MAY 2007 • NIEK DE JONG, RAFAEL DEL CID, KEES BIEKART, GESKE DIJKSTRA

Evaluation of Poverty Reduction Strategies in Latin America – 2006
Executive Summary

Honduras: What Happened to the “ERP”?

Preface

The Poverty Reduction Strategy (PRS) process was designed as a response to growing concerns about high and seemingly permanent levels of poverty in many development countries. The process seeks to achieve sustained and significant poverty reduction with the implementation of country-specific medium-term poverty reduction plans, each of which is created through a national participatory process. Donors are expected to support national poverty reduction plans with resources and debt relief.

The Swedish International Development Cooperation Agency (Sida) contracted the Institute of Social Studies (ISS) to monitor and evaluate this process in three Latin American countries – Bolivia, Honduras, and Nicaragua – between 2003 and 2007. The reports produced by ISS are independent assessments that do not necessarily represent the views of Sida staff.

Each year, the ISS team (which includes both ISS staff members and local consultants) prepares three country reports, a regional report that compares experiences in the three countries, and a thematic report that looks in depth at one particular topic. The analysis in the reports is based on a combination of interviews with stakeholders at the national and sub-national level and analysis of secondary sources and data.

The 2006 country and regional reports provide an update of the status of the PRS process and examine whether the process has strengthened downward accountability systems. The 2006 thematic report is on the subject of gender and the PRS process. In past years, the reports have addressed participatory processes, pro-poor growth, decentralization, results-oriented budgeting, local economic development, and cost-effectiveness in primary education spending. Aid effectiveness and rural development will be the subject of the 2007 reports. All reports can be downloaded at www.iss.nl/prsp.

Kristin Komives
Project coordinator
April 2007

Evaluation of Poverty Reduction Strategies in Latin America – 2006

Executive Summary of Country Report – Honduras 2006

Honduras: What Happened to the "ERP"?

Published by Sida 2007

Department for Latin America

Authors: Niek de Jong (Institute of Social Studies), José Rafael del Cid (ESA Consultores Internacional), Kees Biekart (Institute of Social Studies), Geske Dijkstra (Erasmus University Rotterdam)

Printed by Edita Communication AB, 2007

Art. no.: SIDA37190en

ISBN 91-586-8072-1

This publication can be downloaded/ordered from www.Sida.se/publications

Institute of Social Studies

Content

1. Introduction

The 2006 Evaluation of the Poverty Reduction Strategy Process – PRS or ERP (according to its Spanish acronym) – in Honduras addresses the following main questions:

- How has the political, economic and social context evolved in 2005–2006?
- What is the status of the PRS process?
- Has the content of the country's PRS changed? Have there been major changes in budgetary priorities?
- What has changed in the structure of systems of downward accountability (accountability of government to the public and civil society) at the national and local level in the last 5 years? Has the PRS process played a role in these changes?
- What is the status of donor coordination and aid modalities?

In general, we broadly cover the period from the fourth quarter of 2005 to the third quarter of 2006, but for the trends we look at a longer period.

The 2006 Report pays special attention to the topic of downward accountability and especially the downward accountability with respect to poverty reduction policies. It tries to find out whether the government is accountable to the public for achieving poverty reduction, and whether the public and its civil society representatives hold government accountable for results. The motivation for the special focus is that it was expected that the PRS process would institutionalize the commitment to fight poverty and to enhance government capacity to meet this commitment. Strengthening accountability systems is one example of institutional change that could help achieve this goal.

The organization of this executive summary is as follows. We first describe the political, economic and social context of the country. Subsequently, we discuss the PRS process and the reformulation of the PRSP. Then we deal with downward accountability and donor coordination and aid modalities. Finally, we present the recommendations.

2. Changes in the Political, Economic, and Social Context

The Political Context

The elections of November 2005 resulted in a narrow victory for the main opposition candidate, the liberal Manuel Zelaya. Once in office, Manuel Zelaya quickly consolidated his alliances with factions within his party, appointing many of his previous adversaries within the party to ministerial and other high-ranking posts.

