UP AND IMPACT EVALUATION OF THE PRS

The follow-up of the PRS programs and projects will require as minimum conditions, an effective financial control, a continuous review of activities, and periodic reviews of expected achievements. It will also be necessary to carry out evaluations of the impact that the policy measures, projects and programs have had on the incidence of poverty and living conditions of the beneficiaries.

1. MONITORING AND EVALUATION FRAMEWORK AND DATA SOURCES

Monitoring and evaluation implies generating and handling information on four interrelated levels or stages, each with its own instruments for obtaining and analyzing data. These are:

- a) Organization for implementation of the PRS, with issues related to financing and to the establishment of organizational structures and coordination mechanisms.
- b) Physical-financial progress, as well as indicators of effort related to the implementation of policy measures, programs and projects.
- c) The quality and impact of PRS programs and projects, their use, sustainability and impact on the living conditions of target groups.
- d) Poverty indicators, related to the living conditions of target groups at the initial stage of PRS implementation, and trends in these indicators over time.

Information related to each level will be provided by the SISPU, as part of SINEG, for the investment program; by INE for survey and census data that permit the monitoring of poverty indicators; by UPET for information on transparency in procurement and contracts; and by the SINEMUN on information related to municipal-level policy measures and projects implemented at the local level.

FOLLOW-UP AND EVALUATION SCHEME OF THE POVERTY REDUCTION STRATEGY			
LEVEL OF PLANNING	OBJECTIVES	INSTRUMENTS	RESPONSIBLE ENTITIES
I. ORGANIZATION OF THE PRS Conditions for strategy implementation: investment planning; organizational structure; financing	<ul style="list-style-type: none"> ▪ Continuous information for managing the Strategy as a whole ▪ Decision-making 	<ul style="list-style-type: none"> ▪ Policy Measure Matrix ▪ Program and Project Matrix ▪ Investment Plan ▪ Municipal Action Plan ▪ National Budget 	UNAT, SEFIN, SINIMUN, Municipalities
II. RESULTS/PRODUCTS PRS implementation products in different areas (Indicators of effort)	<ul style="list-style-type: none"> ▪ Control of physical-financial progress and project-quality control. ▪ Progress on policies and processes linked to the targets of the Strategy ▪ Review of targets by area. 	<ul style="list-style-type: none"> ▪ Sectoral Progress reports on physical-financial implementation ▪ Project completion reports ▪ Sectoral registries 	UNAT, SEFIN, SINEG Municipalities, Civil Society
III. USE AND IMPACT OF PRODUCTS Use of products; their impact on living conditions of targeted populations and their sustainability	<ul style="list-style-type: none"> ▪ Information on implementation and impact of policy measures, programs and projects. ▪ Correlation between products and indicators; reflect on "impact chains" 	<ul style="list-style-type: none"> ▪ Program evaluation ▪ Use and impact evaluation by type of project ▪ Household survey results and income and expenditures 	UNAT, SEFIN, SINEG, INE
IV. DEVELOPMENT POLICY OBJECTIVE Poverty reduction by 24 percentage points by 2015	<ul style="list-style-type: none"> ▪ Validate progress in poverty reduction 	<ul style="list-style-type: none"> ▪ National Population Census 2001 ▪ ENIGH ▪ EPHPM. ▪ Sectoral Registries 	INE, SINEG, UPEGs

2. CIVIL-SOCIETY PARTICIPATION IN THE MONITORING AND EVALUATION OF THE PRS

The Strategy involves the participation of various sectors of society in the formulation, implementation and follow-up stages, within the operational and coordination mechanisms described above. This gives it national ownership, which is important for assuring transparent implementation of the various policy measures, programs and projects, as well as its sustainability. In this regard, the Consultative Council will promote and channel proposals from various sectors.

The participation of municipalities at the organizational level of Strategy will be made effective through the organization of local demands and the inclusion of proposed activities in municipal action or development plans. These plans will identify the municipalities own contributions and those of organized civil society, NGOs and the private sector. Similarly, the implementation of projects and programs will be carried out in close coordination with the municipalities. Experiences linked to local development, such as those developed by NGOs, will also contribute to improving the instruments and methodologies for training municipalities and communities to take advantage of the opportunities within the PRS framework. Likewise, private enterprises can contribute to the follow-up of projects that they implement, as well as through their specialized technical assistance in certain areas and by financing, monitoring, and evaluating activities.

3. DIFFERENTIATED IMPACTS ON TARGET GROUPS

Although PRS actions will be guided by well-defined targeting criteria, it is evident that there are differences among the various groups or sub-groups that make up a community. Therefore, an additional effort is needed to further differentiate target groups, for example, by identifying groups of poor people among men, women, undernourished children, and ethnic groups. For this purpose, indicators will be designed to show differences in living conditions within each of these groups.

In the various data-gathering instruments (censuses, surveys, project evaluations, etc.) questions and observations will be defined in such a way as to allow processing and analysis of those differences. At the level of final impact, the central question is: What target groups changed their poverty situation, in what way and to what degree?. Also at the level of beneficiaries, differentiation is needed to determine who used the outputs of PRS activities. Data will be processed to take into account specific differences, so that later analysis will highlight changes in living conditions among the various groups.

The disaggregated data discussed above will be incorporated into the most operational aspects linked to the process of Strategy implementation. For example, is participation of the targeted groups assured in the identification, follow-up and use of the projects? Disaggregated follow-up and evaluation results should contribute to greater sensitivity to the differences that characterize the situation of each target group. In this way, moreover, concrete inputs should be available on how to design better services and projects that respond to the specific needs of different groups in the community. In this connection, to emphasize gender and the advance of women, a special module of follow-up indicators will be prepared. A particular focus of the analysis will be to determine how women's productive capacity has increased through access to productive resources, technology, information, technical assistance and training.

VII. RISKS OF THE STRATEGY

One of the most widely discussed issues during the second phase of the consultation process with civil society was how to guarantee the long-term sustainability of the Strategy. This is linked to the fact that implementation of the PRS, and the scope of its targets, imply the need for a series of favorable conditions, among which are achievement and maintenance within Honduran society, including the political parties, of a consensus on the strategy; the capacity to implement it within a framework of good governance with citizen participation; the achievement of higher economic-growth rates; and decreased vulnerability to natural disasters.

Nevertheless, a number of internal and external factors could put the success of the Strategy at risk. Some of these can be influenced by governments and by other forces in society; others are exogenous to domestic influence.

A. NATIONAL CONSENSUS

The consultation process with civil society has had a breadth and depth never seen before in the country, setting a positive precedent for a process of dialogue that can continue to be consolidated and strengthened as a mechanism for examining and finding solutions to the great challenges facing Honduran society. Nevertheless, It is possible that a sufficient degree of consensus may not have been reached to implement the PRS sustainably, especially with respect to the speed and depth of the reforms in economic and social areas, or the significant reallocations of public resources that are needed. Of particular importance in this regard will be the stance taken by incoming government in 2002.

The Strategy contemplates, among the actions directed toward minimizing this risk, the establishment of an institutional framework with broad participation of the various actors of society (as detailed in the previous chapter), through which a continuous strengthening of the dialogue is expected as a means to reconcile differences of opinion. Likewise, the various political parties have been incorporated into the consultative process, making clear to them that the PRSP is a document open to changes stemming from the priorities that they themselves have identified in their respective programmatic platforms.

It will never be possible to reach a total consensus, partly because of the lack of sufficient national and external resources to address all demands. Nevertheless, disagreements can be minimized, based on joint efforts by the Government and organized civil society, so that all Hondurans can regard the PRS as a long-term national project that transcends political or private interests.

B. IMPLEMENTATION CAPACITY

There is a pervasive concern within the international community regarding the country's capacity to efficiently and fully implement, within a framework of good governance, transparency and democratic participation, the entire scope of comprehensive programs such as the MPNRT and the PRS. This concern is based on Honduras's historically limited implementation capacity, which is due to a number of factors, in particular, inadequate human resources in the technical, managerial and administrative fields, and the still-weak legal and institutional framework that does not yet guarantee sufficient transparency in contracting and implementing public works and services.

Therefore, the objective of reducing the risks of this relatively low implementation capacity will require faster and deeper institutional reforms; greater participation by all sectors in a well-defined framework of shared rights and responsibilities; and significant and well-focused investments to train the necessary human capital. Progress in some of these fields soon after the implementation of the MPNRT has been recognized; nevertheless, greater efforts need to be made.

C. FISCAL PRESSURES

Historically, the last year of a presidential period (with the exception of 1997), is characterized by strong pressures on the public finances, manifested especially in above-average increases in current and capital expenditures, and on some occasions in weaker revenues. These pressures arise in different ways and from various sectors. They include requests for public-employee salary increases; increased subsidies and direct transfers; and reductions, exonerations or delays in the payment of taxes and tariffs, motivated in most cases by political pressures. To give in to these pressures leads to a volatile pattern of economic growth, because it implies the need in the following years to implement new programs of fiscal austerity, which in many cases rekindle inflationary pressures, with negative effects on poor households, and therefore with results that differ from the objectives of the PRS.

Consequently, both the present and the next government, together with civil-society groups, should take the necessary precautions to minimize these types of pressures, which in general are generated to take advantage of the environment surrounding political campaigns. In this context, a high priority is the adoption of clear, equitable and technical criteria for salary policies, and in the medium-term a reduction in public-sector salaries as a share of GDP. Maintaining healthy finances is one of the best ways to support and contribute to the success and sustainability of the PRS.

D. LACK OF APPROPRIATE EXTERNAL RESOURCES

As a poor, highly indebted country in relation to the size of its economy, and recovering from one of the worst natural disasters in all its history, Honduras will depend greatly on international aid for many years to finance a rapid and sustained process of social and economic development and poverty reduction. If external resources, including debt relief under the HIPC Initiative, are not forthcoming at the level expected, the objectives and goals of the PRS will not be totally achieved.

To minimize this risk it will be necessary to improve coordination and joint working efforts with bilateral and multilateral international donors. In this connection, a valuable experience has been the process generated around the follow-up of national transformation and reconstruction efforts, mainly through the tripartite dialogue mechanisms (government, civil society and donors), both at a high level as well as in the so-called Sectoral Roundtables. It will also be necessary for the country to prove that it has a high capacity to absorb external resources and to use them transparently and efficiently; and, furthermore, that it can carry out actions to maintain a favorable macroeconomic climate for growth and investment that will permit a gradual increase in its capacity to generate its own resources to strengthen its support of the social sectors.

E. DEVELOPMENTS IN THE WORLD ECONOMY

Full participation in the world economy is an essential element for achieving the PRS targets related to rapid and sustainable economic growth and a significant long-term reduction of

poverty. However, this participation also implies that the domestic economy must be open to several risks, such as world recessions, financial crises, dramatic swings in the prices of key export and import commodities, and lack of appropriate access to key markets. At the present time, these risks are clearly apparent, as expectations of growth in the short term are increasingly limited by factors such as the deceleration of the North American economy, on which Honduras is highly dependent, and a serious deterioration of the external terms of trade, especially due to the drastic and persistent fall of coffee prices and the continued high prices of petroleum products.

Honduras has no control over events of this nature. However, the country can minimize their effects by maintaining sound macroeconomic policies, sectoral policies that encourage the production of export products, and a relatively high level of foreign-exchange reserves that helps mitigate the impacts of an unfavorable international environment. In this connection, the PRS proposes a series of measures directed to achieving the development of sectors of high productive potential, within a framework of macroeconomic viability.

F. NATURAL DISASTERS

Because of its geographic location, Honduras has a high risk of suffering natural disasters such as the dramatic event of Hurricane Mitch in October 1998. Moreover, because of the geomorphological damages caused by this disaster, the country will be more vulnerable to new natural disasters for several years, as was evident during the rainy season in 1999. A disaster of even half the magnitude of Mitch would make the PRS goals impossible to reach, at least in the medium term, and would probably delay the achievement of long-term goals.

The occurrence of natural disasters cannot be controlled. However, the country regards one of the main elements of the MPNRT to be the reduction of ecological vulnerability and the establishment of an effective program of disaster prevention and mitigation, as well as risk management. Although some progress has been made, a specific strategy is needed in this area, as well as the establishment of an appropriate legal and institutional framework. These elements constitute one of the overall targets of the PRS.

ANNEXES

ANNEX A

PRS POLICY MEASURES AND RESULT INDICATORS MATRIX

OBJETIVES	POLICY MEASURES	INDICATORS	RESPONSIBLE ENTITIES	DATE	
1. ACELERATING EQUITATIVE AND SUSTAINABLE GROWTH					
1.1 MACROECONOMIC POVERTY REDUCTION AND GROWTH FRAMEWORK					
Objective: Have a stable macroeconomic framework that allows a greater sustainable public investment in programs and projects directed to poverty reduction, and that generate confidence and assurance for private investment.	Short-term Policy Guidelines				
	i. Attain fiscal viability that also allows greater social expenditure	- Deficit/ Excess (SPNF) as a % of GDP - Current income as a % of GDP - Public Sector salaries as a % of GDP	SEFIN BCH	2001	
	ii. Achieve congruent monetary and exchange policy with interest rates favorable to the investment and with inflation rates no higher than one digit.	- Inflation not above one digit. - RIN at a value of approximately 4 months of imports.	BCH	2001	
	iii. Continue strengthening the financial system, as an essential element for macroeconomic stability and long-term growth.	- Real active interest rate. -	BCH, CNBS	2001	
	iv. Improve the balances in the external sector, by reducing the impact of alterations in the international context.	- Current account as a % of GDP - Real exchange rate.	SEFIN, BCH	2001	
	v. Continue advancing in the structural reforms.	- Hondutel capitalization concluded. - Electric Sub-sector Framework Law approved. - Strategy for port sector modernization.	CN, SEFIN	2001	
	Medium-term Policy Guidelines				
	i. Strengthen fiscal revenues.	- Current income as a % of GDP.	SEFIN	2002-2015	
	ii. Rationalize public expenditure giving priority to the poverty reduction programs.	- Salary in relation to GDP. - Expense as a % of GDP.	SEFIN	2002-2015	
	iii. Achieve sustainable levels in external financing.	- Debt service as a % of GDP. PIB - % of financing under concessional conditions.	SEFIN	2001-2015	
	iv. Maintain inflation close to international levels.	- Inflation rate. - Nominal exchange rate.	BCH	2002-2005	
	v. Have a solid and competitive financial system that supports economic growth.	- Number of supervisors on site. - Real active interest rate.	CNBS BCH	2002-2005	
	vi. Create conditions that promote competition based on investment efficiency and productivity.	- Real exchange rate. - Pension Fund Law approved.	CN, BCH	2002-2015	
	1.2. STRENGTHENING INVESTMENT AND GENERATING EMPLOYMENT				
Objective: Strengthen investment levels and improve their efficiency, as the foundation for increasing employment opportunities and improve their quality.	i. Reduce costs for new investments being established.	- Number of new enterprises per year	CSJ, SIC	2002-2015	
	ii. Create conditions to allow increasing employment quality, substantial increases for productivity and real income for workers.	- % of increase in productivity and income.	STSS CN	2002	
	iii. Promote greater participation of private capital in public service provision.	- Private investment amounts in public services.	SEFIN, CN ENEE, SANAA	2001-2005	
	iv. Correct insecurity problems in property and investment, through respect and application of the law.	- % of lands with clear ownership titles. - No. of conflicts resolved through conciliation.	CN, INA, CSJ	2001-2005	
	v. Promote and protect market competition low.	- Promotion and Protection of Competition Law approved.	CN, SIC	2002	
1.3 IMPROVING COMPETITIVE ACCESS TO INTERNATIONAL MARKETS					
Objective Promote greater access to national products in export markets, both traditional and new under competitive conditions.	i. Strengthen Honduran participation in the Central American integration scheme.	- % of Honduran participation in regional trade.	SIC, SEFIN, BCH,	2002-2015	
	ii. Implement the Free Trade Agreement with Mexico and the Dominican Republic, and finalize negotiations with Panama, Chile and Canada.	- % of Honduran participation in trade with Mexico, South America, and the Caribbean.	CN, SIC, SEFIN	2001-2015	
	iii. Create conditions to allow a wider Honduran competitive participation in new export markets.	- % of increase in trade movement with the world.	SIC, SAG, COHEP	2001-2015	

