

Honduras Executive Summary



Preface

Poverty reduction strategies respond to legitimate concerns about the problem of persistent and high poverty levels in many developing countries. The international community has provided new incentives to poor countries to develop so-called Poverty Reduction Strategy Papers (PRSPs) which should lay down nationally defined strategies to reduce poverty. The strategy should be based on a participatory process of consultations between the government and civil society and should take a long-term perspective. This way sufficient national ownership should be created to yield the necessary commitment to effectively implement the policies geared at poverty reduction. The commitment of the donors is to support the strategy with financial resources and debt relief.

The Swedish International Development Cooperation Agency, Sida, has engaged the Institute of Social Studies (ISS) in The Hague, to monitor and evaluate the PRSP processes in the three Latin America countries eligible for debt relief: Bolivia, Honduras and Nicaragua. The study will be carried out over a period of 5 years, beginning in 2003.

Each year, five reports will be elaborated, including three country reports, one regional report and a thematic report. The country reports for 2003 provide an in-depth analysis of the PRSP process itself, assessing in particular the process of consultation and policy dialogue with civil society and to what extent these have laid the basis for a broad-based and effective poverty reduction strategy. The analysis of the country reports is supported by a detailed and systematic stakeholder analysis, including the stock-taking of the views of local actors through visits to several municipalities in the three countries. A comparative analysis of the experience in the three countries is presented in the regional report, highlighting lessons to be learned for governments, civil society and the donor community. The thematic report for 2003 focuses on the process of decentralization and participation as part of the PRSP process. It is important to remember that the PRSP process is a continuous process, subject to frequent changes. Information for this report was collected (and interviews were conducted) between April and July 2003, though the report has been updated to include developments through December 2003.

The five reports aim to make a contribution to existing evaluations of the PRSP process through the regional focus and an impartial assessment of the PRSP, resulting from the ISS's complete independency in the process of design, implementation and financing of the strategies.

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1. Introduction

The *Heavily Indebted Poor Countries* (HIPC) debt relief initiative conditions substantial financial resources (US\$ 934 million) until 2015 to the adoption of macroeconomic stabilisation and structural adjustment measures. For the first time, however, conditionality expands beyond traditional international financial lending. Thus, this initiative earmarks both internal and external resources into specific social sector projects and programs whilst demands wider participation from national civil society organisations in its elaboration and implementation.

The Honduras PRS aims at bringing together economic, social, political and institutional efforts with available international financing around a participatory process of poverty reduction

The HIPC initiative also calls for the elaboration of a Poverty Reduction Strategy (PRS). This Strategy ultimately brings together economic, social, political and institutional efforts in order to reduce poverty with available international financial support. This should result in a consistent scheme comprising: a thorough diagnosis of poverty causes; clear and priority strategies to uproot poverty; and detailed and monitorable poverty reduction goals. Specifically, the Honduras PRS expects resources for a total of US\$ 2,665 million. These resources will accrue from debt relief; projects and programs in the pipeline; and additional national and international financing (still to be identified). Among its main goals, the Honduras PRS aims at the reduction of extreme and total income poverty by twenty four percent points between 2001 and 2015. Access to the first two cycles of primary education is aimed at 95% by 2015. Under-5 malnutrition rates are expected to go down to 20% while the current gender human development index for women should rise some 20%.

Ultimately, the PRS means to consolidate a series of development processes still in progress in Honduras. These processes refer to the reconstruction and transformation caused by Hurricane Mitch; the transition towards truly participatory democracy after military regimes; the economic liberalisation process; the modernisation of the State; the consolidation of institutions and local governance; and finally the consolidation of welfare trends after decades of sustained improvement.

It is still early to assess the capacity of the PRS to effectively bring about the desired consolidation of these open processes. Nonetheless, it is a convenient time to assess those processes leading to the current PRS. In particular, it is necessary to evaluate the consultation experience prior to the elaboration of the PRS. A critical underlying question refers to the

degree of participation in those consultations and in the design of the Poverty Reduction Strategy Paper (PRSP). It is also relevant to determine the degree of ownership among participating stakeholders. In contrast with previous assessments of the PRS, the present report evaluates these core issues using a combination of techniques:

- detailed analysis of primary and secondary sources describing the consultation, elaboration and implementation processes;
- a stakeholder analysis on influences and participation;
- interviews to participating stakeholders in subsequent phases of the PRS;
- and yearly follow-up visits to three municipalities to assess the implementation and monitoring of the PRS.

This current evaluation explores both past and on-going processes (consultation, elaboration, implementation, monitoring) as well as future expectations of the PRS as parts of an integrated scheme. In this aspect, this analysis differs from previous assessments typically isolating each PRS phase as a self-contained process. In addition, this study benefits from insights gained after the two years elapsed from the official approval of the PRSP.