A novel aspect in the electoral process that brought Manuel Zelaya to the presidency was the direct election, for the first time, of the Representatives *(diputados)* to the National Congress. With this new election modality, many Representatives with a legislative career were not re-elected. As a result, the present Congress is made up largely of young Representatives with little political experience, who represent diverse interest groups, some of which had little representation in the past, like ethnic groups and women. The Congress has shown signs identifying with the electorate it represents. For example, during the discussion of the national budget at the beginning to 2006, the National Congress acted independently of the Executive on decisions related to the "ERP" or PRS.

The Economic Context

The economy of Honduras fluctuated widely in the past 15 years. The average annual rate of real growth of GDP was 3.3% and that of GDP per capita was 0.7% during this period. In 2005, real GDP registered an increase of 4.2%, as compared to 5% in the previous year. GNP grew a little less, in spite of the massive inflow of current transfers, mainly comprising remittances. For 2006, the estimates of growth of GDP vary between 4% and 5.5%. Several factors such as the increase of petroleum prices and its derivatives may threaten growth in subsequent years.

The Maduro Administration had put special emphasis on macroeconomic stabilization, and during the second half of its term managed to sign a PRGF (Poverty Reduction and Growth Facility) agreement with the IMF. The government prioritized fiscal adjustment, which reduced the government deficit from 3.4% in 2004 to 2.7% in 2005, mainly through a reduction of capital expenditure.

After several years of negotiations, Honduras reached the Completion Point of the Highly Indebted Poor Countries (HIPC) initiative in April 2005. In May 2005, the Paris Club cancelled 1,061 million dollars of public external debt. This meant that, for the first time since 1997, Honduras reduced its external debt, even though private debt continued to increase. Honduras also obtained a debt forgiveness of approximately US$1,300 million from the World Bank and the IMF (G-8 relief or MDRI funds) and, recently, within the MDRI initiative, a cancellation of approximately US$1,400 of the debt to the IDB.

In addition to the debt relief, between January and December 2005 Honduras received US$147.51 million of donations and another US$4.41 million were received in the first quarter of 2006 as non-reimbursable cooperation.

Based on the content of the messages given during his election campaign, it is expected that the economic policies of President Zelaya will continue to be framed within the PRGF agreed with the IMF. In spite of optimistic official projections of the fiscal deficit, both internal sources and the IMF and the World Bank expressed fear that the deficit will exceed the agreed limit, due to the populist bias that the new President showed in the beginning of his administration. After negotiations with the teachers' union over a wage dispute, the public budget has risen to 43,500 million lempiras (approximately US$2,200 million) in 2006. The salaries of the public administration will represent 10% of GDP in 2007.

The Social Context

The access of the population to basic services like potable water, health centres and schools has improved remarkably in the last decades, though there are still problems of insufficient coverage of electricity and telephone services and sanitary sewage systems. Improvement of per capita income has proven to be a much more difficult to achieve.

The level of open unemployment (of around 5% of the labour force) was acceptable, but this indicator reflects only a part of the labour market situation of the country. Due to a lack of sources of formal employment, insertion into the labour market occurs through self-employment or low-productivity and badly paid wage-employment. In this respect, one of the major weaknesses of the ERP is the fact that strategies to deal with the precariousness of employment are among the least elaborated themes of the strategy.

Generation of productive employment requires economic growth, and economic growth requires investment, but the country has been slow in solving problems in its legal framework that create obstacles to investment, employment and competition. If the country is unable to quickly increase its currently low level of competitiveness, it cannot be expected that in the short term there will be sufficient investment to activate and diversify the labour market and thus produce appreciable increases in household income.

The percentage of households with a level of income below the poverty line remained practically the same in Honduras in the period 2001–2005. This is the case for both total poverty and extreme poverty. The incidence of total poverty increased slightly in the urban area (except in the capital city of the country), whereas it diminished slightly in the rural area. It is thus clear that the PRS process has not yet generated poverty reduction in Honduras. Nor has the implementation of the ERP improved the household income distribution: income inequality has increased over the PRS period.