POLICY MEASURES AND RESULT INDICATORS MATRIX CONTINUATION (ANNEX A)

OBJETIVES	POLICY MEASURES	INDICATORS	RESPONSIBLE ENTITIES	DATE
1.4 DEVELOP HIGH PRODUCTIVE POTENTIAL SECTORS AND EMPLOYMENT				
Objective Create conditions that will allow development of high productive potential sectors, without forgetting support to traditional economic sectors.	i. Create National Competitiveness Council with public and private sector participation.	- Functioning National Competitive Council.	SIC	2002
	ii. Define a productive links strategy to develop clusters, including small and medium entrepreneurs, at both vertical as well as horizontal levels.	- Number of enterprises. - Value of non-traditional exports.	SIC, COHEP AHM	2001-2015
	iii. Support the development of clusters with resources both at medium- and long-term.	- Number and value of new loans to cluster enterprises.	BCH, CNBS, AHIBA	2001-2015
	iv. Empower the development of agro-businesses.	- % of non-traditional agriculture exports - Number of contract farming contracts - Certification systems and green seals established.	SAG, SERNA Producers	2001-2015
	v. Foster the development of forestry clusters.	- % of wood and manufactures exports.	SAG, AMADHO	2001-2015
	vi. Define and implement a strategy in order to achieve greater development in light assembly.	- % of maquila value added. - Number of maquila jobs.	SIC, COHEP AHM	2001-2015
	vii. Empower the development of tourist clusters.	- Amount of hard currency generated by tourism.	ST, CN	2001-2015
2. POVERTY REDUCTION IN RURAL AREAS				
2.1 IMPROVING EQUITY AND SECURITY IN ACCESS TO LAND				
Objective Guarantee access and security in land tenure for organized and independent "campesinos" and for ethnic groups.	i. Implement the causes for land use both in size as well as for state of idleness.	- No. of hectares affected by idleness and size.	INA, SAG	2002-2015
	ii. Strengthen land assignment, ownership and security programs, especially in the reformed sectors, ethnic groups and independent "campesinos".	- No. of titles and hectares given. - No. of hectares in cadaster.	INA	2001-2015
	iii. Develop and implement mechanisms for a clear definition of rural property.	- Real Rural Property Registry modernized.	INA, CSJ	2001-2015
2.2 SUSTAINABLE DEVELOPMENT IN HIGH PRIORITY AREAS				
Objective Achieve integration, coordination and sustainability in actions directed to reducing poverty in the rural areas.	i. Consolidate and widen the National Sustainable Rural Development Program, (PRONADERS).	- No. of beneficiaries.	SAG	2001-2015
	ii. Increase rural development program actions and their links to national economy in the border areas of the country.	- No. of beneficiaries.	SAG	2001-2015
	iii. Increase the training programs for poor groups living in forested areas, in the sustainable development of small agro-forest enterprises.	- % of forests with management plans.	AFE-COHDEFOR	2001-2015
	iv. Increase actions to develop handcraft activities.	- No. of employees in craft enterprises.	SAG, IHT	2001-2015
2.3 IMPROVING COMPETITIVENESS OF THE SMALL RURAL ECONOMY				
Objective Increase production and improve the efficiency and competitiveness of the small rural producers.	i. Promote productive transformation in reformed sector businesses, ethnic groups and rural micro-enterprises, for them to be competitive and sustainable entities.	- No. of reconverted enterprises. - Value of production in non-traditional activities.	SAG	2001-2015
	ii. Implement actions that would allow the decrease in intermediary costs, and, therefore improve the competitiveness of the rural economy.	- Interchange of agriculture products.	SAG, SOPTRAVI, ENEE, Hondutel	2001-2015
	iii. Improve access for small and medium producers to basic support services to develop their economic activities.	- No. of rural savings coops. and communal banks. - No. of small producers with assistance services.	SAG	2001-2015
	iv. Develop mechanisms for small agricultural enterprises capitalization, dedicated to basic consumption products.	- No. of small enterprises addressed.	SAG	2001-2015
2.4 IMPROVING SOCIAL CONDITIONS IN HE RURAL AREA				
Objective Strengthen social infrastructure and widen coverage of poverty relief programs in the poorest rural areas.	i. Support rural housing programs that include direct beneficiary participation and government financial support, as well as local governments and NGOs in rural house construction.	- No. of homes built.	SOPTRAVI	2001-2015
	ii. Increase coverage of potable water and basic sanitation systems.	- % of coverage.	SANAA , FHIS, SS	2001-2015
	iii. In FHIS and PRAF programs include the promotion of vegetable garden and food conservation activities, implemented by "campesino" women.	- No. of beneficiary families.	FHIS, PRAF	2001-2015
	iv. Improve food and supply donations coordination to support implementing small productive projects and community works.	- No. of beneficiary families.	SAG	2001-2015

POLICY MEASURES AND RESULT INDICATORS MATRIX CONTINUATION (ANNEX A)

OBJETIVES	POLICY MEASURES	INDICATORS	RESPONSIBLE ENTITIES	DATE
3. REDUCING URBAN POVERTY				
3.1 STIMULATE MICRO, SMALL AND MEDIUM ENTERPRISE DEVELOPMENT				
Objective Support the growth of competitiveness in micro, small and medium enterprises as a source of employment generation and income for poor families.	i. Strengthen public and private entities that support micro, small and medium enterprises.	- Functioning national and regional CODESSE. - Number of MIPyMEs organizations strengthened.	SIC	2001-2015
	ii. Support the creation of alternative models of savings and loans with beneficiary participation.	- Number of saving and loan entities operating.	SIC, NGO's, Coop.	2001-2015
	iii. Stimulate the birth of young entrepreneurs, incorporating different models and education levels for project design and management, and providing favorable finance conditions.	- Number of youth incubating enterprises operating.	SE, SIC, Private Sector	2001-2015
	iv. Facilitate opening neighborhood markets and other centers for street vendors, within a plan of organizing informal trade, within the municipal sphere.	- Number of street vendors placed in markets.	SIC, Municipalities	2001-2015
3.2 INTERMEDIATE CITY DEVELOPMENT				
Objective Foster development of intermediate cities, for them to be constituted on regional development poles.	i. Organize solidarity markets at the regional level, preferably through the municipal associations, generating flows in trade interchange for mutual benefit.	- Number of solidarity markets created.	SIC Municipalities	2001-2015
	ii. Promote enterprise incubator organization, taking into account the potential of intermediate cities.	- Number of incubators and enterprises operating.	SIC, FIDE, Universities	2001- 2015
	iii. Promote industrial activity in intermediate cities.	- Number of new enterprises by city.	SIC, Chambers of Commerce	2001-2015
3.3 SUPPORT SOCIAL INTEREST HOUSING				
Objective Stimulate low cost housing construction through legal, financial and participative mechanisms.	i. Approve the Housing Sector Modernization Law and increase the efficiency of the sector norm entity, without it assuming direct project implementation.	- Housing sector law approved.	CN, SOPTRAVI	2002
	ii. Facilitate the construction or improvements in housing of low-income groups.	- No. of houses built. - No. of improved houses	SOPTRAVI, ONGs	2001-2015
	iii. Give land tenure and housing legal security, with ownership models that will especially protect women and children.	- No. of owner titles issued.	SOPTRAVI	2001-2015
	iv. Establish norms for an orderly development of human settlements, with risk prevention.	- No. of settlements within adequate norms.	SOPTRAVI	2001-2015
3.4 ACCESS TO BASIC SERVICES IN HIGH PRIORITY AREAS				
Objective Improve access for urban marginal area people to basic services.	i. Promote Municipal Development Funds, for efficiently providing basic services in the principal cities of the country.	- Funds operating	SGJ, Municipalities	2002-2005
	ii. Foster municipalities to take over water and sanitation systems.	- Water and Sanitation Sector framework law approved.	CN	2001
	iii. Decentralization chain progress, creating conditions to allow effective basic service provision at local level.	- No. of communities and micro-enterprises providing public services.	CN, SANAA, FHIS, SS, Municipalities	2001-2015
4. INVESTING IN HUMAN CAPITAL				
4.1 INCREASE BASIC AND TECHNICAL- PRODUCTIVE EDUCATION QUALITY AND COVERAGE				
Objective Improve the level of schooling in the Honduran population by means of increased education quality, efficiency and equity at different levels, to guarantee a better work-force profile and greater efficiency in higher education.	i. Finalize and approve the General Education Framework Law.	- Education Sector Framework Law approved.	SE, CN	2001
	ii. Improve educational quality and efficiency at different levels.	- No. of repeaters, dropouts and failed. - % of completion efficiency per education cycle.	SE	2002-2015
	iii. Increase education system supply with emphasis on pre-school, third cycle of basic education (7th. to 9 th . Grades) and middle-school education, both for the school attendant student body as well as the non-attendant sectors.	- % of 5 year-old children in pre-school. - % of students that finished 9th. Grade. - % of youth with completed middle schooling. - Rate of illiteracy.	SEFIN, SE Municipalities, Parents	2001-2015
	iv. Improve mechanisms and programs that would stimulate educational demand by the people.	- No. of school centers with healthy school programs. - No. of scholarship students.	SE	2001-2015
	v. Strengthen middle technical-productive education, both formal and non-formal.	- No. of self-managed vocational school centers. - % young workers graduated from technical education.	SE, INFOP, COHEP	2002-2015
	vi. Strengthen the management and efficiency of the education system.	- No. of evaluations on teacher performance. - No of ADEL and AECOS constituted.	SE, Parents	2002-2003
	vii. Improve the efficiency of higher education.	- Academic average at the UNAH and UNPFM - % of cost recovery.	UNAH SEFIN	2002-2015

POLICY MEASURES AND RESULT INDICATORS MATRIX CONTINUATION (ANNEX A)

OBJETIVES	POLICY MEASURES	INDICATORS	RESPONSIBLE ENTITIES	DATE
4.2 INCREASED AND BETTER ACCESS TO HEALTH SERVICES				
Objective Guarantee access with quality and equity to health services, preferably in primary care and nutrition monitoring for poor people.	i. Strengthen primary care and preventive health assistance.	- Infant mortality rate - % of immunized children under 6 years of age. - % of infant malnutrition. - No. of communities with basic package. - No. of functioning self-managed FCM	SS	2002-2015
	ii. Provide greater attention to women's health conditions.	- Maternal mortality rate. - No of women in reproductive health programs	SS	2002-2015
	iii. Achieve greater efficiency and quality in health services.	- % of the population with access to health services. - No. of organizations providing health services. - % of hospital cost recovery.	SS	2002- 2015
4.3 CULTURAL WEALTH AND NATIONAL IDENTITY				
Objective Give a greater strategic value to socio-cultural management, as a fundamental factor in contributing to strengthening the civic, ethical, moral and democratic values.	i. Foster the creation and diffusion of the diverse artistic manifestations at national level.	- No. of houses of culture and improvements of public monuments. - No of women in reproductive health programs. - A strengthened National Culture Council.	SCAD	2001-2015
	ii. Define an action plan directed to promote ethical-moral values, which will strengthen national identity.	- Plan being implemented.	SCAD	2002
	iii. Establish agreements directed towards achieving a better taking advantage for tourism of cultural resources and the self-sustainability and maintenance of them.	- No. of tourists in historic and cultural centers.	SCAD	2002-2015
5. STRENGTHENING SOCIAL PROTECTION FOR SPECIFIC GROUPS				
5.1 SOCIAL SAFETY NETS				
Objective Decrease risk factors in specific high vulnerability groups.	i. Strengthen and improve the impact of extreme poverty reduction programs.	- % of homes with NBI	FHIS, PRAF	2001-2015
	ii. Support infant and adolescent protection programs.	- No. of assisted children. - % of child labor over total.	IHNFA, STSS	2001-2015
	iii. Provide integrated assistance to poor, disabled people.	- No. of disabled receiving attention.	SS	2002-2015
	iv. Improve senior citizen assistance.	- IHAM created and functioning. - Pension system reformed.	CN	2002
5.2 GENDER EQUITY AND EQUALITY				
Objective Assist the integrated development of poor women, through their full and effective participation.	i. Assure the effective equality of opportunity conditions for women, especially for the poor.	- Income levels of poor women.	SEFIN, INAM	2002-2015
	ii. Revise and apply the Law Against Domestic Violence, so as to prevent and eliminate this problem against women.	- Law Against Domestic Violence reforms approved.	INAM, CN	2002
	iii. Incorporate into censuses and surveys more differentiated information by gender so as to visualize the economic contribution and more specific information on women.	- Information by gender available.	INE	2002-2005
5.3 DEVELOPMENT OF ETHNIC PEOPLE				
Objective Contribute to empower the ethnic and black population's local capacities.	i. Create the National Ethnic Council, in order to define a national agenda and facilitate adequate coordination in program and project implementation.	- Council created and functioning	SGJ	2002
	ii. Incorporate the "ethnic group" category of belonging to, or in reference to, in census statistics or as a part of the Household Surveys.	- Information on ethnicity available.	INE	2002-2005
	iii. Equate national legislation with that of the ILO 169 Agreement in relation to ethnic peoples, which Honduras has signed, for it to be duly applied.	- Legislation harmonized.	CN	2002