The structure of this report is as follows. Section 2 presents the socioeconomic and political contexts within which the PRS was engendered. Section 3 assesses the PRS consultation process, focusing on the degree of participation across national and international stakeholders. Section 4 elaborates on the quality of the PRSP document. Quality refers to the consistency of contents in the PRSP and the ability of the document to effectively capture a multidimensional concept of poverty. This section also evaluates the capacity of the PRSP to single out the roots of poverty. Also, its ability to estimate the magnitude of their impacts and to link proposed poverty reduction strategies with specific poverty reduction goals. Section 5 reviews critically the current progress on the PRS implementation against its original schedule. Section 6 focuses on the roles played by the international community in the consultation, elaboration and implementation processes, as well as on its future implementation of the PRS. Finally, Section 7 summarises main findings and reflects on the obstacles and challenges shaping the implementation of the PRS in the immediate future.

2. Social, political and economic contexts in Honduras prior to the PRS process

In general, the prevailing socioeconomic context throughout the Nineties proved more an obstacle than an opportunity for the PRS process. In contrast, political conditions during that period provided a favourable context for the success of the PRS consultation process. Welfare trends regarding life expectancy, education and health levels outperformed the pace of income poverty reduction. Nevertheless, international standards across neighbouring middle income countries remain still far ahead from Honduran indicators. Furthermore, these welfare trends start showing initial signs of reversal.

Welfare trends

According to the Honduran Human Development Report elaborated by United Nations, life expectancy increased from 54 years in 1970 to 69.6 years in 1998. It then declined to 65.7 years in 2002, although the updating of demographical projections based on the new 2001 Census may have caused that decline.

Honduras: Social Indicators

	Source	1990-1	1997-8	2001-2
Life expectancy	HDR Honduras (2000, 2002)	54 (1970)	69,6	65,7
Maternal mortality	Government of Honduras (2001, 2003)	221	147	108
Human Development Index	HDR Honduras (2000, 2002)	0,563	0,650	0,638
Households with Unsatisfied Basic Needs	Government of Honduras (2001) INE (2003)	67%	47%	54%
Poverty incidence	UNAT (1999, 2002)	74,8%	63,1%	64%

Maternal mortality has declined during the last decade from 221 deaths during pregnancy, birth and puerperium per 100,000 living births to 147 in 1997 down to 108 in 2001. However, these levels remain high by international standards. HIV/AIDS has become a matter of national emergency, especially among women. In fact, AIDS is the first cause of

death across women in prime reproductive age. Despite education enrolment rates have improved from an average of 2.3 schooling years in 1974 up to a 4.8 in 1999, Honduran education levels remain below Central American standards. Secondary and tertiary education show low combined enrolment rates of 36% and 9%, respectively.

Moreover, these trends have shown little improvement since the mid-1980s. Public service provision indicators such as access to electricity, water and sanitation have all improved during the 1990s but still remain far behind universal coverage.

The Human Development Index (HDI) has risen notably from 0.563 in 1990 to 0.650 in 1998. This improvement has not been sustained thereafter, though. The decline in life expectancy; the stagnation of education enrolment rates; and fluctuating incomes all have contributed to the decline of HDI to 0.638 in 2002. Households with unsatisfied basic needs in 1990 amounted to 67% of total households, and went down to 47% in 1997. However, the devastation caused by the Hurricane Mitch to water systems, housing and education centres has increased the percentage of households with unsatisfied basic needs to 54% in 2002.

In 1991, households living under the official income poverty line represented some 75% of the total. Poverty incidence declined to 64% in 2002. Poverty did not decline readily, however. Income poverty increased slightly between 1995 and 1996, and substantially in 1999 as a result of the Hurricane Mitch, to decline again in 2001 and 2002. The reduction in rural income poverty has been slower than urban poverty. This trend contrasts with the faster reduction in unsatisfied basic needs across rural areas during the 1990s.

Obstacles and potentialities of the PRS

There are major obstacles for a more substantial poverty reduction in Honduras, including pro-cyclical social policies driven by electoral processes; serious targeting deficiencies and inequalities in key areas of social spending; and slow economic growth. Social priority ratios represent 32% of social public spending, clearly below the United Nations recommended 40%. Per capita social expenditure in Honduras is below the Central American average. Approximately 40% of public expenditure on education accrues to secondary and tertiary levels. Resources on social investment and family allowances funds have widely fluctuated throughout the Nineties, mainly driven by electoral cycles. Notwithstanding these deficiencies, social public expenditure increased from 10% to 11% of GDP between 2000 and 2001.

Per capita GDP growth averaged 0.5% per year during the 1990s. *Liberalisation of the Honduran economy was timid and incomplete, leading only to modest achievements in agricultural export diversification, emergence of maquila industries and the intensification of trade with Central American neighbours. Economic reforms, however, have been inefficient to sustain rapid economic growth and remove two chronic malaises of the Honduran economy: vulnerability to external shocks and volatility. Inflation was kept under control but policies failed to boost agricultural productivity growth and chronic fiscal deficits are generating*

Two political conditions consolidated nationwide dialogue in Honduras: the transition from military authoritarian regimes to electoral democratic processes; and a

more permissive attitude of successive elected administrations towards civil society.