The trends in the 22 indicators related to the overall objectives of the ERP show that, as of 2005, achievement of 11 indicators is behind schedule. The most evident gaps are in the incidence of extreme poverty, the incidence of total poverty, the under-5 mortality rate and number of high-priority protected natural areas with operational plans.

3. The Status of the PRS Process: Consolidation or Weakening?

The latent question in Honduras is whether the ERP has been strengthened or, on the contrary, weakened over the past year with the changes in government. It is difficult to answer this question because the result is ambiguous. On the one hand, the budgetary allocation shows a worrisome dispersion. The Executive appears to largely ignore the relationship that exists between the continuity of harmful political traditions – like the clientelism and the lack of transparency, for example – and the ineffectiveness of the ERP. On the other hand, civil society is showing signs of being more determined to struggle for the continuity of the strategy, though acknowledging that there is a need for adjustments that will make the strategy more effective. Also encouraging is the rise of the profile of the National Congress in the PRS process, which could be a decisive element to give the ERP the push that it needs, particularly regarding stimulation of pro-poor economic growth, both through legislation and monitoring of the process of the ERP to guarantee its adequate implementation.

The financing required for the ERP programmes and projects comes partially from the resources released through external debt relief. In 2001, it was considered that the fiscal saving from debt relief would reach an annual average of US$100 million nominally, which would definitively fall short of resources required to implement the ERP. Indeed, this was the justification that, during the elaboration of the original ERP, the government used to argue that good part of the required additional resources would come from the "diverse projects in execution… and additional fiscal revenues". This was called the "crawling agenda", which related the six pillars or programmatic areas of the ERP to projects that were already being financed by donations and loans. A year later, the ERP received the first adjustments that would allow it to incorporate "excellent" previously-excluded projects – this is, "new" projects negotiated since 2001. Later on (in 2003), and in direct relation with the negotiations with the IMF and the World Bank, the definition of so-called "poverty expenditure" was reviewed and, in essence, equated with ERP expenditure, covering both investment projects and current expenditure that contribute to reaching the ERP goals.

With such a definition, poverty expenditure became widely dispersed. To guarantee that this expenditure will contribute to the desired objective of poverty reduction requires: (i) a careful periodical review of the relationship between public expenditure and poverty; (ii) a rigorous process of monitoring; and (iii) a greater implementation efficiency – habits in which the government exhibits little skill.

In 2005, the government had sufficient resources for the implementation of the ERP, and the basic projects and programmes to be carried out had already been defined through a participatory process centred in the Consultative Council of the ERP (CCERP). Nonetheless, the government decided to carry out a new process of consultation or "priorization" of the projects to be executed in 2006. The result was that none of the 33 projects on which consensus was reached previously were going to be executed and that once again high expectations were generated about the projects that would be implemented in the following year. In the end, the presidential candidate of the party in government lost the elections and, as a result, this new list of priority projects was abandoned.

One of the first measures taken by the incoming administration (of Manuel Zelaya) was to have a meeting of the Social Cabinet (GS) in order to discuss its social policies, including the continuity of the ERP, and to look for the sources of finance to be able to fulfil its promises of the election campaign. From these meetings came the proposed ERP budget, which by law the President had to discuss with the Consultative Council of the ERP. During these meetings the President presented a budget proposal without details, and without much scope for analysis and discussion.

It is interesting to note that the budget that the Executive presented in the meeting with the civil society organizations of the CCERP was different from the one that was at the end presented to the National Congress. The difference was substantial and related to the expectations generated by both the consultation process carried out in 2005 and the Maduro administration's estimate of possible resources coming from the debt relief. The calculations of the CCERP and the civil society organizations were based on this amount, and so were those of the Zelaya administration, but the latter with a distribution closer to its own political agenda.

For 2006, the National Congress approved an overall ERP budget which represented around 38% of the national budget; 58,2% of this overall amount comes from national resources, 17,5% of loan funds, 7,3% of donations and the rest (17,0%) are HIPC, MDRI and Paris Club resources. These funds have been destined to the various programmes and projects contemplated in the ERP. The budget includes an item "funds to be assigned" amounting to 887.6 million lempiras. These funds were destined to finance part of the projects on which consensus was reached with civil society in the consultations held in 2003 and 2005. Nevertheless, they were funds without an administrator or specified executing agency, as a result of which they became the object of a fierce debate that involved the Executive, the Legislative and the civil society organizations represented in the CCERP.