POLICY MEASURES AND RESULT INDICATORS MATRIX CONTINUATION (ANNEX A)

OBJETIVES	POLICY MEASURES	INDICATORS	RESPONSIBLE ENTITIES	DATE
6. GUARANTEEING THE SUSTAINABILITY OF THE STRATEGY				
6.1 STRENGTHENING TRANSPARENCY AND PARTICIPATIVE DEMOCRACY				
Objective Consolidate governance, guaranteeing the transparency of public management, and improving the quality of political representation of the people.	i. Guaranteeing transparency in all public management activities, especially in implementing social programs and projects.	- Corruption perception index. - Number of audits performed.	CN, SDP, CGR, DPA	2001-2005
	ii. Prepare and approve, consulting with those sectors involved, a legal and prudent supervision framework that allows NGOs to function well.	- NGO Regulation Law approved.	CN, NGOs	2002
	iii. Improve parliamentary process, through an adequate technical assistance the automation of controls and mechanisms for defining legislative priorities.	- No. of laws approved. - Improved processes.	CN	2002-2015
	iv. Consult and approve political reforms, in order to improve participative democracy.	- Electoral Law Reforms approved.	Pol. Part., CN	2002
6.2 STRENGTHEN JUSTICE AND CITIZEN SECURITY				
Objective Foster conditions for the real validity of a system that guarantees the protection of human rights, legal security for investment, and peace in society.	i. Strengthen the independence of the justice system actors.	- Magistrates elected under the new system - Judicial Career Law approved. - Judicial Power Organic Law approved.	CSJ, CN	2001-2002
	ii. Improve the application of justice and equity in access to it.	- Civil Procedure Code approved. - Penal Procedure Code is being applied. - Conciliation and Arbitration Law is being applied.	MP, CN CSJ	2001-2002
	iii. Prevent and sanction crime, to guarantee social order and right to life and property.	- No. of crime cases and those resolved. - People's perception on security.	MP, SS, CSJ Civil society	2001
6.3 MODERNIZATION AND DECENTRALIZATION OF PUBLIC ADMINISTRATION				
Objective Achieve an effective process of decentralization and municipal development, which would assist in poverty reduction, within the framework of a modern and efficient public administration.	i. Continue advancing in the implementation of the Modernization of Public Administration Program.	- SIAFI functioning in all government levels. - New Civil Service Law approved.	SEFIN, SDP, CN	2001
	ii. Approve the Administrative Simplification Law.	- Administrative Simplification Law approved.	SDP, CN	2001
	iii. Implement decentralization and delegation of Central Government functions to the municipalities.	- No. of municipalities with self-managed public services.	SEFIN, SGJ	2001-2015
	iv. Strengthen the role of Local Governments as promoters of development, with wide community participation.	- No. of municipalities applying the civil service career. - No. of local technicians trained.	CN Municipalities	2002
6.4 IMPROVE ENVIRONMENTAL PROTECTION AND RISK MANAGEMENT				
Objective Mitigate the country's risks and ecological vulnerability, though improving environmental and risk management processes at both central and decentralized levels.	i. Make the legal framework adequate and improve the efficiency and effectiveness of the institutional framework, in order to reduce ecological vulnerability.	- Approval and implementation of the laws of: Territorial Classification, Water, Forestry, Risk Reduction and Emergency Assistance.	SERNA; COHDEFOR, COPECO, CN	2002
	ii. Improve environmental management and planning systems.	- Implementing a Territorial Classification and Basin Master Plan. - Implementing an Information System.	SERNA	2002-2003
	iii. Promote financial sustainability in environmental management and protection actions.	- Amount of resources generated in the carbon market. - Operating Environmental Fund. - % of environmental costs incorporated into services costs.	SERNA	2002-2015
	iv. Promote citizen participation for the prevention, mitigation and emergency assistance.	- No. of hectares under sustainable development with community participation.	SERNA, SAG, COHDEFOR	2002-2015
	v. Prepare and apply a prevention, mitigation and emergency assistance strategy, which are based on a permanent and decentralized structure, under the coordination and participation of different actors and institutions.	- Implementing a strategy of prevention, mitigation and emergency assistance.	COPECO	2002-2015

ANNEX A .1
PRIORITY LEGAL AND INSTITUCIONAL MEASURES MATRIX

AREA AND OBJECTIVE	MEASURE	DATE	RESPONSIBLE
1. ACCELERATING EQUITABLE AND SUSTAINABLE ECONOMIC GROWTH			
Have a stable macroeconomic framework that allows a greater sustainable public investment in programs and projects directed towards poverty reduction; and that generates confidence and assurance for private investment.	▪ Modify the Income Tax Law for application of clear concepts.	2001	SEFIN, CN
	▪ Approve Civil Service reform law.	2002	SDP, CN
	▪ Implement the laws of: ✓ Stock Markets; ✓ Insurance and Reinsurance Institutions; ✓ Deposit Insurance; and ✓ Pension Funds.	2001 2001 2001 2001	BCH, CNBS, CN BCH, CNBS, CN BCH, CNBS, CN SDP, CNBS, CN
	▪ Fast-track reform in area of public services ✓ Hondutel Capitalization. ✓ Electric Sub-sector Law. ✓ Strategy for modernization and competitiveness of the port sector.	2001 2001 2002	SEFIN, CN CN CP/ SEFIN, CN
	▪ Approve Administrative Simplification Law.	2001	CN
Strengthen investment levels as well as efficiency levels, through a reduction in the investment coefficient of gross domestic product. (ICOR).	▪ Reactivate the One Window for Investments.	2002	SIC
	▪ Approve Labor Code reforms.	2002	STSS, CN
	▪ Approve the National Unified Property Registration Law.	2001	CN
	▪ Assure the application of the Arbitration Conciliation Law.	2001-2002	CN
	▪ Reforms to modernize the Trade Code.	2002	CN
	▪ Approve the Competition Promotion and Protection Law.	2002	SIC, CN
Create conditions that assist the development of high productive sectors.	▪ Create the National Competitiveness Council.	2002	SIC
	▪ Approve a sole Forest Law.	2002	SAG, CN
	▪ Eliminate legal obstacles to coastal area tourism investments.	2002	ST, CN
2. POVERTY REDUCTION IN RURAL AREAS			
Guarantee access and security in land tenure; and improve the efficiency and competitiveness of small rural producers.	▪ Make legal adjustments in order to apply land tenure limits and land idleness status.	2002	SAG, INA
	▪ Finalize the Agrarian and Forest Cadaster.	2001-2005	SAG, INA
	▪ Develop and implement the Rural Property True Registry.	2001	SAG, INA
	▪ Approve the True Non-real Estate Guarantee Law.	2002	SAG, CN
	▪ Approve the new Water Law.	2002	SAG, CN
	▪ Increase the Electrification Fund.	2002	SEFIN
3. REDUCING URBAN POVERTY			
Strengthen the growth and competitiveness of the micro, small and medium enterprise, as a source of employment and income.	▪ Strengthen Social Sector of the Economy Office.	2001	SIC
	▪ Give legal standing to the Regional Development of the Social Sector of the Economy Office.	2001	SIC
	▪ Approve the Housing Sector Modernization Law.	2001	CN, SOPTRAVI
	▪ Approve the Water and Sanitation Sector Law.	2002	CN, SS
	▪ Create a legal resource for immediate resolution of land or housing tenure problems.	2002	CN, SOPTRAVI
4. INVESTING IN HUMAN CAPITAL			
Strengthen human capital within poor groups, improving equitable and quality access to basic services in education, health and culture, allowing them to improve employment and income opportunities.	▪ Finish preparing and approve a General Education Framework Law, that among others would: ✓ Revise and up-date national curricula and programs of required study. ✓ Promote reforms in UNAH and other higher education institutions. ✓ Have mandatory pre-school education for 5 year olds and for the 3rd. cycle of basic education	2001	SE, CN
	▪ Transform one-teacher schools into complete schools.	2001	SE, CN
	▪ Design and implement a basic package of primary health assistance intervention.	2001-2003	SS

AREA AND OBJECTIVE	MEASURE	DATE	RESPONSIBLE
	<ul style="list-style-type: none"> ▪ Implement a structured and equitable system of cost recovery. 	2001-2002	SS
	<ul style="list-style-type: none"> ▪ Strengthen the National Culture Council. 	2001-2002	SCAD
5. STRENGTHENING SOCIAL PROTECTION FOR SPECIFIC GROUPS			
Improve the living conditions of groups in extreme poverty, especially infants, adolescents, senior citizens, women, disabled people, and vulnerable ethnic groups.	<ul style="list-style-type: none"> ▪ Strengthen the role of the Honduran Institute of Childhood and Family (IHNFA). 	2002-2005	IHNFA
	<ul style="list-style-type: none"> ▪ Implement the Child Labor Gradual and Progressive Elimination Plan. 	2002	STSS, INFA
	<ul style="list-style-type: none"> ▪ Create the National Disability Council. 	2002	SS
	<ul style="list-style-type: none"> ▪ Create the Technical Integral Rehabilitation Unit. 	2002	SS
	<ul style="list-style-type: none"> ▪ Create and organize the Honduran Institute of Senior Citizen Assistance (IHAM). 	2002	CN
	<ul style="list-style-type: none"> ▪ Implement gender equity in the public expense structure. 	2001-2005	SEFIN, INAM
	<ul style="list-style-type: none"> ▪ Create the National Ethnic Council. 	2002	CN
	<ul style="list-style-type: none"> ▪ Implement the ILO 169 Agreement related to the indigenous, signed by Honduras 	2002-2005	Executive Power
	<ul style="list-style-type: none"> ▪ Develop modules for specific vulnerable groups in the Household Survey. 	2002-2003	INE/SDP
6. GUARANTEEING THE SUSTAINABILITY OF THE STRATEGY			
Consolidate governance, guaranteeing transparency in public management.	<ul style="list-style-type: none"> ▪ Approve a new State Contracting Law. 	2001	CN
	<ul style="list-style-type: none"> ▪ Prepare procedure manuals for the CGR. 	2002	CN
	<ul style="list-style-type: none"> ▪ Implement an anticorruption plan. 	2001-2002	National Anticorruption Council, SDP
	<ul style="list-style-type: none"> ▪ Implement project inspections and a new State purchasing and contracting system for PRS programs and projects. 	2001	SEFIN
	<ul style="list-style-type: none"> ▪ Prepare and approve a legal framework for NGOs. 	2002	CN
Guarantee human rights, legal security and peace in society.	<ul style="list-style-type: none"> ▪ Apply the constitutional amendment on Supreme Court magistrate appointment. 	2001	CN
	<ul style="list-style-type: none"> ▪ Approve and implement the Judicial Career Law. 	2001	CN
	<ul style="list-style-type: none"> ▪ Approve the Judicial Power Organic Law. 	2002	CSJ, CN
Achieve an effective decentralization process and municipal development, within a modern and efficient public administration.	<ul style="list-style-type: none"> ▪ Consult and approve the Civil Procedure Code. 	2001	CSJ
	<ul style="list-style-type: none"> ▪ Guarantee the effective application of the new Penal Procedure Code. 	2002-2005	CSJ
	<ul style="list-style-type: none"> ▪ Strengthen State Decentralization Executive Commission. 	2002-2005	SGJ
	<ul style="list-style-type: none"> ▪ Consult and approve the Municipal Law reforms. 	2002	SGJ
	<ul style="list-style-type: none"> ▪ Create the Municipal Civil Service career. 	2002	SGJ
Decrease risks and ecological vulnerability through an improvement in environmental and risk management processes.	<ul style="list-style-type: none"> ▪ Approve, regulate and implement the following laws: <ul style="list-style-type: none"> ✓ Territorial Classification Law. ✓ Water Law; ✓ Forestry Law; y ✓ Risk Mitigation and Emergency Assistance National System Law. 	2002 2002 2002 2002	SERNA, CN SS, CN COPECO, CN

ANNEX B
POVERTY REDUCTION STRATEGY PROGRAMS AND PROJECTS

PROGRAM AREA /PROJECT	DESCRIPTION	AMOUNTS IN US\$ MILLION						
		2001	2002	2003	2004	2005	Others	TOTAL
1. ACCELERATING EQUITABLE AND SUSTAINABLE ECONOMIC GROWTH		-	6.8	5.7	5.7	5.6	-	23.8
Strengthening Investment and Generating Employment		-	2.3	0.6	0.6	0.5	-	4.0
Modernization of the legal and institutional framework of labor	Define and approve Labor Code reforms and define the new legal and institutional framework of the Ministry of Labor.		0.3					0.3
Support market regulations.	Promote healthy market competition implementation, through establishing norms that would allow economic activities within efficient and competitive conditions.		2.0	0.6	0.6	0.5		3.7
Improving Competitive Access to International Markets		-	0.6	0.4	0.4	0.5	-	1.9
Strengthening management of foreign trade policy.	Strengthening management of the Ministry of Industry and Trade as the entity that defines and implements foreign trade policy		0.6	0.4	0.4	0.5		1.9
Development of High Productive Potential Sectors and Employment		-	3.9	4.7	4.7	4.6	-	17.9
Technical assistance to develop the non-traditional agro-exporter sector.	Achieve strengthening of organization of participants of this sector in the technical, financial, access to information and human resource aspects of their activities.		1.0	1.5	1.5	1.5		5.5
Technical assistance to develop the forest sector.	Support the development of: commercial forest plantations, primary and secondary forest industry, and establishment of a program to attract foreign investment to the forest sector.		1.2	2.0	2.0	2.0		7.2
Develop tourism clusters.	Strengthen sector development within the National Tourist Competition Program scheme; improve the quality of life of its people through fostering economic units linked to tourism.		1.0	1.0	1.0	1.0		4.0
Identify and promote industrial clusters.	Identify sectors that can become industrial export niches, so as to create development poles based on the competitive advantages of the country.		0.7	0.2	0.2	0.1		1.2
2. POVERTY REDUCTION IN RURAL AREAS		23.2	49.1	75.7	81.2	82.8	104.6	416.6
Improving Equity and Security in Access to Land		3.0	13.5	18.9	18.9	18.8	23.0	96.1
Enlarge Massive Land registry Program.	Increase production and productivity of the agrarian reform, which benefits "campesinos", ethnic groups and small independent farmers, through greater access and a better distribution and use of the land resources.	3.0	3.0	3.0	3.0	3.0	15.0	30.0
Complete Agrarian and Forestry Cadaster.	Support legislative progress in rural property, whether of agricultural or forest vocation. In order to strengthen and make efficient existing programs in this matter, so as to complete the national level cadaster as quickly as possible.		3.0	7.9	7.9	7.8		26.6
Modernizing the Rural Property Registry.	Have a modern instrument that will guarantee land tenure ownership and that would provide a registry for the different transactions that are done with each.		3.5	5.0	5.0	5.0		18.5