In this respect, the elaboration of the Master Plan for Reconstruction and Transformation (PMRTN) in 1999 after the Hurricane Mitch triggered a process of multiple national dialogues. There are, nevertheless, critical voices from the international community as well as academia arguing that civil society participation is still far from satisfactory. Political, institutional and managerial limitations of the State, on the one hand, and the failure of civil society to align round a common agenda credible to the Government, on the other, underlie unsatisfactory participation of civil society.

3. The PRS consultation process in Honduras

This section explores the nature of the participatory process and the degrees of participation and influence achieved by involved stakeholders. It is necessary to elucidate whether the PRSP document took into consideration concrete contributions by civil society and, if not, what factors impeded their inclusion. In doing so, this evaluation reviews previous assessments of the consultation process, which provide a rather positive picture of the consultation process. Also, stakeholders' perceptions reported in comprehensive interviews for this study complement the review of existing assessments. Finally, the current evaluation elaborates an extensive stakeholder analysis of the PRS consultation process in Honduras.

Chronology of the PRS

The complete consultation and elaboration of the PRS document, PRSP, took twenty months. That was the period elapsed from preliminary meetings with civil society representatives until August 20, 2001, when the Government of Honduras finally approved the PRSP. Later on, the World Bank and International Monetary Fund Joint Staff Committee approved the Honduran PRSP on October 11, 2001. The consultation process had two phases. The first lasted approximately half a year and set forth the objectives and basic guidelines of the Honduran PRS. That phase consisted of presentations to civil society, international community, and representatives of the legislative, judiciary and executive branches of the State. The technical office of the Ministry of the Presidency, UNAT, consolidated a basic document. This included contributions to the poverty diagnosis from participants in the initial round of meetings. The basic document constituted the 'interim PRSP' and was made available in early 2000. The second phase took a year and set forth a broad and inclusive discussion of poverty reduction strategies. Two drafts were elaborated prior to the approval and launch of the final document. The five presidential candidates of the November 2001 elections publicly expressed their support and commitment to the final document.

The civil society in the consultation process

The large number of representatives from civil society (around 3,500) and the fact that consultation meetings took place in fourteen cities show that *the selection process of participants was truly inclusive. No relevant civil society group was deliberately excluded.* That wide participation took place without solving a fundamental legitimacy problem, however: the determination of which civil society group legitimately represented citizens' interests. Unsurprisingly, unorganised citizens — particularly, the poor — were not included directly in consultation meetings.

Civil society representatives participated in broad-based consultations but the final PRSP includes few proposals from the civil society.

The official evaluation of the PRSP in 2002 acknowledges a substantial inclusion of civil society contributions into the final PRSP document. Specifically it highlights: (i) the inclusion of departmental and municipal based poverty estimates by UNDP; (ii) the treatment of ethnic groups, women, the elder, children and the disabled as specific vulnerable groups; (iii) the emphasis on poverty determinants such as social spending and human capital affected by adjustment and stabilisation policies; (iv) the inclusion of the educational reform discussed and agreed under the auspices of the National Forum for Convergence (FONAC); (v) the emphasis on access to productive assets and marketing in rural areas; (vi) the recognition of and support to mechanisms favouring civil society participation; (vii) the emphasis on programs related to tertiary education, culture, values, law and order; (viii) the description of the composition and functioning of the Poverty Reduction Fund.

Beyond their number, these contributions indicate that their inclusion was very much a secondary concern in the elaboration of the PRSP, though. The contribution of *civil society limited to respond to issues presented by the government.* As a result, the Honduran civil society managed to include only some details and emphases to the framework provided by the Government. In this sense, the consultation mechanism was clearly 'top-down'.