Of the 887.6 million lempiras "to be assigned", the National Congress decided to pass 700 million to the 298 municipalities of the country. After a protest from the organized civil society, soon joined by the International Cooperation (the G-16), the Representatives ended up accepting the use of the ERP formula for distribution of the resources to municipalities. This formula stipulates as a distribution criterion the percentage of population in condition of poverty of each municipality. The remaining 187 million lempiras of the disputed fund were allocated to monitoring activities related to the implementation of the ERP at the local level.

The discussions around whether the 700 million lempiras should to be transferred to the municipalities and whether the funds should to be distributed according to one criterion or another distracted for a moment attention from the fact, later denounced by some civil society organizations, that approximately two-thirds of the considered debt relief funds for 2006 were destined to expenditure related to the campaign promises of President Zelaya.

The National Congress had a double gain when it expressed its opinion on the budgetary allocation of ERP funds. On the one hand, it was able to become familiar with the strategy and to obtain leadership in the process. On the other, it obtained an image as a benefactor of the local governments, particularly after having accepted the distribution formula previously agreed between the government and the civil society organizations – a formula that favours many traditionally marginalized municipalities with important public allocations. As part of the rectification of its original position, the National Congress approved modifications to the Budget Law, as well as the Regulation ("Reglamento") that governs transfers of ERP resources.

As a condition for receiving these new resources, municipalities have to distribute the ERP resources in the following way: 55% for productive projects, 35% for social projects and 10% for institutional strengthening and governance. Moreover, the municipalities will not be able to receive their respective transfers until they submit their Municipal Investment Plans (PIM-ERP) and a plan of payments. They also need to have opened a bank account to receive these resources. These requirements have been controversial and have caused delays in the execution in many municipalities, particularly because most PIMs do not include "productive" projects.

As far as the institutional setup of the ERP is concerned, president Zelaya appointed the Minister of Culture – someone who insists that he has a personal interest in managing the PRS process – as the coordinator of the Social Cabinet. The President (and not the Minister) also appointed the new Secretary of the CCERP – a new position called the Commissioner of the ERP. During several months there was a kind of conflict between the Minister of Culture and the Commissioner of the ERP. More recently this conflict has lowered in intensity in favour of the second, who with political ability ended up becoming the focal point of the PRS process.

4. Reformulation of the ERP

Under the new administration of Manuel Zelaya, the Social Cabinet and the Commissioner of the ERP announced that the ERP would be modified on the basis of an “integrated approach”, that is, broadly speaking, a model of growth with equity that focuses on the poor. From the perspective of the Executive, the impact of the ERP will improve if its design and execution are reviewed “in a comprehensive way”. However the specific causes of inefficiency of the first strategy are not identified.

When the first draft of the revised strategy is compared with what was already formulated in the original design, the changes are more modest than what had been announced: the original strategy already contained many of the elements presented as “novel” in the revised ERP, though in the original strategy they are assigned less importance and presented with less detail. The programmatic goals that form part of the original strategy are maintained, but their structure and related policy measures are modified in line with the concept of the integrated approach. The new strategy indicates that “to obtain an efficient allocation and use of public resources” it will be necessary to focus “on the groups that suffer most from poverty” and includes the list of priorities included in the Government Plan of the Zelaya Administration. The document clarifies it will continue with the macro policies measures aimed at maintaining fast growth of the economy in the long term.

The revised version of the ERP of 2006 presents a budget for 2006 amounting to 16,302.7 million lempiras, which is 615.2 million lempiras larger than the budget approved by the National Congress in May 2006. According to the new budget, the ERP expenditure would represent 9.9% of GDP in 2006. Nevertheless, the new structure of the budget is not very different from the one of 2005 and for this reason it leaves the impression that there is incoherence between the programmatic objectives and the budget allocation.