CONTINUING PROGRAMS AND PROJECTS OF PRS (ANNEX B)

PROGRAM AREA /PROJECT	DESCRIPTION	AMOUNTS IN US\$ MILLION						TOTAL
		2001	2002	2003	2004	2005	Others	
Access to Land Program	Guarantee equitable access to productive land to poor rural families without land or with limited ownership of it.		4.0	3.0	3.0	3.0	8.0	21.0
Sustainable Development in High Priority Areas		2.5	4.5	10.1	10.6	11.3	14.5	53.5
Border town development.	Raise the quality of life of the people living in border town communities, with high poverty ratios.		1.0	5.0	5.5	6.0	8.0	25.5
Support to Small Forest Enterprises.	Support and train in the creation and management of micro and small enterprises in management, protection and reforestation activities.		1.0	1.3	1.3	1.4	1.0	6.0
Integrated artisan support fishing program.	Increase income and diversity of activities of artisan fishermen and their women.	1.0	1.0	1.0	1.0	1.0	3.0	8.0
Rural development of the Mosquitia.	Incorporate the Mosquitia in sustainable development actions, under the PRONADERS scheme.	1.5	1.5	2.8	2.8	2.9	2.5	14.0
Improving the Competitiveness of the Small Rural Economy		12.0	17.4	33.0	38.0	39.0	48.5	187.9
Entrepreneurial development of the small "campesino" economy.	Consolidate the "campesino" enterprises, through training in the areas of business management, commerce and negotiation; technology transfer and micro-irrigation; establishing new productive and service businesses; and the promotion of co-investment contracts between "campesinos" and private businessmen.	2.0	2.0	2.5	2.5	3.0		12.0
Build and repair rural roads and bridges.	Repair the network of rural roads damaged by the hurricane and construct the rural roads needed to complement the production and trade actions of rural producers.		1.9	4.5	4.5	4.5	16.0	31.4
Increase irrigation areas.	Increase significantly areas with irrigation, to increase productivity, and adopt an ideal mechanism to optimize the use of irrigation systems.	2.0	3.0	6.0	6.0	6.5	25.0	48.5
Rural electrification program	Supply electric energy service to rural communities, as a means of supporting production and to bring well being to the rural population.	8.0	8.0	10.0	10.0	10.0		46.0
Seed capital program for small producers.	Establish a fund to subsidize basic consumption crop surface.		2.5	10.0	15.0	15.0	7.5	50.0
Improving Social Conditions in Rural Areas		5.7	13.7	13.7	13.7	13.7	18.6	79.1
Strengthen the Minimum Rural Housing Program (PVMR)	Support the poor families of the rural sector with technical, financial and social assistance, in the self-construction of new or improved housing, which would enable reconstruction or improvement of their living conditions prior to the phenomenon.		8.0	8.0	8.0	8.0		32.0
Rural area basic sanitation.	Improve access to basic sanitation of the extreme poverty groups, guaranteeing potable water, through construction of aqueducts and wells, as well as building latrines and septic pits.	3.6	3.6	3.6	3.6	3.6	12.0	30.0

CONTINUING PROGRAMS AND PROJECTS OF PRS (ANNEX B)

PROGRAM AREA /PROJECT	DESCRIPTION	AMOUNTS IN US\$ MILLION						
		2001	2002	2003	2004	2005	Others	TOTAL
Sustainable food assistance.	Adopt cooperation mechanisms in order to improve the distribution and use of donated food and supplies, as well as optimize the use and sustainability of the food assistance programs, promoting a diversification of food crops, and work benefiting the community.	2.1	2.1	2.1	2.1	2.1	6.6	17.1
3. REDUCING URBAN POVERTY		7.0	26.4	35.4	37.5	37.1	109.0	252.4
Stimulating the Development of Micro, Small and Medium Enterprises		2.0	7.2	8.9	11.0	10.6	19.0	58.7
Strengthening of micro, small and medium enterprises organizations.	Provide advice and training to business associations or groups of MIPYME's in the areas of management, administration, organization, accounting, finance, production, total quality, marketing, input provision, and human resource promotion.	1.0	1.2	1.2	1.3	1.5		6.2
Strengthen the office of social sector of the economy.	Make a social sector diagnosis, strengthen sector organization, achieve regional integration and promote the sustainable development of sector enterprises.		1.0	1.5	1.5	1.0		5.0
Support MIPYME's capital and financing.	Develop new financial models that would allow better beneficiary access and promote savings.		3.0	4.0	5.0	5.0	13.0	30.0
Support the young entrepreneur.	Improve youth training in vocational careers in such areas as identification, organization and administration of small enterprises.		1.0	2.0	3.0	3.0	6.0	15.0
Street vendors formality and organization.	Prepare a census of all street vendors in the main cities of the country; determine the deficit of sale positions and prepare a plan to order informal trade.	1.0	1.0	0.2	0.2	0.1		2.5
Develop of Intermediate Cities		-	3.2	4.0	4.0	4.0	-	15.2
Solidarity markets	Develop fairs and expositions that would promote and facilitate marketing regional and local products, and organize raw material supply centers and build the facilities needed for local product marketing.		0.9	0.4	0.4	0.3		2.0
Enterprise incubators.	Create models of enterprise incubators or enterprise promoters that would develop and consolidate enterprise activities.		1.3	0.6	0.6	0.7		3.2
Technical and organizational assistance in secondary cities.	Address requests for needed technical assistance according to already prepared plans of action problems of identified constraints and/or take advantage of existing opportunities.		1.0	3.0	3.0	3.0		10.0
Supporting Social Interest Housing		5.0	11.0	11.0	11.0	11.0	50.0	99.0
Strengthen Urban Housing Program.	Increase number of subsidies for low income families directed to housing construction and improvement in the country.	5.0	10.0	10.0	10.0	10.0	50.0	95.0
Legalization and territorial planning of human settlement.	Develop specific projects in the framework of the land classification process with priority in high risk areas.		1.0	1.0	1.0	1.0		4.0
Access to Basic Services in High Priority Areas		-	5.0	11.5	11.5	11.5	40.0	79.5
Municipal Development Fund	Improve supply and quality of basic services, by participative methods and processes. Principal actions to be done are: sanitation improvement; solid waste collection; property titling; and education and primary health infrastructure.	3.0	9.5	9.5	9.5	38.0	69.5	

CONTINUING PROGRAMS AND PROJECTS OF PRS (ANNEX B)

PROGRAM AREA /PROJECT	DESCRIPTION	AMOUNTS IN US\$ MILLION						
		2001	2002	2003	2004	2005	Others	TOTAL
Potable water for marginal neighborhoods	Construct tanks and develop distribution systems in order to provide potable water to difficult access areas and train users in self sustainability of this service.		2.0	2.0	2.0	2.0	2.0	10.0
4. INVESTING IN HUMAN CAPITAL		34.6	66.7	84.2	90.8	99.0	468.4	843.7
Greater Quality and Coverage of Basic and Technical Productive Education		19.5	42.0	52.0	56.1	61.8	368.4	599.8
Strengthening educational quality.	Improve the level of schooling in the different educational levels by actions related to a) quality management at local level; b) updating of basic national curriculum; c) preparation and training of teachers and department and district directors, among others.	3.5	4.0	4.0	4.5	5.0	18.0	39.0
Strengthening pre-basic and 7 th to 9 th Grades.	Increase coverage and quality of pre-basic education and 7 th . to 9 th . Grade education, requiring the expansion of infrastructure and a greater number of teachers,		10.0	11.0	12.1	13.3	146.4	192.8
Expand coverage by alternative methods.	Continue to expand coverage of pre-basic and basic education in rural and marginal communities, through parent participation, NGO's and other community organizations.	5.0	5.5	6.0	6.5	7.0	23.0	53.0
Adult education through alternate methods.	Expand literacy programs to youth and adults that do not have access to the national school system, emphasizing on women and ethnic groups in rural areas and marginal neighborhoods.		4.5	5.0	5.0	6.0	22.0	42.5
Education , production and development.	Improve technical education to meet labor market demands, this includes curricula adaptation and expanding educational supply.			6.0	6.0	7.0	31.0	50.0
Scholarship for poor students.	Provide more opportunities for youth with academic potential for third cycle basic education and diversified, with emphasis on technical careers, considering both public and private educational sectors.		6.0	6.5	7.0	7.5	73.0	100.0
Educational infrastructure with community participation.	Provide basic infrastructure to communities at urban and rural level, to incentive pre-basic, basic and technical education with community participation or mutual assistance.	11.0	12.0	13.5	15.0	16.0	55.0	122.5
Increased and Better Access to Health Services		13.8	23.0	30.0	32.5	35.0	89.5	223.8
Basic packet of health services.	Guarantee the delivery of a standardized packet of interventions guaranteeing cost effective assistance for extreme poverty groups including indigenous groups.	4.5	11.0	12.0	13.5	14.5	44.5	100.0
Community Medication Funds (FCM)	Guarantee poor people access to essential, safe, effective and low cost medication; and promote at community level rational usage of natural medicine where convenient.	1.0	1.0	1.5	1.5	1.5	5.5	12.0
Health service promotion to children, including nutrition.	Offer integrated assistance to children at community level, including prevailing childhood diseases assistance, standardized management of respiratory infections, diarrhea and anemia in children under five.	2.0	2.5	5.5	6.0	6.5		22.5

CONTINUING PROGRAMS AND PROJECTS OF PRS (ANNEX B)

PROGRAM AREA /PROJECT	DESCRIPTION	AMOUNTS IN US\$ MILLION						
		2001	2002	2003	2004	2005	Others	TOTAL
Integrated assistance to women.	Promote integrated care to women at fertile ages in family planning; prevention of sexually transmitted diseases and prevention of adolescent pregnancy; integrated care of pregnant women; prenatal and post birth control and adequate birth assistance.		2.0	4.5	5.0	5.5	8.0	25.0
Healthy school	Continue benefiting children by providing integrated education and health assistance in pre-basic and first and second cycle of basic education of public schools at national level.	3.0	3.0	3.0	3.0	3.0	15.0	30.0
Prevention of infectious-contagious illnesses.	Apply, develop and improve the national plan for fighting AIDS and other infectious-contagious deceases.	2.0	2.0	2.0	2.0	2.0	10.0	20.0
Health infrastructure	Provide poor communities with basic health infrastructure in order to improve access to health services.	1.3	1.5	1.5	1.5	2.0	6.5	14.3
Cultural Wealth and National Identity		1.3	1.7	2.2	2.2	2.2	10.5	20.1
Build and improve of Cultural Centers and historical buildings.	Promote social cultural activity increase and preservation of cultural heritage.	0.3	0.3	0.3	0.3	0.3	4.5	6.0
Artisan production within indigenous and black villages of Honduras.	Contribute to improve income of ethnic communities by promoting the establishment and strengthening of micro enterprises in the tourist sector and other activities related to their cultural identity.	1.0	1.0	1.5	1.5	1.5	4.0	10.5
Foster and develop sports.	Promote, encourage and develop sports in all its scope and consider it as a social cohesion factor with indirect incidence in habit forming and discipline in youth.		0.4	0.4	0.4	0.4	2.0	3.6
5. STRENGTHENING SOCIAL PROTECTION FOR SPECIFIC GROUPS		5.4	7.9	19.0	19.0	19.3	136.2	206.8
Social Safety Nets		1.9	1.9	10.4	10.4	10.6	73.4	108.6
Strengthening IHNFA actions for childhood	Improve the capacity and expand coverage of the institution in order to fulfill effective and efficiently by law assigned functions to assist boys and girls in social risk or under conditions of mistreatment and lack of respect to their rights.	0.7	0.7	4.0	4.0	3.9	22.8	36.1
Gradual and progressive child labor eradication	Assist boys and girls working in certain types of jobs that under national and international norms violate their rights preventing their normal bio-psycho-social development.			0.8	0.8	0.9	4.0	6.5
Protecting working adolescent groups	Intervene in the problem situations of adolescents involved in high risk jobs such as under water fishing, mining, and those exposing them to toxic substances. Likewise assist adolescents working in domestic service.	0.5	0.5	0.3	0.3	0.4	3.0	5.0
For the well being of the senior citizen.	Improve quality of life of senior citizens in poverty situations by financing initiatives presented and implemented by municipalities and civil society organizations.	0.1	0.1	2.6	2.6	2.6	22.6	30.6
Prevention, attention and Integrated rehabilitation of disabled people.	Implement a series of actions for disabled people that allow them the opportunity integrate into society with equity.	0.6	0.6	2.7	2.7	2.8	21.0	30.4

CONTINUING PROGRAMS AND PROJECTS OF PRS (ANNEX B)

PROGRAM AREA /PROJECT	DESCRIPTION	AMOUNTS IN US\$ MILLION						TOTAL
		2001	2002	2003	2004	2005	Others	
Gender Equity and Equality		3.5	3.5	6.1	6.1	6.2	42.0	67.4
Labor preparedness and support the hard-working woman	Develop labor qualification programs for head of households, in conditions of equity, poverty, unemployed, under employed or seeking work for the first time; preferably between 15 and 50 years of age, with reading and writing skills.	0.5	0.5	1.5	1.5	1.5	12.0	17.5
Supporting micro-entrepreneur women.	Strengthen the administrative capacity of women for micro-enterprise management, provide training to improve the quality of production, and seek advice for best usage of marketing channels for their products.	1.0	1.0	2.0	2.0	2.0	16.0	24.0
Supporting participation of indigenous and black women.	Implement projects based on situational diagnosis, directed to reducing poverty levels and discrimination of indigenous and black women.	1.0	1.0	1.0	1.0	1.0	8.0	13.0
Women's Rights Information Centers (CIDEM)	Provide specialized information services for women and promulgate their rights.			0.3	0.3	0.3	2.0	2.9
Prevention and treatment of violence against women.	Implement actions for promotion, training, verification and application, on behalf of the different organisms involved, of the Penal Code provisions regarding intra-family violence and the Decree 132-97 of the Law Against Domestic Violence.	1.0	1.0	1.3	1.3	1.4	4.0	10.0
Development of Ethnic People		-	2.5	2.5	2.5	2.5	20.8	30.8
Socioeconomic development of ethnic towns.	Strengthen the right of the indigenous and black people towards self-development with their own identity, supporting self-management processes and decision-making, coherent with their problems and expectations.		2.0	2.0	2.0	2.0	16.0	24.0
Ethnic and ecological tourism	Provide technical/legal assistance, training and financing to implement local initiatives for the development of ethnic and ecological tourism, in high potential areas for this type of service, in order to increase income of the people and environmental protection.		0.5	0.5	0.5	0.5	4.8	6.8
6. GUARANTEEING SUSTAINABILITY THE OF THE STRATEGY		6.2	8.3	10.6	6.4	4.5	27.2	63.2
Strengthening Transparency and Participative Democracy		0.6	1.1	1.6	-	-	-	3.3
Modernization of the National Congress of Honduras	Contribute to technical improvement of the process of formulating and approving laws, the increase in efficiency of parliamentary work and institutional strengthening.		0.5	1.0				1.5
Social auditing.	Supervise the reception, management and distribution of international donations; supervise the efficient usage and management of public resources; and establish a continuous relationship with the national auditing office, the Prosecutor and the National Human Rights Commissioner..	0.6	0.6	0.6				1.8