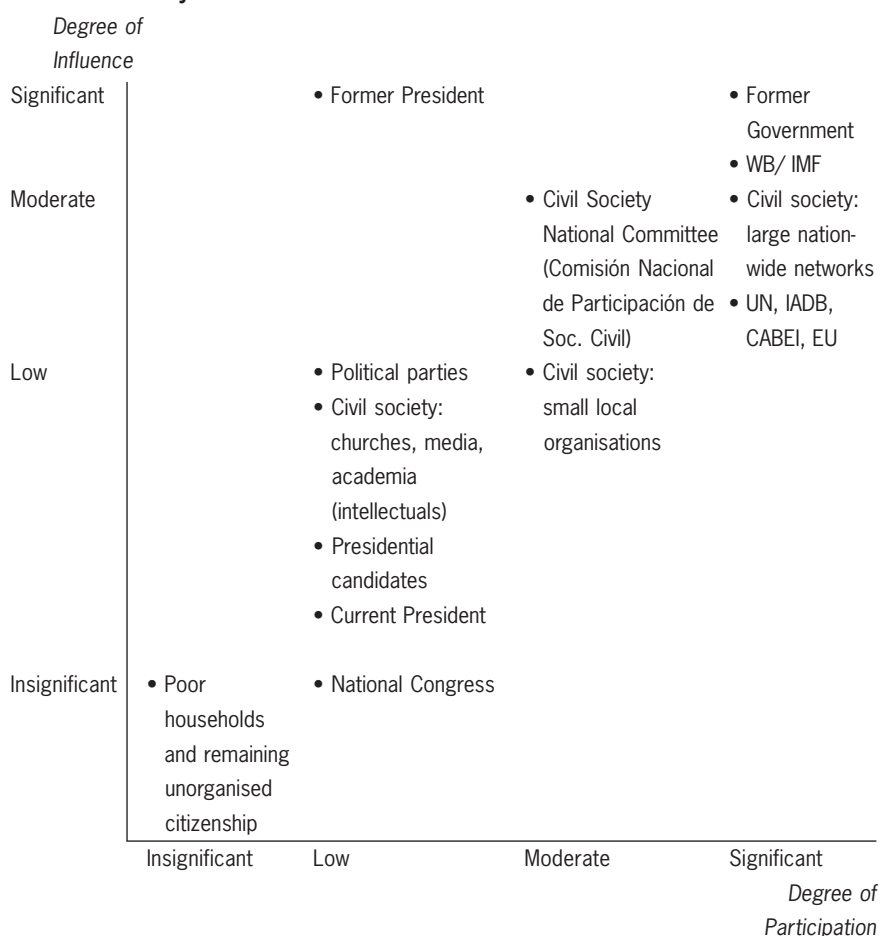
Notwithstanding the top-down nature of consultations, *the methodology of the process was clear and there were explicit rules of the game. However, the methodology was not the result of discussions and consensus.* Even though consultations were numerous, widely attended, transparent and typically non-confrontational, most agents from civil society perceive that the consultation methodology was imposed. That is not to say, of course, that a bottom-up methodology would have inevitably resulted in a preferred alternative by most stakeholders. However, a discussion of alternative methodologies would have conferred the top-down approach the kind of credibility resulting from persuasion rather than imposition.

Interviews for this study confirm that *most Honduran civil society organisations view the PRSP as a failure to include their concrete contributions.* Civil society representatives report that the participatory process was unable to unfold more ambitious collaboration and empowerment across civil society. It should be noted that only large and vocal civil society networks report this frustration. In contrast, small and locally circumscribed organisations typically express their satisfaction from attending meetings and making their views heard.

Influence of stakeholders in the consultation process

The stakeholder analysis reveals that *there are differences in the degrees of participation and influence of key stakeholders during the PRS process*. The picture that emerges from the stakeholder analysis shows that there is a large gap between participation in consultation events and having real influence in the drafting of the final PRSP. For example, the enormous influence of the former President of the Republic of Honduras contrasts with the systematically low participation and influence by the National Congress during the elaboration of the PRSP. Another interesting contrast is the moderate influence of large, nationwide civil society networks and the scarce influence of small, local civil society organisations. A scarce influence also characterises the role played by local governments, churches, media and academia.

Stakeholder Analysis of the Consultation and Elaboration Processes of the PRSP



Assessment of the consultation process

The need to get to broad-based non-controversial agreements limited the degree of detail in the specification of the proposed strategies. The inability of the civil society to obtain a consensus on a common agenda also worked against a more substantial inclusion of its contributions. The celerity of the process may have also led to a failure to include important strategic issues proposed by civil society. Underlying this celerity, there may have been pressures from international financial organisations to keep the process short and manageable. Further pres-

asures from previous government officials to bequeath the country with a PRS may have also matched pressures from international financial institutions.

Given the binding time restriction, *the government opted for a methodology based on a strong and direct control from the top*. As a result, the PRS lacked a consistent and in-depth analysis of poverty causes, strategic guidelines and concrete poverty reduction goals. Time restrictions also resulted in the approval of a PRSP document without a full-fledged monitoring system (still pending at the time of writing this report) or a clear dissemination proposal.

Nonetheless, PRS no doubt consolidated the dialogue process initiated with the PMRTN. It also mustered an irreversible commitment from civil society organisations to participate in national dialogues. In spite of the frustration among some key vocal civil society representatives, the PRS has contributed to institutionalise national dialogue among government, civil society and international community through a Consultative Group sanctioned by the Poverty Reduction Fund Law. It is highly unlikely that this favourable environment of dialogue, accountability and validation is only transitory. *However, it cannot be argued that the consolidation of national dialogue by itself has generated a true sense of ownership of the PRS among national stakeholders.*

The international community played a relevant role in the consultation process as trustees of wide national participation. The favourable environment after the Master PMRTN encouraged civil society into wide participation, and eased the facilitating role by the international community. Nonetheless, critical civil society representatives claim that the World Bank and the International Monetary Fund went beyond a mere facilitating role when these insisted on the adoption of a PRGF-like macroeconomic framework in the PRSP. The same representatives do acknowledge though the substantive efforts by the international community in opening alternative consultation spaces. That is the case of the *Foro Fortalecimiento Democrático*, FFD, under the auspices of United Nations.