5. Downward Accountability of Government to the Citizens

The 2006 Report pays special attention to downward accountability with respect to poverty reduction policies. It analyses to what extent downward accountability systems have been strengthened in the course of the PRS process. In this context, a downward accountability system is conceptualized as a series of interactions between governmental and non-governmental actors.

It is possible to identify three elements of a downward accountability system:

(1) The Executive has the responsibility to provide information to the public. It has to be *transparent* in its processes, objectives and policies, and has to share data and other relevant information. Moreover, the Executive is expected to *account* for results obtained and the resources used.

(2) The citizens – represented by individuals, civil society organizations or elected representatives (in National Congress and in the municipal council) take *action* based on the information that the government provides.

(3) The Executive *responds* to questions, critique and complaints that it receives with explanations, changes to policies, improvements to implementation procedures, etc.

The interactions may be mutually reinforcing. Transparency and accountability facilitate actions on the part of the citizens and these actions may lead to a response from government. Similarly, weaknesses in one phase of the system may contribute to failure of the overall system.

The actors identified in the system are the Executive, the National Congress (or Municipal Council), civil society organizations (CSOs), and civil society at large. The relationships between these actors are investigated in this study, except for the relationship between the CSOs and the civil society at large, which is beyond the scope of the analysis.

The study found that at the national level there is no complete downward accountability system in Honduras. Some isolated elements of the system do exist. Together these could form part of a downward accountability system.

The original ERP granted leadership to the Social Cabinet in the execution of the ERP. In practice, within the framework of the ERP, the Social Cabinet consults the CCERP. In the downward accountability system at national level, the CCERP figures as a link between the Executive and the organized civil society. The design of the CCERP allows the civil society organizations represented in this institution to play the role of "action" and the one of receiver of information, to be channelled to their bases. In practice, it has not fulfilled satisfactorily these responsibilities. The lack of technical capacities for the monitoring of ERP programmes and projects, of coordination mechanisms and of capacity to provide information towards the represented sectors have been identified as weaknesses in the functioning of the CCERP.

A complaint of the civil society in the CCERP is that the government has never tried to strengthen the civil society organizations. Another complaint is that it has insufficient access to information on the ERP.

According to the institutional set-up proposed in the revised ERP, the main task of the Presidential Commissioner of the ERP is to improve the process of coordination between the civil society, the government and the international cooperation with respect to the execution of the ERP. An additional task of the Commissioner is to lead the processes to stimulate social auditing of the resources and results of the Strategy.

At the technical level, the UNAT could play an important role in the process of "response" and "action," to subsequently give guidelines and recommendations to the Social Cabinet, on the condition that the civil society receives more training on the virtues of the SIERP system and its possibilities as an instrument for downward accountability.

It is a huge progress that indicators, other relevant information and various reports are published on the web site of the SIERP and other web sites of the government. Nevertheless, a problem that persists is that the indicators are not always updated and that their level of aggregation is such that it is difficult to make detailed analyses, that furthermore not always deep analyses are made in the reports and that finally, since only part of the population has access to Internet, it is not a direct channel of information and communication for many people. The effectiveness of this communication and information channel depends a lot on the civil society organizations that use it.

It is perceived that there is a real improvement in the RGC at the local level and an increase in the capacity of the civil society to control the activities of the Municipal Corporations (i.e. the municipal councils). Mainly thanks to the training and support of several (networks of) NGOs, this capacity appears to be reflected in more activities with respect to the PRS process of the representative organizations of the civil society. Nevertheless, one of the main problems of the ERP is the lack of regional development and investment plans and a regional structure to accompany the PRS process at this level.

The PRS process and the necessity to improve the citizens' capacity to monitor policies and the use of funds have generated a positive impulse to this capacity. Thematic monitoring committees have been formed at the regional level and the participatory processes at the local level have generated a more trained and empowered civil society to influence public policies in general and ERP processes in particular. Nevertheless, a better coordination between these initiatives is still lacking. There is also still little appropriation of the process on the part of the social organizations at the local level.

Several interviewed people were of the opinion that more transparency and accountability of the management of public policies help to fight corruption and improve the effectiveness of the poverty reduction policies.