CONTINUING PROGRAMS AND PROJECTS OF PRS (ANNEX B)

PROGRAM AREA /PROJECT	DESCRIPTION	AMOUNTS IN US\$ MILLION						TOTAL
		2001	2002	2003	2004	2005	Others	
Strengthen Justice and Citizen Security		1.0	1.5	1.5	-	-	-	4.0
Strengthening the new penal procedure system	Continue supporting promulgation and application of the new Honduran procedure system, emphasizing activities such as: i) technical support to the Supreme Court of Justice for implementing the Penal Procedure Code; ii) prepare the Penal Procedure Law Manual; and iii) international level internships and training in Honduras, of Judges and Magistrates form the penal jurisdiction.		0.5	0.5				1.0
Modernization of the complaint reception system.	Provide technical and logistic assistance to the National Police, so that it can restructure its complaint reception system within the investigative and preventive police, in order to provide fast effective and efficient assistance.	1.0	1.0	1.0				3.0
Modernization and Decentralization of Public Administration		2.7	1.7	0.6	-	-	-	5.0
Strengthening of coordination and regulation of the municipal sector	Strengthen and consolidate the Ministry of Governance and Justice (SGJ), as the entity in charge of the norms of the municipal sector, and therefore the coordinator of efforts directed to development of local governments and communities.	1.9	1.7	0.6				4.2
Municipal training	Contribute to increase the capacity of municipal management. This includes: i) a municipal training and technical assistance program; ii) support the preparation of local development plans; and iii) strengthen the Municipal Development Councils.	0.8						0.8
Improving Environmental Protection and Risk Management		1.9	4.0	6.9	6.4	4.5	27.2	50.9
Information system for environmental protection and disaster mitigation	Develop the capacity, at central and local levels, for monitoring environmental indicators and giving early warning for natural disasters. Including the provision of permanent and alternative communication equipment and personnel training.	0.5	1.1	0.5				2.1
Strengthening of joint implementation mechanisms.	Strengthen OICH functions and other appropriate mechanisms, which allow certified reduction of emissions; the development and application of technologies for fixation, reduction and adaptability to climatic changes; the development of the Carbon Fund; and provide information on carbon markets.		1.0	0.7	0.7	0.8		3.2
Environmental service valuing	Develop and support the implementation of valuing systems for environmental services, stemming from the protection and management of protected areas, priority basins and micro basins, forest plantations and agro-forest systems, in critical areas of ecological and social vulnerability.			1.4	1.4			2.8
Environmental fund	Establish a fund for financing small environmental projects of community interests, with an initial assignment of national funds and supported by donations, from environmental fines, sanctions, and from credits			2.0	2.0	2.0	8.0	14.0

CONTINUING PROGRAMS AND PROJECTS OF PRS (ANNEX B)

PROGRAM AREA /PROJECT	DESCRIPTION	AMOUNTS IN US\$ MILLION						
		2001	2002	2003	2004	2005	Others	TOTAL
Community basin management	Strengthen the experience acquired with the Pilot Program of Municipal Technical Assistance, implemented by SERNA by means of the Honduran Environmental Development Project, expanding it to other selected municipalities, within prioritized basins, sub-basins, micro-basins.	0.5	1.0	1.2	1.2	1.1	2.0	7.0
Rehabilitation of deforested areas	Reduce the vulnerability of the population in priority basins by means reforestation and rehabilitation of forest vocation lands stripped in critical areas.	0.4	0.4	0.6	0.6	0.6	17.2	19.8
Strengthening of emergency response capacity.	Develop the capacity at municipal and community level for disaster prevention and mitigation, for which regional and municipal emergency committees will be reactivated and strengthened in all the country and will be provided with equipment and training.	0.5	0.5	0.5	0.5			2.0
SUB - TOTAL PROGRAMAS Y PROYECTOS		76.4	165.2	230.6	240.6	248.3	845.4	1,806.5
PRS implementation and follow-up (5%)		3.8	8.3	11.5	12.0	12.4	42.3	90.3
TOTAL PROGRAMS and PROJECTS		80.2	173.5	242.1	252.6	260.7	887.7	1,896.8
Financing with debt relief resources (HIPC relief + traditional relief)		67.1	131.3	203.9	194.5	157.3	180.3	934.4
Financing from other sources		13.1	42.2	38.2	58.1	103.4	707.4	962.4

ANNEX C
CURRENT OR IN ADVANCED PIPELINE, PROGRAMS AND PROJECTS
RELATED TO THE POVERTY REDUCTION STRATEGY

PROGRAM AREA/PROJECT	DESCRIPTION	AMOUNTS IN US\$ MILLION							
		2000	2001	2002	2003	2004	2005	Others	TOTAL
POVERTY REDUCTION IN RURAL AREAS		89.1	70.9	19.0	16.4	15.5	14.5	-	225.4
Improving Equity and Security in Access to Land		9.8	4.8	1.0	1.0	1.0	-	-	17.6
Massive Land Titling	Increase production in agrarian reform beneficiary "campesinos", ethnic groups, and small independent farmers, through greater access and a better distribution and use of the land.	3.0							3.0
Modernizing Property Registry	Have a modern tool that will guarantee ownership and land tenure and would allow having a registry that can record different land use operations.	2.6							2.6
Finalizing Agrarian Cadaster	Fast-track legislation and rural sector land classification, so as to guarantee access to land in this sector.	1.0	2.0						3.0
Enterprise development in the reformed sector and ethnic groups.	Train the "campesino" population on subjects such as: business management, creating new productive and service enterprises and promote co-investment contracts.	0.2	0.8						1.0
Access to Agricultural Land Program (PACTA)	Guarantee equitable access to productive land for poor rural families that are either landless or have a limited possession to their land through free negotiation between owners and claimants.	2.0	2.0	1.0	1.0	1.0			7.0
Land purchase or investment Fund	Establish a fund for land purchase and support to productive investment projects.	1.0							1.0
Improving the Competitiveness to the Small Rural Economy		79.3	66.1	18.0	15.4	14.5	14.5	-	207.8
Rehabilitation of units affected by Mitch.	Rehabilitate productive units, mainly those of small and medium producers affected by Hurricane Mitch, in previously identified areas.	3.6	2.0						5.6
Reactivation of the Rural Economy 1/	Raise productivity and diversify cultivation areas towards others of higher value, particularly exports, so that employment and income of the rural population is increased.		2.5	7.0	7.8	7.8	7.9		33.0
Reconstruction of roads and bridges RECAP/FHIS /2	Recover and repair damage caused by hurricane Mitch, to allow better access to markets for rural producers.	15.8	36.2						52.0
PRONADERS	Contribute to rural poverty reduction effectively and sustainably, so that poor rural households have better and greater access to production factors, markets, information and other services, to generate sufficient permanent income.	30.0	5.7	10.0	6.7	6.7	6.6		65.7
Supporting food security.	Assure minimum food consumption in extremely poor rural families, linked to developing actions in micro-projects and in strengthening local organization that will make sustainable poverty actions feasible.	5.6							5.6
Modernizing agriculture technology services.	Promote agricultural production and productivity through generating and transferring appropriate sustainable technology.	5.0	12.0						17.0
Vegetable and animal sanitation control in Honduras	Strengthen the technical sub-directorates of Animal Health and Vegetable Sanitation, by means of establishing an efficient technical scientific control and information system.	0.3	0.5	1.0	0.9				2.7
Rural electrification program	Provide electric energy service to rural communities, as a means of supporting production and to bring well-being to rural population.	17.8	6.0						23.8

**CONTINUATION CURRENT OR IN ADVANCED PIPELINE, PROGRAMS AND PROJECTS
RELATED TO THE POVERTY REDUCTION STRATEGY ANNEX C**

PROGRAM AREA/PROJECT	DESCRIPTION	AMOUNTS IN US\$ MILLION							
		2000	2001	2002	2003	2004	2005	Others	TOTAL
Rural Minimum Housing Program	Facilitate access to low cost minimum housing to rural population.	1.2	1.2						2.4
REDUCING URBAN POVERTY		83.1	70.7	47.2	22.4	22.0	22.0	8.3	275.7
Stimulating the Development of Micro, Small and Medium Enterprises		50.5	24.6	24.6	-	-	-	-	99.7
Supporting the organization of local and street vendors in the Central District (Tegucigalpa)	Seek to support the committee in charge of the funds assigned to help the Central District vendors, improve their management capacity of the funds.	1.3							1.3
Credit and technical assistance for reconstructing and rehabilitating businesses affected by Mitch.	Reconstruct the businesses affected by Mitch, so that they renew their productive activities and improve their financial situation.	49.2	24.6	24.6					98.4
Supporting Social Interest Housing		14.0	14.0	2.4	-	-	-	-	30.4
Complement Self-Help Program.	Subsidize poor families so that they can sustainably complement with their own work, the construction and improvement of housing solutions.	6.7	6.7						13.4
Integrated Urban Housing Improvement Program (PRIMHUR)	Provide technical, financial and social assistance to the poor groups for building and housing improvement.	4.9	4.9						9.8
Land Legalization and classification program.	Massively regulate access and ownership of urban marginal lands in the main cities of the country.	2.4	2.4	2.4					7.2
Access to Basic Services in High Priority Areas		18.0	31.0	19.6	22.0	22.0	22.0	8.3	142.9
Municipal development of the Central District and San Pedro Sula	This program envisions funds for investments in informal sectors, sanitation improvements, paving bus route, creation of waste collection micro-enterprises and property ownership.	18.0	15.0	7.6	2.0	2.0	2.0	8.3	54.9
Urban water and sanitation	Improve access to water and sanitation infrastructure in urban areas according to pre-established priorities at the local level, trying novel methods of coverage in quality, sustainability, efficiency, co-financing and beneficiary participation.		16.0	12.0	20.0	20.0	20.0		88.0
Development of Intermediate Cities		0.6	1.1	0.6	0.4	-	-	-	2.7
Action plan for developing intermediate cities.	Support to areas farthest from poles of development, through an activity program directed to improving qualitative and quantitative access on behalf of the poorest groups to productive resources.	0.6	1.1	0.6	0.4				2.7
INVESTING IN HUMAN CAPITAL		83.9	60.2	87.6	27.3	17.6	10.3	20.0	306.9
Greater Quality and Coverage in Basic and Technical-Productive Education.		69.5	40.2	65.6	27.3	17.6	10.3	20.0	250.5
PROHECO	Facilitate access to pre-basic education and second cycle of basic education to boys and girls of the communities, that do not benefit from the regular school system, within community participation models.	3.5							3.5
EDUCATODOS	Contribute to reduce illiteracy in young and adult groups that have been excluded from the regular school system.	7.6							7.6
FHIS/Education infrastructure	Reconstruct the education infrastructure damaged by Mitch and complement the needs of basic education infrastructure expansion.	20.0	30.0	40.0					90.0
PROME B	Promote improvement in the quality of basic education	23.4							23.4

**CONTINUATION CURRENT OR IN ADVANCED PIPELINE, PROGRAMS AND PROJECTS
RELATED TO THE POVERTY REDUCTION STRATEGY ANNEX C**

PROGRAM AREA/PROJECT	DESCRIPTION	AMOUNTS IN US\$ MILLION							
		2000	2001	2002	2003	2004	2005	Others	TOTAL
Additional Resources Assigned for Basic Education	Assign resources to: PROHECO Schools, Widening Horizons Program, and Basic Education and Vocational Training Centers.	15.0							15.0
Strengthening middle-school education including technical education	Revise, up-date and increase middle-school level education.		2.0	2.0	2.0	2.0	2.0	10.0	20.0
School Breakfasts	Provide breakfasts to schoolchildren in poor areas.		1.0	1.0	1.0	1.0	1.0	5.0	10.0
Transforming education with community participation (Pre-school and Basic from 1 st . to 6 th . Grade)	Support pre-school and basic education, especially in single teacher schools and bilingual intercultural communities.		3.0	10.4	12.3	9.4	6.3		41.4
Transforming national education in basic and middle education.	Improve the education management model and increase coverage of third cycle of basic education in rural, marginal urban, and ethnic sectors.		3.2	11.2	11.0	4.2			29.6
National program for aboriginal ethnic groups of Honduras (PRONEEAH).	Strengthen bilingual intercultural education reinforcing the identity of ethnic peoples.		1.0	1.0	1.0	1.0	1.0	5.0	10.0
Increased and Better Access to Health Services		14.3	20.0	22.0	-	-	-	-	56.3
Institutional re-organization and extension of health services.	Establish the basis to implement reforms in the health sector, in order to improve and increase services.	8.0	16.0	16.0					40.0
FHIS/Health infrastructure	Endow poor communities with basic health services through the construction of CESAR's, CESAMO's and emergency hospitals, latrines and sustainability training.	2.0	4.0	6.0					12.0
Resources assigned to Medicines and Sanitation	Assign additional resources for purchasing medicines and sanitation.	4.3							4.3
Cultural Wealth and National Identity		0.1	-	-	-	-	-	-	0.1
PROPAITH	Support the production and marketing of handcraft production in communities prioritizing living culture.	0.1							0.1
									-
STRENGTHENING SOCIAL PROTECTION FOR SPECIFIC GROUPS		26.2	28.4	27.8	2.2	2.2	-	-	86.8
Social Safety Nets		22.3	24.5	22.1	-	-	-	-	68.9
PRAF/BID/FASE II	Increase human capital in the children of the poorest families as far as health, education and income are concerned.	11.6	11.4	11.4					34.4
Other PRAF Bonuses	Provide currency transfers for homes in extreme poverty, to foster health services and education assistance for poor family children.	5.8	7.9	9.7					23.4
Different Infant in Social Risk Assistance Projects.	Through integrated actions, assist social risk groups such as street children, children in conflict with the law, among others.	3.1	3.1						6.2
Strengthening base organizations and excluded groups.	Support HIV/AIDS organizations and patients, self-help groups, situation pre-diagnosis, technical advice and preventive campaigns.	0.9	0.9						1.8
Preventing alcoholism, drug addiction and drug dependency.	Implement preventive actions directed to 5th. and 6th. graders and high-school youth, training and prevention in drug addiction, for parents and teachers, supply educational material and strengthen alcoholic-de-tox-units.	0.1	0.1						0.2