4. Diagnosis of poverty and poverty-reduction strategy

The current evaluation adopts an intermediate position between the favourable assessment by the World Bank and the International Monetary Fund and diametrically opposed views expressed by civil society organisations such as *Bloque Popular*. The former review praises the capacity of the interim PRSP to identify causes of and policies against poverty, while the latter questions ideologically the very foundations of the economic development model the PRS lies on.

The PRSP lacks of a clear priority setting in the policies designed to combat poverty. Instead, the PRSP includes a long enumeration of guidelines; policies and projects; already committed and expected financial resources; and ambitious poverty reduction goals. In spite of the comprehensive and systematic nature of this framework, there are serious doubts about its consistency. A key critique to the content of the PRSP — voiced by most critical civil society organisations — is its inability to integrate several non-economic aspects of the fight against poverty. According to that view, the PRSP would not go beyond traditional recommendations such as economic liberalization and the need for increased social expenditure.

Weakness of the poverty diagnosis

The PRSP indeed *lacks coherence between the diagnosis of the causes of poverty and the strategies to combat them are at best vaguely defined.* Cross-cutting themes are seriously underdeveloped, even when one of such themes — rural development — constitutes also a strategic guideline. Distributive effects of the macroeconomic policy framework are not specified. Neither is there any attempt to explain how proposed projects and programs will bring about desired poverty reductions.

All national and international stakeholders interviewed for this study confirm that the PRSP lacks a proper prioritisation of strategies. Where stakeholders' positions differ, however, is on the implications of the lack of priorities. For the World Bank and the International Monetary Fund, the PRSP sufficiently satisfies expectations and requirements. Former and current Government officials stress that the PRSP document sufficiently substantiates a relevant framework to combat poverty. They acknowledge the need for further elaboration on critical issues such as rural development or decentralisation, though. In contrast, outspoken

civil society groups criticise the PRSP for its absolute lack of prioritisation. Less critical views across small civil society organisations indicate that the PRS misses concrete areas such as domestic violence or local rural development.

To be fair, one should acknowledge the efforts by the PRS to transcend a merely economic treatment of poverty present in previous World Bank studies. For example, the PRSP takes into account human development statistics and concepts. Gender, governance, environment, and cultural aspects are all mentioned as factors associated with poverty. Unfortunately, *in spite of the multidimensional definition of poverty in the PRSP, there is not a similar multidimensional treatment in the analysis of the determinants of poverty.* The analysis of the dynamics of poverty is only about income poverty.

The lack of priority setting and a fundamentally *economist's* approach are the main weakness of the poverty diagnosis of the PRS. The PRS does only analyze in-depth monetary poverty while poverty aspects relative to gender, rural poverty, environment and good governance are treated superficially.

The requirement of the PRSP process to ensure broad-based consensus may well have led to conveniently vague guidelines, which are easy to accept such as aiming at good governance or larger investment on human capital. Unfortunately, vague guidelines work against well articulated strategies with clear priorities. *Civil society was unable in the tight time frame to come up with a common and credible agenda of priorities.*

The PRSP also fails to differentiate between causes and effects of poverty, that is, which factors generate poverty, which contribute to high and persistent poverty levels and what are the consequences of high prevailing levels of poverty. Such an analysis would have helped identifying priorities actions of the PRS.

A number of additional technical weaknesses in the PRSP analysis could have been avoided. First, a discussion on the quality of available information is missing. Secondly, there is a conspicuous lack of discussion regarding the source and consistency of macroeconomic projections used in the PRSP. Thirdly, the very income poverty reduction goal has a series of implications left unexplored. A reduction of *both* total and extreme poverty rates by twenty four percent points have substantially different implications from a *separate* reduction of extreme or total poverty by twenty percent points. None of these implications are mentioned. Fourthly, there is a weak and one-sided association between previously implemented policies and poverty incidence. Hence, *the adequacy of structural adjustment policies on poverty reduction is taken for granted.* This analysis fails to confront the actual implementation of such policies with the actual evolution of poverty incidence since 1990. Instead, the PRSP focuses on the fiscal restriction as a major obstacle for growth and poverty reduction. The document does not consider the findings of the increasing literature questioning the effectiveness of economic reforms (such as trade liberalization) to reduce poverty and increase growth in Latin America.

The structure of the PRSP also shows a worrying degree of imbalance. *In spite of the breadth in the treatment of poverty definitions, causes and effects, strategies to combat poverty and desired goals, remaining parts of the PRSP are treated rather superficially.* Costs and financing sources, and prospective risks threatening implementation are sketched with a notorious lack of precision. As illustration, 35% of the estimated total financial resources are not identified. Instead, 15% of these resources are assumed to accrue from national sources while the remaining 85% would expectedly come from unknown international sources. Of the remaining total financial

requirements of the PRS, some 29% would proceed from resources already committed in on going projects. The final 35% would accrue from traditional and HIPC debt relief initiatives.