6. Donor Coordination and Aid Modalities

There has been limited progress in the coordination and harmonization of aid since the electoral year 2005. The government took little leadership in stimulating processes of aid harmonization through sectoral approaches or common systems of general budget support. Moreover, the various international cooperation agencies have taken and continue to take rather different positions with respect to the political events.

Formally there is a strong coordination between the international cooperation agencies, due to the existence of the G-16 with its three levels. The international cooperation wants the new administration to "continue to focus its policies on poverty reduction." As a result, they take the fact that the government continues to speak about the ERP and to maintain some institutions, such as the CCERP, as an indication of the good will of the government. The international cooperation is not against an update or refocusing of the strategy, since this could lead to the appropriation by the present government of a document that was already elaborated in 2001.

An important reason to maintain the institutional setup of the ERP is to guarantee the role of civil society in the monitoring of poverty reduction policies and expenditure through the CCERP. It appears that donors put more emphasis on the need for social auditing, and less on promoting another round of consultations with the civil society on the changes in the strategy itself.

In June 2006 (before the first draft of the revised ERP was circulated), it was not known what the degree of appropriation of the ERP by the new government would be, nor what the changes in the strategy would be. For some donors this was a good reason to wait with their plans and investments, while new projects and programmes were defined. Others, particularly the multilateral banks, continued their planning and disbursement.

The tripartite sectoral round tables were not working well in 2005, and they had rather been weakened as compared to the previous year. Although the government had presented plans ("strategies") for five round tables, the Consultative Group (CG) of May 2005 concluded that there was no consensus yet on these strategies and that action plans were also missing. The CG recommended moving towards consensus and action plans so that Sector Wide Approaches (SWAps) would become possible. In fact, there was little progress on the recommendations of the Consultative Group. Nevertheless, in the second part of 2005, the tripartite round tables assumed a role in the priorization of the projects during the new consultation process initiated by the Maduro government. Since the change of government in January 2006, the sectoral round tables have not been functioning. There have only been meetings of the donors, without presence of the government.

Given the limited progress and setbacks in the performance of the sectoral round tables, it is not surprising that no progress can be observed in sectoral support or SWAps. The EFA (Education for All) is the only one that continues to function, and it is rather a subsectoral programme that comprises both a common fund and individual projects. In addition, some programmes and projects exist in which several agencies participate.

The representatives of the international cooperation agencies are satisfied that the new government has again taken up the Harmonization Plan elaborated by the previous Government. But there is still a lot to do, both by the government and the international cooperation, and one would have to see how to continue with this process in practice.

As far as budget support is concerned, little harmonization was observed in practice. There are still three budget support donors with different systems: the World Bank, the IDB and the EC. While the World Bank (and the bilateral agencies that were considering co- or parallel financing) did not approve a newly negotiated second PRSC for lack of approval of the fourth revision of the PRGF of the IMF, the EC and the IDB continued disbursing on their programmes. In 2005, Sweden took the initiative to establish a Budget Support Group (BSG), which at least avoided the establishment of different conditions for the same sector in different programmes.

The conditionality in the above-mentioned three systems of budget support is strong, with many different indicators and objectives. Conditionality increasingly takes the form of pre-conditions (which must be met before aid is disbursed), and results-based conditions are more common now than before. In practice, the country has not been able to fulfil all of the conditions, which implies more uncertainty and generally lower disbursements than predicted. It is possible to conclude that, in the present situation, the supposed benefits of budget support, in particular the provision of predictable aid, aligned with government systems and harmonized among the donors, do not materialize.

The huge amount and wide coverage of conditions, the increase in preconditions and results-based conditions, and the limited relationship of conditions with the ERP is evidence of the limited confidence that the donors have in the poverty reduction policies of the country. It appears that the entry conditions for budget support are not fulfilled. The question then becomes why budget support should be given at all.