**CONTINUATION CURRENT OR IN ADVANCED PIPELINE, PROGRAMS AND PROJECTS
RELATED TO THE POVERTY REDUCTION STRATEGY ANNEX C**

PROGRAM AREA/PROJECT	DESCRIPTION	AMOUNTS IN US\$ MILLION							
		2000	2001	2002	2003	2004	2005	Others	TOTAL
Senior citizen Bonus	Provide monthly subsidies for senior citizens over 60, in extreme poverty, in order to provide them with support for food and medicines.	0.5	0.8	1.0					2.3
Social Intervention with disabled people	Provide social/psychological assistance, training and job placement; prevention and rehabilitation activities; and distribution of equipment for different disabilities.	0.3	0.3						0.6
Gender Equity and Equality		2.6	2.4	2.0	-	-	-	-	7.0
Integrated development of women	Provide social and productive training, technical assessment and credit for women in extreme poverty, in order to improve their income and quality of life.	1.6	1.9	2.0					5.5
Implementing the policy of equal opportunities in the poverty area.	Support implementation of productive projects, legal assessment, strengthening women's organizations and preparation of local strategies for overcoming poverty.	0.5	0.5						1.0
Women's rights and community family assistance.	Provide follow-up to commitments and agreements signed by Honduras at international level; establish Women's Municipal Offices; legal and psychological support for mistreated women and their children living in shelters.	0.5							0.5
Development of Ethnic People		1.3	1.5	3.7	2.2	2.2	-	-	10.9
Our Roots Program	Contribute to improve living conditions of indigenous and black people of Honduras by establishing communal banks, small community projects and strengthening organizations.	1.3	1.3	1.4					4.0
Development of Indigenous People Project	Strengthen the capacity of indigenous and afro-Honduran organizations and communities, as well as the participating government agencies, and finance small innovative sub-projects for community development.		0.2	2.3	2.2	2.2			6.9
GUARANTEEING THE SUSTAINABILITY OF THE STRATEGY		14.2	36.5	32.8	21.6	17.3	15.4	32.6	170.4
Strengthening Transparency and Participative Democracy		1.8	14.3	13.8	9.7	4.8	1.5	-	45.9
Efficiency and Transparency in State Purchases and Contracting.	Promote efficiency and transparency in State purchases and contracting in a sustainable way, by modernizing the public sector institutions involved, within the respective legal framework and the operational and organizational tools utilized.		7.5	6.9	4.7	2.8	1.5		23.4
Reforming the financial economic management	Deepen the public sector reforms including transparency and responsibility in the management and control of public finances and human resources in order to facilitate poverty reduction.		5.0	5.0	5.0	2.0			17.0
Municipal strengthening and local development in Honduras (PRODEMHN)	Initiate local development processes along with strengthening of municipalities to obtain sufficient capacity to outline their own policies and strategies of long-term sustainable development.	1.8	1.8	1.9					5.5
Improving Environmental Protection and Risk Management		12.4	22.2	19.0	11.9	12.5	13.9	32.6	124.5
Rehabilitation of high basins	Rehabilitate the high parts of the Ulua, Aguan and Choluteca river basins. Within a multi-disciplinary and participatory approach, integrating all the human activities of the basin based on the water resource, seeking sustainability in the production of assets and services and the improvement of the living conditions of the people.	5.0	5.0						10.0
Managing priority basins1/	Achieve sustainable development of rural communities in high and middle basins of the Ulua, Chamelecon and Nacome rivers within criteria of environmental and poverty level recovery of beneficiary groups.		9.0	9.0	9.0	9.5	10.9	32.6	80.0

**CONTINUATION CURRENT OR IN ADVANCED PIPELINE, PROGRAMS AND PROJECTS
RELATED TO THE POVERTY REDUCTION STRATEGY ANNEX C**

PROGRAM AREA/PROJECT	DESCRIPTION	AMOUNTS IN US\$ MILLION							TOTAL
		2000	2001	2002	2003	2004	2005	Others	
Disaster mitigation 1/	Provide technical support to municipalities in emergency response, early warning, disaster prevention, mitigation and risk analysis, as well as strengthen their capacity to reduce risks and vulnerability in natural disasters, through a timely support program to SERNA, COPECO and the AMHON.		1.0	2.0	2.9	3.0	3.0		11.9
Forestry Development (Phase II)	Improve forestry management practices at community and global level, in coordination with the rehabilitation project for high basins.	1.0	1.0	1.8					3.8
Low basin rehabilitation	Help reduce flood impact in the Aguan and Choluteca rivers by performing risk studies, design and construction of infrastructure, protection and rehabilitation of agricultural land, soil and water conservation policies; and promoting community participation.	3.2	3.0	3.0					9.2
Generating and Applying Information	Finance the compilation and/or distribution of geological and hydrological information for decision-making in disaster mitigation.	3.2	3.2	3.2					9.6
									-
TOTAL OF IMPLEMENTING PROGRAMS & PROJECTS		296.5	266.7	214.4	89.9	74.6	62.2	60.9	1,065.2

ANNEX D.1

GROSS DOMESTIC PRODUCT ACCORDING TO BRANCH OF ACTIVITY										
(Million Lempiras)										
DESCRIPTION	1991	1992	1993	1994	1995	1996	1997	1998 p/	1999 p/	2000 e/
CURRENT PRICES										
Agricultural and Livestock	3,178	3,286	4,014	6,030	7,026	9,188	12,220	11,493	10,500	11,235
Mines and Quarries	206	308	369	454	629	763	920	1,102	1,325	1,509
Manufacturing Industry	2,367	2,875	3,456	4,275	5,818	7,455	9,535	11,186	12,916	14,996
Electricity, Gas & Water	745	1,061	1,457	1,465	1,791	2,540	2,946	3,093	3,208	3,555
Construction	497	530	589	939	1,778	1,900	2,464	3,043	3,863	4,326
Commerce, Restaurants and Hotels	1,567	1,762	2,056	2,555	3,915	4,903	6,264	7,360	8,365	9,742
Transport, Warehousing and Communications	909	1,048	1,116	1,309	1,546	1,824	2,464	2,985	3,423	3,974
Financial Establishments & Others	1,109	1,328	1,654	2,205	3,007	3,654	4,971	6,331	7,155	8,008
Housing Property	906	1,042	1,162	1,441	1,832	2,317	2,941	3,478	3,990	4,772
Public Administration and Defense	1,050	1,187	1,509	1,547	1,912	2,440	3,178	3,625	3,875	4,602
Personal Services	1,441	1,704	2,113	2,550	3,372	4,176	5,207	6,372	7,261	9,168
GDP c.f.	13,975	16,131	19,495	24,770	32,626	41,160	53,110	60,068	65,881	75,385
Net Indirect Taxes	2,339	2,669	3,194	4,092	4,881	6,603	8,212	10,370	11,214	12,138
GDP p.m.	16,314	18,800	22,689	28,862	37,507	47,763	61,322	70,438	77,095	87,523
CONSTANT PRICES										
Agriculture and Livestock	1,364	1,413	1,404	1,416	1,540	1,578	1,645	1,614	1,477	1,589
Mines and Quarries	75	83	86	83	96	103	108	112	118	121
Manufacturing Industry	721	765	813	798	842	881	935	967	992	1,041
Electricity, Gas & Water	212	284	344	282	264	172	185	194	198	213
Construction	129	130	140	130	149	234	227	239	264	275
Commerce, Restaurants and Hotels	514	529	572	572	604	631	653	673	678	705
Transport, Warehousing and Communications	423	441	456	443	477	498	520	534	543	565
Financial Establishments & Others	367	402	449	479	524	547	605	662	659	668
Housing Property	323	334	347	361	369	384	399	414	426	440
Public Administration and Defense	280	291	334	281	1,912	277	300	301	288	308
Personal Services	380	406	451	449	449	446	461	485	491	558
GDP c.f.	4,788	5,078	5,396	5,294	5,583	5,751	6,038	6,195	6,134	6,384
Net Indirect Taxes	546	556	589	613	565	617	648	685	616	590
GDP p.m.	5,334	5,634	5,985	5,907	6,148	6,368	6,686	6,880	6,750	6,974

/p Preliminary

/e Estimated

Source: National Accounts Section, Economic Attachment Unit, Economic Studies Department. Central Bank of Honduras.

ANNEX D.2

GROSS DOMESTIC PRODUCT BY TYPE OF EXPENSE (Million Lempiras)

DESCRIPTION	1991	1992	1993	1994	1995	1996	1997	1998 p/	1999 p/	2000e/
CONSTANT PRICES										
Final Consumption Expenses	4,157	4,303	4,411	4,402	4,454	4,696	4,813	5,117	5,149	5,404
Gross Formation of Fixed Capital	879	1,116	1,516	1,514	1,297	1,378	1,596	1,761	1,872	1,784
Inventory Variations	286	194	177	303	574	386	307	148	181	347
Export of Goods and Services	1,604	1,732	1,713	1,540	1,749	1,890	1,915	1,945	1,728	1,813
Import of Goods and Services	1,592	1,711	1,832	1,852	1,926	1,973	1,945	2,091	2,180	2,275
GDP p.m.	5,334	5,634	5,985	5,907	6,148	6,368	6,686	6,880	6,750	7,073
Net Income for Production Factors Rest of the World	-387	-464	-273	-234	-271	-242	-172	-153	-115	-99
GNP p.m.	4,947	5,170	5,712	5,673	5,877	6,126	6,514	6,727	6,635	6,974
Net Indirect Taxes	-866	-884	-924	-956	-918	-977	-1,016	-1,059	-997	-979
Net National Product	4,081	4,286	4,788	4,717	4,959	5,149	5,498	5,668	5,638	5,995
CURRENT PRICES										
Final Consumption Expenses	12,790	14,691	17,122	20,894	27,313	35,338	45,154	54,300	61,784	71,676
Gross Formation of Fixed Capital	3,096	4,202	6,535	8,110	8,994	11,468	15,732	19,874	22,977	23,826
Inventory Variations	926	679	1,079	2,751	2,842	3,400	3,994	1,910	3,258	4,511
Export of Goods and Services	5,632	6,048	7,869	11,498	16,391	22,378	28,217	32,447	32,233	36,620
Import of Goods and Services	6,130	6,820	9,916	14,391	18,033	24,821	31,775	38,092	43,157	49,110
GDP p.m.	16,314	18,800	22,689	28,862	37,507	47,763	61,322	70,438	77,095	87,523
Net Income for Production Factors Rest of the World	-1,499	-1,859	-1,498	-1,825	-2,533	-3,069	-2,872	-2,854	-2,354	-2,199
GNP p.m.	14,815	16,941	21,191	27,037	34,974	44,694	58,450	67,584	74,741	85,324
Net Indirect Taxes	-3,454	-3,889	-4,566	-5,799	-7,139	-9,448	-11,740	-14,456	-15,859	-17,421
Net National Product	11,361	13,052	16,625	21,238	27,835	35,246	46,710	53,128	58,882	67,903

Source: 1999 August and November Statistical Bulletins. Department of Economic Studies, B.C.H

/p Preliminary

/e Estimated

ANNEX D.3

PER-CAPITA GROSS DOMESTIC PRODUCT											
(In Lempiras of 1978)											
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999 /p	2000 /e
Population (In thousands)	4,744.5	4,885.5	5,029.0	5,173.1	5,317.8	5,462.8	5,608.3	5,754.5	5,901.2	6,048.2	6,194.9
GDP	5,166	5,334	5,634	5,985	5,907	6,148	6,368	6,686	6,880	6,750	7,073
GNP	4,020	4,081	4,286	4,788	4,717	4,959	5,149	5,498	5,668	5,638	5,995
GDP Per-Capita	1,089	1,092	1,120	1,157	1,111	1,125	1,135	1,162	1,166	1,116	1,142
GNP Per-Capita	847	835	852	926	887	908	918	955	960	932	968

p Preliminary

e Estimated

Source: UNAT, based on figures from Central Bank of Honduras, SECPLAN, FNUAP & DGEC.

ANNEX D.4

BALANCE OF PAYMENT OF HONDURAS										
(In US\$ Million)										
DESCRIPTION	1991	1992	1993	1994	1995	1996	1997	1998/p	1999/p	2000/e
Balance in Current Account										
Export Mds. and Services	1,058.3	1,102.7	1,227.2	1,389.6	1,763.1	1,944.3	2,211.0	2,484.5	2,352.3	2,581.1
Import Mds. and Services	1,425.1	1,576.8	1,772.7	1,952.0	2,204.0	2,414.9	2,705.5	3,119.8	3,288.7	3,537.1
Balance of Goods & Serv.	-366.8	-474.1	-545.5	-562.4	-440.9	-470.6	-494.5	-635.3	-936.4	-956.0
Transfers	197.3	216.0	218.3	210.9	264.0	276.7	312.0	487.5	736.9	752.0
Balance in Current Account	-169.5	-258.1	-327.2	-351.5	-176.9	-193.9	-182.5	-147.8	-199.5	-204.0
Capital Account										
Long and Medium Term	9.1	189.0	340.1	150.0	141.9	84.9	115.5	179.5	426.3	197.0
Short Term	126.2	81.3	-133.5	98.9	72.4	142.3	109.5	11.6	-19.0	-26.1
Total	135.3	270.3	206.6	248.9	214.3	227.2	225.0	191.1	407.3	170.9
Errors and Omissions	82.0	39.0	-71.3	82.1	1.6	69.4	144.7	98.0	8.2	27.1
Global Balance	-89.5	-72.9	105.3	-17.2	-39.0	-102.7	-187.2	-141.3	-216.0	6.0
RIN Exchange	-89.5	-72.9	105.3	-17.2	-136.4	-174.3	-295.1	-230.0	-473.9	-118.8
Exceptional Financing					97.4	71.6	107.9	88.7	257.9	124.8

p/ Preliminary

e/ Estimated

Source: Economic Studies Central Bank of Honduras.