As for the remaining contents of the PRS, issues such as the ambitious institutional development and the treatment of cross-cutting themes require more concretion. Not only civil society representatives but also Government and international community officials acknowledge the need to substantially develop these key areas.

Assessment of the poverty diagnosis

In short, the PRSP fails to prioritise its proposed strategies in a context of limited resources. It also fails to articulate alternative strategies in the face of potential risks too which cannot be ignored. As a result, *the PRSP has not become a policy paper with precise instructions to reduce poverty*. It has instead developed into a general and flexible framework aligned to the Millennium Development Goals. Despite of the broad consultation process, the ownership of the PRS by national stakeholders is seriously questioned.

5. Implementation of the PRS: 2001–2003

Monitoring and assessment of the PRS

In December 2003, the Government of Honduras has circulated the first official report on the progress of the PRS. This annual report is part of the commitments by the Honduran Government with the World Bank and International Monetary Fund for the reception of HIPC funds. This report provides valuable information on PRS implementation and initial outcomes. This information turns even more valuable after delays in the approval of the PRS monitoring system. As a result, this evaluation contrasts the information provided by this PRS progress report with perceptions reported by key stakeholders interviewed. In addition, field visits to three municipalities (Siguatepeque, Yamaranguila and San Pedro de Copán) generated primary information on implementation.

Determinants of the PRS assessment

This present assessment questions the optimistic view of the governmental PRS progress report. Nonetheless, one should recognise a series of circumstances shaping the current implementation of the PRS. First, the implementation of the PRS is still at an early stage. Secondly, the failure to sign a new PRGF agreement has stopped the disbursement of new HIPC funds. Thirdly, it is unlikely that the key institutional developments pursued by the PRS reveal benefits immediately.

Some institutional developments of the PRS...

There are great differences in the degree of implementation among PRS guidelines.

There has been a relevant progress on institutional development and good governance. The PRS progress report highlights a number of such developments: (i) the institutionalisation of national dialogue through the Consultative Group; (ii) the separation of the Electoral National Tribunal from the Registration Office for Persons; (iii) the creation of an independent Accounting Tribunal; (iv) the launch of the Anti-Corruption National Council; (v) the implementation of revenue collecting reforms such as the Fiscal Balance Law; and (vi) the approval of the State Policy on Women. In contrast, progress has been modest on human capital, specific group protection and rural development guidelines. Policies regarding economic development show a notorious stagnation.

... although weaknesses prevail for the future implementation of the PRS

It is difficult to determine how these measures have effectively changed the livelihoods of the poor. There are worrying signs, though. First, there remains a large gap between expected and approved policies in 2001 and 2002. This implementation gap creates further pressures for the second term of the current administration. Second terms in Honduras traditionally lead to a low policy-making profile as new elections grow closer.

Some of the unfinished or delayed policies are critical for the viability of the PRS. This is the case of a new electoral law, the decentralisation program or the PRSP monitoring scheme. Finally, the visits to three municipalities (San Pedro de Copán, Siguatepeque and Yamaranguila) showed a *dismayingly low knowledge of the contents of the PRS among their citizens, neighbour associations (patronatos), local civil society and local governments.* Interviewees in these municipalities identified limited resources as the major bottleneck for combating poverty. These interviewees also reported a varying degree of satisfaction regarding their participation in local management.

Implementation levels of the PRS

The slow progress in the implementation of PRS-related policies also takes place in the implementation of PRS projects. Even projects in operation prior to the PRS show low levels of execution. According to the PRS progress report, only 54.5% and 42.2% of PRS funds originally earmarked for 2001 and 2002, were executed in those years, respectively. Resources from external loans and grants prior to the PRS were also subject to low execution levels: 66% and 55% in 2001 and 2002, respectively. *These low execution levels indicate that there are serious delays and deficiencies affecting projects in the pipeline.* In addition, only 58.1% of HIPC funds were executed in 2001 and 30.9% in 2002. In 2001 no national resources were spent on PRS projects and only 21.8% of the expected disbursement of national resources took place in 2002.

At it was the case with the implementation of policies, *there are large differences in the implementation of projects by strategic guidelines.* Funds effectively spent in 2001 and 2002 on projects related to economic growth, sustainability and urban poverty averaged 12%, 17% and 17%, respectively. Execution rates improved to 48%, 50% and 91% among projects in the areas of protection of specific groups, human capital and rural development, respectively. Both the lack of precision in the definition of real financing needs and sector-specific resource mobilisation restrictions underlie this unbalanced implementation of PRS projects.