7. Recommendations

The following recommendations can be made for the *Government of Honduras:*

- Finalize the process of revision of the ERP. A revised version of the ERP was distributed in September 2006. It needs to be discussed with, at least, the CCERP and the donor community.
- Reach coherence between programmatic objectives and budget allocation. A weakness identified in the revised version of the ERP is the absence of coherence between programmatic objectives and the budget. This coherence should be obtained in two ways: (i) reforming the "crawling projects", to bring them more in line with the strategy itself, especially concerning their impact on poverty reduction; (ii) revising the budget of all programmes and projects to reduce the bias towards current expenditure.
- Reconsider the criteria and procedures for the municipalities to receive transfers of ERP funds. It is considered appropriate to retain the criterion that expenditure for institutional and governance strengthening does not exceed 10% of the total budgeted expenditure of a municipality. However, the condition that 55% of total expenditure is allocated to productive projects and 35% to social projects should be replaced by a condition that is limited to requiring a municipal investment plan and execution of the budget according to that plan.
- Revise the Law of Transparency and Access to Public Information. The law approved in November 2006 is insufficient in that it does not require transparency on the part of high public officials, private enterprises that execute public funds and municipal governments. It is considered necessary to reform the law so that it will be more inclusive and strict in the definition of procedures and enforcement of sanctions.

The recommendations for the *International Cooperation* are as follows:

- Reconsider the policy of budget support. The current government's attempt to fulfil election promises could impair key aspects of the ERP, a strategy on which wide consensus was reached with different sectors of the Honduran society. In this way, the government shows little willingness and, above all, little coherence in its approach to reducing poverty. Under these conditions, which go beyond the formalities of having an IMF programme or an ERP, we recommend that the international cooperation agencies that are in favour of giving budget support postpone their decision about whether to do so.

- Also reconsider sectoral support. Given that there has been so little progress in the leadership of the government in the sectoral coordination of aid, it is at this moment not deemed appropriate to give sectoral support. Disbursements in sectoral programmes could be considered depending on the progress that might be observed.
- Assistance to the National Congress in its tasks related to the ERP. At the moment of elaborating the national budget and as part of that deciding on the destination of (overall) ERP funds, the National Congress has the obligation of monitoring the execution of that budget and of evaluating its efficiency, effectiveness, consistency and impact. As these tasks are complex, especially if they have to be completed in an extremely politicized context, the National Congress is in need of sustained and technically solid assistance, which the international cooperation can provide.
- Stimulate the revision and strengthening of SIERP with the goal of assuring that it can provide reliable and up-to-date information. The UNAT was weakened by the shift of key technical personnel, and it is likely that the (ministerial) Policy Planning and Evaluation Units have also been affected, with the consequent negative impact on permanent monitoring and evaluation of the ERP. Continued assistance to the INE is also considered fundamental in guaranteeing the whole process of monitoring and evaluation.

Finally, the following can be recommended to both the *Government of Honduras and the International Cooperation:*

- Assist the general process of accountability, especially at the local level. With a decentralization of poverty-reduction policies, it will be important to have sufficient implementation capacity at the local level and adequate systems of monitoring, evaluation and control of the implementation of such policies, on the part of both governmental and non-governmental actors. For this reason, it is necessary to give support to the TSC – the supreme audit office – (to be able to carry out municipal audits), to the social audit mechanisms, as well as to the Transparency Committees ("Comisiones de Transparencia") at the local level, both existing and new ones.
- Strengthen the support to the national and locally operating CSOs in their capacity of owning and defending the ERP. Past reports have cited problems with the capacity of civil society organizations to fulfil this role, but this 2006 report shows improvement as a result of the support these organizations have received through the ACI (Asociación de Cooperantes Internacionales). These improvements need to be consolidated such that the CSOs will be able to better use the SIERP and own mechanisms to adequately monitor the ERP and to continue to improve their role as critical actors in the PRS process.
- Analyse the implications of a larger transfer (of resources of external debt relief) to the municipalities on the part of the National Treasury.

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.

Sida

SWEDISH INTERNATIONAL
DEVELOPMENT COOPERATION AGENCY

SE-105 25 Stockholm Sweden
Phone: +46 (0)8 698 50 00
Fax: +46 (0)8 20 88 64
sida@sida.se, www.sida.se