ANNEX D.5

CENTRAL GOVERNMENT FINANCIAL ACCOUNT										
(Million Lempiras)										
<i>DESCRIPTION</i>	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 <i>a/</i>
TOTAL INCOME	2,843.1	3,376.6	3,912.8	4,707.5	6,884.6	7,982.7	10,367.1	13,192.2	14,957.9	16,012.0
Current Income <i>b/</i>	2,843.1	3,268.3	3,769.9	4,588.0	6,857.4	7,954.2	10,342.1	13,176.3	14,841.9	15,801.5
Capital Income <i>c/</i>	n.d.	108.3	142.9	119.5	27.4	28.5	25.0	15.9	18.9	10.5
Interests Accrued									97.1	60.0
External Transfers										140.0
Current Expense	2,684.1	3,117.6	4,015.7	4,289.0	5,537.0	7,377.1	9,233.5	10,287.6	12,167.9	14,585.2
Consumption Expenses	1,670.2	1,945.0	2,300.1	2,558.7	3,263.1	4,238.6	5,281.2	6,275.3	7,746.5	10,276.2
Wages and Salaries	1,069.5	1,276.8	1,496.9	1,872.0	2,315.9	2,924.3	3,453.4	4,487.0	5,655.0	7,252.3
Employer Contributions	99.3	113.2	129.6	155.8	198.1	232.1	285.8	366.9	491.2	640.3
Goods and Services	501.4	555.0	673.6	530.9	749.1	1,082.2	1,542.0	1,421.4	1,600.3	2,383.6
Debt Interests	648.8	722.5	779.1	1,139.0	1,409.1	1,649.5	2,084.0	1,965.1	1,716.8	1,437.9
Internal	247.2	253.2	275.0	348.1	444.0	695.7	971.5	557.7	580.3	393.9
External	401.6	469.3	504.1	790.9	965.1	953.8	1,112.5	1,407.4	1,136.5	1,044.0
Transfers	365.1	450.1	936.5	591.3	864.8	1,489.0	1,868.3	2,047.2	2,704.6	2,871.1
Savings in Current Account	159.0	150.7	-245.8	299.0	1,320.4	577.1	1,108.6	2,888.7	2,674.0	1,416.3
Net Capital and Loan Expenses	695.6	1,187.6	1,997.2	2,008.5	2,513.4	2,266.6	3,024.4	4,078.4	6,047.9	6,340.1
Real Investment	434.0	731.9	1,470.3	1,010.6	1,305.9	1,352.6	1,657.5	2,264.7	2,092.4	2,458.2
Financial Investment <i>d/</i>	-104.1	115.1	-40.9	472.8	570.5	147.9	263.0	-20.8	1,502.7	570.9
Transfers	365.7	340.6	567.8	525.1	637.0	766.1	1,103.9	1,834.5	2,452.8	3,311.0
TOTAL EXPENSES	3,379.7	4,305.2	6,012.9	6,297.5	8,050.4	9,643.7	12,257.9	14,366.0	18,215.8	20,925.3
Net Deficit and Its Financing	-536.6	-928.6	-2,100.1	-1,590.0	-1,165.6	-1,661.0	-1,890.8	-1,173.8	-3,257.9	-4,913.3
Internal Credit	-262.5	-193.6	404.7	52.1	41.0	27.3	-134.1	-781.4	109.2	953.3
External Financing	965.4	1,455.9	2,157.4	1,304.9	1,728.2	1,864.4	1,958.4	1,750.8	4,650.4	3,241.8
External Credit	817.3	1,157.6	1,899.3	1,159.2	1,485.5	1,691.9	1,631.3	1,361.5	3,026.8	2,125.3
External Transfers	148.1	298.3	258.1	145.7	242.7	172.5	327.1	389.3	1,623.6	1,116.5
Decrease of External Obligations <i>f/</i>	-367.9	-402.2	-348.0	-260.1	-420.7	-749.2	-612.1	-646.4	-590.6	-58.6
Delay for Debt Payment	113.1	15.8	14.5	67.0	52.3	78.7	138.7	94.2		
Foreign Bond Tenure										-859.5
Balance Resources										656.4
Public Enterprise Resources in Previous Years										1,371.5
Other Financial Resources <i>e/</i>										
Cash Variation <i>g/</i>	88.5	51.7	-166.6	357.0	-264.7	421.7	190.4	434.3	-1,113.1	-819.9

Source: SEFIN

a/ Preliminary

b/ Includes Tax collection to Net Assets

c/ Income for sale of assets

d/ Net loan conversion included

e/ Floating debt and deposit decrease included

f/ Loan recovery included

g/ Plus sign means cash excess

ANNEX D.6

EXTERNAL PUBLIC DEBT BY SOURCE										
(Balance in Million Dollars)										
DESCRIPTION	1991	1992	1993	1994	1995	1996	1997	1998 p/	1999 e/	2000 e/
MULTILATERALS	1,753.7	1,989.4	2,161.1	2,188.5	2,293.3	2,231.1	2,246.3	2,403.3	2,753.2	2,724.6
<i>CABEI</i>	361.0	380.1	397.3	384.5	393.3	409.1	406.7	406.1	391.3	365.5
<i>IDB</i>	760.0	842.2	941.9	971.2	982.6	991.4	988.1	1,035.9	1,091.6	1,107.0
<i>BIRF</i>	413.7	387.5	382.8	353.8	326.8	286.4	248.2	209.9	174.1	146.0
<i>IDA-WB</i>	127.4	190.2	247.0	294.2	383.5	424.7	498.8	580.3	842.1	835.0
<i>OPEP</i>	nd	nd	nd	nd	nd	nd	nd	nd	nd	n.d
<i>IDB Savings and Loan</i>	nd	nd	nd	nd	nd	nd	nd	nd	nd	n.d
<i>FIDA</i>	nd	nd	nd	nd	nd	nd	nd	nd	nd	25.0
<i>Others</i>	91.6	189.4	192.1	184.8	207.1	119.5	104.5	171.1	254.1	246.1
BILATERALS	1,227.7	1,366.2	1,362.0	1,394.2	1,516.8	1,465.2	1,361.9	1,398.1	1,397.2	1,460.0
<i>Canada</i>	nd	nd	nd	nd	nd	nd	nd	nd	nd	17.0
<i>United States of America</i>	135.3	142.1	151.8	157.9	158.5	157.6	149.6	143.0	138.3	141.0
<i>Venezuela</i>	nd	nd	nd	nd	nd	nd	nd	nd	nd	19.0
<i>Japan</i>	490.3	483.3	483.5	430.8	430.7	385.4	340.2	374.9	420.9	429.0
<i>Germany</i>	92.2	108.3	124.8	119.4	133.7	125.5	114.9	124.5	103.5	111.0
<i>France</i>	119.1	118.1	116.8	104.8	105.8	98.3	87.5	81.5	54.5	51.0
<i>Spain</i>	55.6	73.1	117.0	156.1	197.3	197.5	201.1	202.3	209.3	227.0
<i>Italy</i>	78.1	88.0	106.4	121.8	143.4	134.9	121.7	153.3	138.6	164.0
<i>Others</i>	257.1	353.3	261.7	303.4	347.4	366.0	346.9	318.6	332.1	301.0
PRIVATE	99.6	53.0	169.9	160.9	187.0	189.0	178.2	23.3	37.7	17.3
TOTAL	3,081.0	3,408.6	3,693.0	3,743.6	3,997.1	3,885.3	3,786.4	3,824.7	4,188.1	4,201.9

nd Not available

p/ Preliminary

e/ Estimated

SOURCE: Minutes 1985 – 1999. Ministry of Finance

ANNEX D.7

CENTRAL GOVERNMENT: SOCIAL EXPENSES*					
(Million Lempiras)					
DESCRIPTION	1997	1998	1999	2000 a/	2001 b/
A. INVESTING IN HUMAN CAPITAL	2,973.1	3,700.7	4,841.1	6,598.7	7,8882.9
1. Education	1,821.6	2,411.5	3,049.5	4,116.3	5,213.5
a. Primary and Middle	1,460.2	1,802.6	2,290.7	3,069.9	4,133.6
Primary and Middle Education	1,459.0	1,801.4	2,274.5	2,952.8	3,840.2
Alternative Education			10.0	20.0	20.0
Widening Horizons			5.0	43.2	30.0
PROHECO				52.7	242.2
INFOP	1.2	1.2	1.2	1.2	1.2
b. Superior	361.4	608.9	758.8	1,046.4	1,079.9
UNAH	306.6	508.4	627.5	861.7	846.1
National Teachers University	54.8	100.5	131.3	184.7	233.8
2. Health and Sanitation	1,151.5	1,289.2	1,791.6	2,482.4	2,669.4
a. Health	1,039.4	1,033.4	1,335.7	2,147.0	2,066.5
Primary attention and illness control	328.0	384.3	574.4	652.3	702.7
Environmental sanitation and Health promotion	59.4	65.8	83.3	117.0	263.7
UNAH (scholarships for medicine students)	4.3	4.8	7.8	12.1	16.1
Social Service Scholarship (Medicine)			20.1	26.3	89.3
IHADFA	3.0	7.0	5.0	5.0	5.0
Others	644.7	571.5	645.1	1,334.3	989.7
b. Water and Sanitation	112.1	255.8	455.9	335.4	602.7
B. SOCIAL SAFETY NETS	1,400.6	1,427.9	1,904.8	1,955.4	3,109.6
1. Contributions to Prevision Institutions	142.0	176.6	223.4	296.9	215.2
IMPREMA	62.8	78.5	98.7	127.5	95.2
INJUPEMP	79.2	98.1	124.7	169.4	120.0
2. Transfers	1,258.6	1,252.3	1,681.4	1,658.5	2,894.4
a. Social Compensation	916.1	851.8	1,238.9	1,062.0	2,280.9
FHIS	650.3	579.3	967.1	653.4	1,842.5
PRAF	215.2	187.5	187.2	318.5	335.1
IHNFA	50.6	85.0	80.9	84.1	95.3
INAM			3.7	6.0	8.0
b. Subsidy and Scholarships	342.5	399.5	442.5	596.5	613.5
Electric Energy Subsidy	223.1	271.5	278.9	387.0	320.0
Urban Transport Subsidy	109.4	113.5	119.8	115.6	114.0
Transport bonus (Student)	10.0	5.7	8.8	9.8	15.0
Transport Educational Bonus		5.7	11.6	9.8	15.0
Academic excellence scholarship				48.8	50.0
Family Educational Bonus		3.1	4.7	3.8	20.0
Scholarship, Assistance and Social Service			18.7	21.7	79.5
C. HOUSING			16.3		50.0
D. RURAL SECTOR SUPPORT	32.4	99.2	170.1	361.1	564.6
1. Development Programs	12.4	49.6	46.1	247.6	413.9
FONADERS				138.4	214.9
PROSOC			1.8	28.5	91.1
PRODERCO		23.4	23.2	45.9	65.8
Others	12.4	26.2	21.1	34.8	42.1
2. Rural Electrification	20.0	49.6	124.0	113.5	150.7
TOTAL SOCIAL EXPENSE	4,406.1	5,227.8	6,932.3	8,915.2	11,607.1
TOTAL EXPENSE	12,410.0	14,703.0	18,874.9	20,889.9	26,085.6
% TOTAL EXPENSE	35.5%	35.6%	37.5%	42.7%	44.5%

Source: UPEG/SEFIN

* Figures implemented each year except 2001

a/Preliminary

b/ Budgeted

ANNEX D.8

HONDURAS: SOCIAL EXPENSE RATIOS					
(In Percentages)					
Description	1997	1998	1999	2000	2001/p
Social Expense- GDP	7.2%	7.4%	9.0%	10.1%	11.5%
Education	3.0%	3.4%	4.0%	4.7%	5.2%
Health and Sanitation	1.9%	1.8%	2.3%	2.8%	2.6%
Social Safety Nets	2.3%	2.0%	2.5%	2.2%	3.1%
Rural Sector Support	0.1%	0.1%	0.2%	0.4%	0.6%
Social Exp. – Gov. Exp.	35.5%	35.5%	37.5%	42.7%	44.5%
Education	14.7%	16.4%	16.5%	19.7%	20.0%
Health and Sanitation	9.3%	8.8%	9.7%	11.9%	10.2%
Social Safety Nets	11.3%	9.7%	10.3%	9.4%	11.9%
Rural Sector Support	0.3%	0.7%	0.9%	1.7%	2.2%
Per Capita Expense (in Lps)	765.68	885.69	1,146.18	1,439.12	1,836.91
Education	316.55	408.65	504.20	664.47	825.08
Health and Sanitation	200.10	218.46	296.22	400.72	422.45
Social Safety Nets	243.39	241.97	314.94	315.65	492.11
Rural Sector Support	5.63	16.81	28.12	58.29	89.35

p/ Projected figures
Source: SEFIN - BCH

ANNEX D.9

PRICE AVERAGE INDEX TO CONSUMER BY REGIONS AND ITEMS											
(1978=100)											
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 p/
REGIONS											
Central	278.1	368.4	399.3	437.6	523.8	674.8	818.8	978.2	1102.2	1222.2	1381.1
Northern	284.6	384.1	419.4	468.2	581.3	758.7	957.5	1161.5	1326.4	1494.7	1644.2
Western	359.1	403.1	403.1	449.3	545.2	707.6	897.2	1102.4	1282.6	1404.5	1545.0
Eastern	279.0	379.1	406.6	454.3	549.4	718.5	893.9	1059.8	1208.0	1306.5	1435.8
Southern	268.3	367.2	400.5	453.7	549.0	682.5	847.8	993.0	1163.5	1327.3	1473.3
ITEMS											
Food	255.5	367.2	390.1	439.5	559.7	718.1	895.3	1072.4	1198.1	1292.6	1392.1
Beverage & Tobacco	361.0	451.9	565.6	631.4	740.8	914.1	1120.5	1322.2	1601.5	1800.2	1985.6
Health Care	271.6	391.6	432.1	488.3	621.9	784.9	960.5	1195.1	1413.9	1678.0	2072.3
Personal Care	278.9	343.0	364.0	384.4	465.5	605.6	751.3	917.0	1065.0	1160.1	1278.4
Education & Leisure	303.7	378.7	436.2	494.2	610.3	830.3	1014.9	1308.3	1634.1	1836.9	2056.2
Transport	253.2	290.4	303.8	323.5	366.6	612.1	791.4	948.6	1068.7	1225.8	1528.6
Clothing	356.3	506.7	560.3	602.6	671.9	826.8	1008.9	1295.0	1496.4	1691.3	1845.2
Funct. House. Home	279.7	345.2	373.3	408.2	483.2	633.5	783.7	904.7	1005.1	1160.4	1268.3

P/ Projected by UNAT, according to data from Central Bank of Honduras

Source: Department of Economic Studies, Central Bank of Honduras.