HIPC funds received between 2000 and 2002 have similar implementation problems. Only 50% of received funds (US\$ 64.5 million out of US\$ 130.4 million) have been executed as yet. Out of interim HIPC funds already spent and (expected to be spent in 2003), some 24.8% financed the hiring of 1,000 new teachers and primary education teachers' salaries. Funds on traditional safety net programs will have absorbed by the end of 2003 12.51% of the total disbursed interim HIPC funds. In contrast, a mere 0.3% of interim HIPC funds were disbursed in rural development projects not included in education, health and social safety nets items.

Financial and capacity restrictions as well as implementation delays have opened a gap between expected and observed policy reforms and project execution

Government officials blame these low and unbalanced implementation levels to the interruption of debt relief funds until the signature of a new PRGF agreement. While the interruption of such funds is no doubt relevant, there are also other factors that hinder the implementation of PRS-based projects. In other words, *the PRS has severe implementation problems that go beyond financial restrictions*. On the one hand, it is urgent to ensure financing sources accounted for in the PRSP but unidentified as yet. On the other, most of the current international financial support consists of projects in operation prior to the PRSP. The underling problem emerges from the fact that the composition of committed funds does not coincide with anticipated financial needs of the several strategic guidelines. This *unbalanced implementation of PRS projects aggravates existing budgetary and management deficiencies* (such as obscure budgetary items or lack of *ex ante* medium-term fiscal impact evaluations). As a result, PRS resources cannot be flexibly allocated among strategic guidelines.

Regular updating of financial needs, spending caps, further prioritisation of projects and specific cost studies have been proposed to solve these implementation unbalances. The technical office at the Ministry of Presidency (UNAT) has produced a list of priority PRS-based projects according to systematic criteria. However, *updating financial needs and project priority setting may be insufficient if more deep-seated public management rigidities are not removed*.

Effects of PRS implementation on social indicators

Unsurprisingly, this low implementation of projects and policies has failed to accelerate the 1990s pace of economic growth and poverty reduction rates. Poverty reduction goals in the PRS have not been fulfilled in 2001 and 2002. Official estimates of household poverty incidence for those years, 64.4% and 63.9%, are above the 63% and 61.5% poverty incidence goals, respectively. In contrast, the reduction of extreme household poverty has met its PRS goal in 2002.

At least, the low implementation of the PRS has not deteriorated welfare trends. Educational goals on pre-basic education in 2002 are still far ahead, although the coverage of primary and secondary education levels has increased as expected. Likewise, the infant mortality 2002 goal is close to fulfilment. In fact, the under-5 malnutrition and maternal mortality 2015 goals were already accomplished in 2001. Water and sanitation outcomes fell short of 2002 expected goals, and so did the human development gender index, the gender empowerment index and sustainability indicators.

6. The role of donors in implementing the PRSP

This section elaborates on the role played by the World Bank and International Monetary Fund, other multilateral donors (such as the Inter-American Development Bank, United Nations, or the European Union), and major bilateral donors on the consultation, elaboration and implementation of the PRS. There are critical questions underlying the capacity of the PRS process to effectively increase coordination among donors and the sense of ownership among national stakeholders of PRS-based donor's actions.

Donor coordination and the PRS

These assessments are elaborated mainly from interviews to international community, Government and civil society representatives as well as from a critical review of previous assessments on related issues. There are some relevant lessons about the roles played by the international community in the PRS processes. First, the international community has actively participated in both consultation processes recently taking place in Honduras, that is, the reconstruction strategy after the Hurricane Mitch and the PRS afterwards. *The consultation and elaboration processes of the Honduran PRS have helped donors to consolidate coordination*, ensuring the international community an influential presence in poverty discussions. This influential presence has been controversial at times, though. That is the case of the adoption of a PRGF-like macroeconomic framework in the PRSP.

Multilateral and bilateral donors participating in the 'Grupo de los Quince (G15)' created a PRS follow-up group ('Grupo de Seguimiento') with the task of ensuring a broad participation of the civil society in the consultation process. This international follow-up group undertook an active part in all PRS consultation and elaboration meetings. The G15 did (and continues to) support alternative initiatives of national dialogue such as the *Foro de Fortalecimiento Democrático* under the auspices of United Nations. At present, G15 maintains an active involvement in the implementation of the PRS and in the review of the first progress report. G15 representatives are also present in each of the sectoral tables in which the Consultative Group has articulated technical dialogue on several PRS-related issues. The participation of the international community in the Consultative Group ensures its institutional involvement in

Donor coordination has been modest. Donors have not favoured a shift into sector-wide financing mainly due to management weaknesses within the public sector.

the future supervision and monitoring of PRF-channelled funds for the implementation of the PRS.

Another task of G15 is a more effective coordination of their donor activities in the country. *Progress in effective coordination is still very modest in Honduras, though.* This coordination is currently limited to information exchanges on going projects and mission arrivals. However, the increasing interest of the international community on recent initiatives such as the prioritisation of PRS projects by UNAT or sector-wide financing pilots (such as 'Education for All' and the HIV/AIDS Global Fund) may well develop into more effective coordination.