ANNEX D.10

POPULATION INDICATORS OF WORKING AGE AND EAP BY GENDER, 10 TO 14 YEARS (Thousands of People)											
	1990	1991	1992*	1993**	1994*	1995	1996	1997	1998	1999	% Exchange 90-99
<i>POPULATION OF WORKING AGE</i>											
Men	347.4	352.7	380.6	371.1	388.1	406.6	395.6	420.5	413.7	421.4	21.3
Women	328.6	343.9	351.3	336.7	363.7	380.9	389.0	395.3	391.6	424.0	29.0
National Total	676.0	696.6	731.9	707.8	751.8	787.5	784.6	815.8	805.3	845.4	25.1
<i>POPULATION OF WORKING AGE - URBAN</i>											
Men	128.6	134.3	134.7	145.8	153.0	164.1	155.3	166.3	165.7	165.6	28.8
Women	130.5	130.7	137.7	135.7	146.6	153.1	148.3	152.1	149.3	170.3	30.5
Urban Total	259.1	265.0	272.4	281.5	299.6	317.2	303.6	318.4	315.0	335.9	29.6
<i>POPULATION OF WORKING AGE - RURAL</i>											
Men	218.8	218.4	245.9	225.3	235.0	242.4	240.3	254.2	248.1	255.7	16.9
Women	198.1	213.2	213.6	201.0	217.1	227.8	240.6	243.2	242.2	253.7	28.1
Rural Total	416.9	431.6	459.5	426.3	452.1	470.2	480.9	497.4	490.3	509.4	22.2
<i>ECONOMICALLY ACTIVE POPULATION</i>											
Men	65.8	46.7	57.8	62.2	60.6	72.7	72.6	74.2	68.8	99.3	51.0
Women	12.3	12.3	13.4	20.6	19.0	17.3	24.3	30.9	16.2	39.1	218.5
National Total	78.1	59.0	71.2	82.8	79.6	90.0	96.9	105.1	85.0	138.4	77.3
<i>ECONOMICALLY ACTIVE POPULATION - URBAN</i>											
Men	11.3	8.8	12.7	12.6	13.6	18.3	14.8	14.6	16.0	21.8	92.2
Women	5.5	3.8	6.1	4.9	8.8	8.8	9.8	12.5	7.7	14.8	171.7
Urban Total	16.8	12.6	18.8	17.5	22.4	27.1	24.6	27.1	23.7	36.6	118.1

* Excluded are cases that report expansion with value of 0 in the original data basis.

** The March Survey is counted.

Source: Permanent Household Survey, DGEC.

ANNEX D.11

POPULATION OF WORKING AGE AND ECONOMICALLY ACTIVE POPULATION >= OF 15 YEARS (Thousand of People)											
	1990	1991	1992*	1993**	1994*	1995	1996	1997	1998	1999	%
	Exchange										
POPULATION OF WORKING AGE											
Men	1,199	1,255	1,332	1,363	1,411	1,443	1,498	1,536	1,600	1,617	34.8
Women	1,310	1,406	1,469	1,496	1,551	1,578	1,652	1,711	1,772	1,819	38.9
National Total	2,509	2,661	2,801	2,859	2,962	3,021	3,150	3,247	3,372	3,436	36.9
Men	502	526	565	591	616	645	673	693	731	742	48.0
Women	619	660	696	702	744	772	815	851	878	915	47.6
Urban Total	1,121	1,186	1,261	1,293	1,360	1,417	1,488	1,544	1,609	1,657	47.8
Men	698	730	767	772	795	798	825	843	869	875	25.3
Women	690	746	773	794	807	806	837	860	893	905	31.1
Rural Total	1,388	1,476	1,540	1,566	1,602	1,604	1,662	1,703	1,762	1,780	28.2
ECONOMICALLY ACTIVE POPULATION											
Men	1,046	1,076	1,132	1,159	1,209	1,246	1,314	1,346	1,390	1,407	34.6
Women	423	457	525	531	537	546	663	707	694	805	90.0
National Total	1,469	1,533	1,657	1,690	1,746	1,792	1,977	2,053	2,084	2,212	50.6
Men	406	422	452	473	493	519	554	577	600	609	50.1
Women	269	275	307	312	317	348	402	431	430	491	82.4
Urban Total	675	697	759	785	810	867	956	1,008	1,030	1,100	63.0
Men	640	654	680	687	716	728	761	769	790	799	24.8
Women	154	182	218	219	220	198	261	276	264	314	103.4
Rural Total	794	836	898	906	936	926	1,022	1,045	1,054	1,113	40.1

* Cases are excluded that report expansion, with value of 0 in the original data basis.

** The March survey is counted.

Source: Permanent Household Survey, DGEC.

ANNEX D.12

PERCENTAGE RATES OF PARTICIPATION OF THE EAP IN THE LABOR MARKET										
	1990	1991	1992*	1993**	1994*	1995	1996	1997	1998	1999 Sep.
ECONOMICALLY ACTIVE POPULATION BETWEEN 10 AND 14 YEARS										
Men	18.9	13.2	15.2	16.8	15.6	17.9	18.3	17.7	16.6	23.6
Women	3.7	3.6	3.8	6.1	5.2	4.5	6.3	7.8	4.1	9.2
National Total	11.5	8.5	9.7	11.7	10.6	11.4	12.3	12.9	10.6	16.4
Men	8.8	6.5	9.4	8.7	8.9	11.2	9.6	8.8	9.6	13.1
Women	4.2	2.9	4.5	3.6	6.0	5.7	6.6	8.2	5.2	8.7
Urban Total	6.5	4.7	6.9	6.2	7.5	8.5	8.1	8.5	7.5	10.9
Men	24.9	17.3	18.3	22.0	20.0	22.4	24.0	23.5	21.3	30.3
Women	3.4	4.0	3.4	7.8	4.7	3.7	6.0	7.5	3.5	9.6
Rural Total	14.7	10.8	11.4	15.3	12.6	13.4	15.0	15.7	12.5	20.0
POPULATION IN ACTIVE AGE 15 YEARS AND MORE										
Men	87.2	85.7	85.0	85.0	85.7	86.4	87.8	87.6	86.9	87.1
Women	32.3	32.5	35.8	35.5	34.6	34.6	40.1	41.3	39.2	44.2
National Total	58.5	57.6	59.2	59.1	58.9	59.3	62.8	63.2	61.8	64.4
Men	80.8	80.3	79.9	79.9	80.0	80.5	82.3	83.2	82.2	82.0
Women	43.5	41.6	44.2	44.4	42.5	45.0	49.3	50.6	48.9	53.7
Urban Total	60.2	58.8	60.2	60.7	59.5	61.1	64.2	65.3	64.0	66.4
Men	91.7	89.6	88.7	89.0	90.1	91.1	92.2	91.2	90.9	91.3
Women	22.3	24.4	28.2	27.6	27.2	24.6	31.2	32.1	29.6	34.7
Rural Total	57.2	56.7	58.3	57.8	58.4	57.7	61.5	61.3	59.8	62.5

* Cases are excluded that report expansion, with value of 0 in the original data basis.

** The March survey is counted.

Source: Permanent Household Survey, DGEC.

ANNEX D.13

MONTHLY SALARY BY DOMAIN AND GENDER (In Lempiras)										
	1990	1991	1992*	Mar-93	1994*	1995	1996	1997	1998	Sep-99
RURAL										
Men	230.2	365.1	428.9	418.3	546.0	649.3	774.7	912.8	1,135.8	1,324.4
Women	252.6	363.4	408.6	432.2	579.8	672.0	791.7	915.4	1,213.2	1,462.4
Rural Total	233.8	364.7	423.5	421.6	554.4	654.1	778.7	913.4	1,154.0	1,359.1
URBAN										
Men	531.3	684.0	805.6	859.5	1,088.0	1,329.9	1,597.8	2,020.4	2,351.2	2,912.3
Women	409.6	512.0	608.5	641.4	806.6	1,028.1	1,285.9	1,586.6	1,919.0	2,288.7
Urban Total	487.2	617.4	726.8	775.7	979.5	1,214.9	1,470.9	1,840.9	2,174.0	2,647.3
NATIONAL										
Men	387.7	548.3	631.7	647.7	840.4	1,025.2	1,245.1	1,525.5	1,804.9	2,218.5
Women	372.5	470.6	545.9	576.7	737.0	934.6	1,160.5	1,402.1	1,731.7	2,073.1
National Total	383.5	522.3	602.3	625.0	806.3	996.6	1,216.0	1,482.3	1,779.8	2,166.1

* Cases are excluded that report expansion, with value of 0 on the original data basis.

Note: Cases were selected of ages >= 15 years those occupied that reported a monthly income in main occupation.

Source: Permanent Household Survey, DGEC.

ANNEX D.14

MIMIMUM DIARY SALARY EVOLUTION IN Lps. (1990 - 2000)			
Validity Period	Average Salary	Increase	
		Absolute	Percentage
January 90 – September 90	8.56		
October 90 – July 91	10.20	1.64	19.1
July 91 – May 92	12.47	2.27	22.2
June 92 – May 93	14.28	1.81	14.5
June 93 – December 94	16.30	2.02	14.2
January 93 – February 96	19.67	3.37	20.1
March 96 – January 97	24.68	5.01	25.5
January 97 – December 97	30.85	5.17	25.0
January 98 – June 99	36.14	5.29	17.1
July 99 – December 99	45.20	9.06	25.1
January 00 – September 00	47.92	2.72	6.0
October 00 – January 01	50.92	3.0	9.9
February 01	56.92	6.0	12.0

Source: Ministry of Labor and Social Security

ANNEX D.15

INVISIBLE AND VISIBLE SUB-EMPLOYED, BY AREA AND GENDER																				
	1990		1991		1992*		1993**		1994*		1995		1996		1997		1998		1999 Sep.	
INVISIBLE AND VISIBLE SUB-EMPLOYED BY REGION AND GENDER (Thousand People))																				
Gender	Inv.	Vis.	Inv.	Vis.	Inv.	Vis.	Inv.	Vis.	Inv.	Vis.	Inv.	Vis.	Inv.	Vis.	Inv.	Vis.	Inv.	Vis.	Inv.	Vis.
Men	342.6	21.1	369.1	12.8	326.5	13.5	305.8	21.9	295.1	16.5	308.3	18.1	294.8	25.0	331.9	22.4	349.9	18.4	383.2	29.0
Women	133.3	22.4	163.2	16.4	159.9	14.9	170.3	21.1	140.2	13.5	131.5	13.5	143.5	26.4	154.4	28.6	140.6	18.6	148.0	25.0
NATIONAL TOTAL	475.9	43.5	532.3	29.2	486.4	28.4	476.1	43.0	435.3	30.0	439.8	31.6	438.3	51.4	486.3	51.0	490.5	37.0	531.2	54.0
Men	71.3	11.8	99.8	7.1	75.1	6.0	84.6	10.5	78.1	6.0	58.3	9.4	65.2	12.1	73.7	11.9	66.9	9.6	83.3	11.9
Women	80.9	12.3	95.1	8.3	83.6	6.8	89.5	11.6	78.6	6.4	70.0	8.1	79.9	15.3	84.3	14.6	71.8	11.2	81.0	12.1
URBAN TOTAL	152.2	24.1	194.9	15.4	158.7	12.8	174.1	22.1	156.7	12.4	128.3	17.5	145.1	27.4	158.0	26.5	138.7	20.8	164.3	24.0
Men	271.3	9.3	269.3	5.7	251.4	7.5	221.2	11.4	217.0	10.5	250.0	8.7	229.6	12.9	258.2	10.5	283.0	8.8	299.9	17.0
Women	52.4	10.1	68.1	8.1	76.3	8.1	80.8	9.5	61.6	7.1	61.5	5.4	63.6	11.1	70.1	14.0	68.8	7.4	67.0	12.9
RURAL TOTAL	323.7	19.4	337.4	13.8	327.7	15.6	302.0	20.9	278.6	17.6	311.5	14.1	293.2	24.0	328.3	24.5	351.8	16.2	366.9	29.9
VISIBLE AND INVISIBLE SUB-EMPLOYMENT RATES BY AREA AND GENDER																				
Men	32.8	2.0	34.3	1.2	28.8	1.2	26.4	1.9	24.4	1.4	24.7	1.5	22.4	1.9	24.7	1.7	25.2	1.3	27.2	2.1
Women	31.5	5.3	35.7	3.6	30.4	2.8	32.1	4.0	26.1	2.5	24.1	2.5	21.6	4.0	21.8	4.0	20.3	2.7	18.4	3.1
NATIONAL	32.4	3.0	34.7	1.9	29.3	1.7	28.2	2.5	24.9	1.7	24.5	1.8	22.2	2.6	23.7	2.5	23.5	1.8	24.0	2.4
Men	17.6	2.9	23.7	1.7	16.6	1.3	17.9	2.2	15.8	1.2	11.2	1.8	11.8	2.2	12.8	2.1	11.1	1.6	13.7	2.0
Women	30.0	4.6	34.6	3.0	27.2	2.2	28.7	3.7	24.8	2.0	20.1	2.3	19.9	3.8	19.5	3.4	16.7	2.6	16.5	2.5
URBAN	22.6	3.6	28.0	2.2	20.9	1.7	22.2	2.8	19.4	1.5	14.8	2.0	15.2	2.9	15.7	2.6	13.5	2.0	14.9	2.2
Men	42.4	1.4	41.2	0.9	36.9	1.1	32.2	1.7	30.3	1.5	34.4	1.2	30.2	1.7	33.6	1.4	35.8	1.1	37.5	2.1
Women	34.0	6.6	37.4	4.4	35.0	3.7	36.9	4.4	28.0	3.2	31.1	2.7	24.4	4.2	25.4	5.1	26.0	2.8	21.4	4.1
RURAL	40.8	2.4	40.3	1.7	36.5	1.7	33.3	2.3	29.8	1.9	33.7	1.5	28.7	2.3	31.4	2.3	33.4	1.5	33.0	2.7

*Cases are excluded that report expansion, with value of 0 in the original data basis.

**March survey is counted.

Source: Permanent Household Survey, DGEC.