Project-based and sector-wide financing

In spite of this commitment towards more effective coordination, *the international community is not currently committed to shifting project-based finance into sector-wide financing.* There are of course serious obstacles for a swift shift into a sectoral management of international aid. In concrete, there are management deficiencies and rigidities; chronic fiscal imbalances; and an urgent need to keep public personnel demands under control. These conditions recommend — at best — a most cautious transition into the sectoral financing proposed by the PRS.

The creation of the Poverty Reduction Fund should not be expected to enlarge local technical capacity of budgetary management. At present, this Poverty Reduction Fund has become merely an instrument to systematise information on PRS-related project implementation. There remained some confusion among the interviewed international community representatives on the true role of the Poverty Reduction Fund. At present, the lack of a parallel PRS monitoring mechanism in operation may reduce the confidence of the international community on the immediate efficacy of this Fund.

Implications for Sida

The current context calls for an *urgent but thorough debate on the necessary conditions enabling* a more efficient coordination among donors. This discussion should as well take on *the financing modality that best suits the implementation of the PRS.* This debate should not necessarily be circumscribed to the Honduran PRS. The discussion should instead concentrate on the expected benefits of shifting project-based financing into sector-wide international support.

If the PRS is acknowledged as an effective tool for shifting international financing management, *Sida is in a solid position in Honduras to propose a debate on the stages and sequence of that financing shift.* A gradual transition may well be preferred upon a rapid financing shift. In that case, project priority setting, sector-wide financing pilots, and investments in local technical capacity in strategic governmental offices would precede a sector-wide financing replacement.

7. Conclusions and future challenges

The PRS process has consolidated national dialogue in Honduras as a common, non traumatic and irreversible phenomenon. It is difficult to determine whether the consolidation of participation in Honduras would have taken place at a similar pace had the PRS not been launched. Nonetheless, this consolidation should not be underestimated in a country where authoritarian and repressive administrations marked its political life until recently.

Poverty reduction strategies have a number of in-built trade-offs, unsolved as yet. There is clearly a tension between the increase in conditionality brought about by the HIPC and PRS initiatives and their expectation of ownership by national stakeholders. This tension emerges even though the additional conditionality refers to desirable aspects such as broader participation or the strengthening of social protection. There is a second contradiction in the financing of the PRS. On the one hand, increasing demands of highly mobile public expenditure encounter a large proportion of financing resources already committed in existing projects.

Other contradictions emerge from the specific design of the Honduran PRS. In the first place, it is unrealistic to expect ownership by national stakeholders of an unknown, scarcely disseminated and unsupported strategy. Cross-cutting themes such as rural development, decentralisation and gender are only superficially treated in the PRSP.

These shortcomings of the PRS should not necessarily lead to a negative interpretation of the PRS process in Honduras. *These deficiencies show that the final PRSP is not a strategic policy paper containing precise instructions for the reduction of poverty in Honduras.* The PRS process should perhaps be regarded as a flexible frame taking stock of the poverty phenomenon in Honduras; existing information, analytical and capacity restrictions; and estimated financial needs for a substantial reduction of poverty. In so far as this framework remains meaningful among successive administrations, the PRS should be considered successful.

There are nevertheless key areas of the PRS in need of urgent revision. First, there is a compelling need to define which format(s) should the implementation of the PRS follow. Possible (non-excluding) options are the prioritisation of policy areas; the targeting of resources to deprived rural areas; or the regionalisation of PRS. Secondly, the monitoring scheme of the PRS needs to start operating. Thirdly, the PRS initiative needs a sound dissemination strategy. Stakeholders need to acknowledge roles,

timing, contents, policies and monitoring schemes. Fourthly, Honduras and the International Monetary Fund must resume their HIPC financing commitments. Finally, all involved stakeholders must understand that the prevailing project-based financing modality does not fulfil increasing demands for flexible and rapid resource allocation among PRS strategic areas.

These immediate challenges call for a rethinking of the distribution of roles and responsibilities among stakeholders. The current administration (President and Government) still has to reassure unambiguously its commitment to the PRS process. This commitment should not only refer to broad-based participatory dialogue but also to the roles of civil society in the implementation and monitoring of PRS as defined in the PRSP document. National Congress and political parties can facilitate a faster implementation of the institutional and political changes contained in the PRSP. Civil society must determine whether the support to local and regional poverty reduction strategies jeopardises its implementation and monitoring roles in the nationwide PRS. Civil society could also undertake further efforts to disseminate contents, goals and roles contained in the PRSP across its grass-roots. Municipalities should keep their current efforts in the setting of priorities to fight local poverty. They should also tackle — with the support of the government, donor community and civil society — both capacity limitations and political confrontation at the local level. The international community could discuss a shifting of international resources from projects to sectors as the PRS recommends. Finally, independent public institutions such as the National Statistical Institute or the Judiciary should remove institutional constraints hindering the current implementation of the PRS.

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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